

DEPARTMENTS OF TRANSPORTATION, AND  
HOUSING AND URBAN DEVELOPMENT, AND  
RELATED AGENCIES APPROPRIATIONS FOR 2018

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HEARINGS  
BEFORE A  
SUBCOMMITTEE OF THE  
COMMITTEE ON APPROPRIATIONS  
HOUSE OF REPRESENTATIVES  
ONE HUNDRED FIFTEENTH CONGRESS  
FIRST SESSION

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

**MARIO DIAZ-BALART, Florida, *Chairman***

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DAVID YOUNG, Iowa  
DAVID G. VALADAO, California  
TOM GRAVES, Georgia

DAVID E. PRICE, North Carolina  
MIKE QUIGLEY, Illinois  
KATHERINE CLARK, Massachusetts  
PETE AGUILAR, California

NOTE: Under committee rules, Mr. Frelinghuysen, as chairman of the full committee, and Mrs. Lowey, as ranking minority member of the full committee, are authorized to sit as members of all subcommittees.

DOUG DISRUD, CHERYLE TUCKER,  
CARL BARRICK, JENNIFER HOLLRAH, and MATTHEW ANDERSON  
*Subcommittee Staff*

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## DEPARTMENTS OF TRANSPORTATION, HUD, AND RELATED AGENCIES APPROPRIATIONS FOR 2018

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THURSDAY, MARCH 9, 2017.

### MEMBERS' DAY

Mr. DIAZ-BALART. The subcommittee will come to order. Good morning and welcome to this year's first subcommittee hearing. Today we welcome our distinguished colleagues to testify on their priorities for the Departments of Transportation, and Housing and Urban Development for both fiscal years 2017 and 2018.

Now, under our full committee chairman, Mr. Frelinghuysen, we have brought back Member hearing days in order to give every Member the opportunity to express their priorities and concerns to this committee. We want every Member involved in the appropriations process. So I sincerely thank you for participating. Your views are crucial. They are important for us to begin this new appropriations season, and we look forward to hearing your testimony. It will help us put together a better bill.

Mr. Chairman, I am glad that you are here. I know you are chairing your committee probably in the next few hours, Mr. Joyce has been recently named vice chairman of this subcommittee, and so we want to congratulate him.

Now, with that, let me recognize the ranking member of this subcommittee, the gentleman from North Carolina, who I have enjoyed working with. And as ranking member, he has become an integral part of the team to make sure that we come up with a good bill, and that is obviously Mr. Price.

You are recognized, Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. I appreciate those words and want to reciprocate them. We have a good cooperative pattern of work established here, and I anticipate that we are going to have some challenges this year with some of the budget numbers we are hearing about, but we have to do our best, as always, on behalf of our institution and our power of the purse and the kind of priorities, a lot of which we are going to hear about today. We have got to do our very, very best to write an inclusive and robust bill.

So I agree with you that it is a good way to start, to hear from our Members, and I commend Chairman Frelinghuysen for initiating this across all the subcommittees and look forward to today's testimony. Thank you.

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

And so we will begin with the gentlelady from American Samoa, Mrs. Radewagen. I will remind all of our colleagues who come in

front of us that we have a very tight schedule. So we are going to have to stick to the 5-minute rule for testifying. Obviously, your written remarks will be included in the record. And so please do not forget to turn on your microphone, if you would.

And, with that, ma'am, you are recognized. Thank you for being here.

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THURSDAY, MARCH 9, 2017.

**WITNESS**

**HON. AUMUA AMATA COLEMAN RADEWAGEN, A DELEGATE IN CONGRESS FROM THE TERRITORY OF AMERICAN SAMOA**

Mrs. RADEWAGEN. Thank you, Chairman Diaz-Balart and Ranking Member Price and members of the subcommittee. I very much appreciate the opportunity to speak to the subcommittee regarding some of the infrastructure needs in American Samoa. As you know, American Samoa lies in the middle of the Pacific Ocean south of the Equator. We the most remote U.S. Territory or State, and our infrastructure needs reflect that gulf of distance.

Currently, any air traffic that flies into or out of American Samoa or even between the islands in my home district must do so under the air traffic authority of Independent Samoa due to the lack of an air traffic control tower in the territory. This includes the codel that was just there the week before last.

A proposed solution that would also be budget-neutral would be to allow the money that FAA is requiring the American Samoa government to pay them, \$15 million over the next 10 years, \$2.5 million annually. It seems the 2014 FAA land-use audit report found that of approximately 865 acres of land approved by the FAA in 1973 for airport use, 325 acres had been removed from the airport and used for other government—local government—purposes.

To rectify this issue, the ASG has agreed to pay FAA \$2.5 million a year for a 10-year period in exchange for FAA approval of a land-use change authorizing an interdepartmental change in jurisdiction for the 325 acres rather than a release for the disposal of airport property.

My proposal would be to allow the FAA to repatriate these funds back to the ASG for the specific purpose of building an airport tower at Pago Pago International Airport, as well as other improvements to the airport that are desperately needed.

American Samoa is also suffering from dangerous roads and other traffic infrastructure safety issues that must be addressed soon. Because our small islands, which are roughly the same size as Washington, D.C., are hit with extremely powerful hurricanes every year, the infrastructure is in constant need of repair. A lack of sufficient funding in the past has caused many of the much needed repairs to go undone.

To rectify this issue and improve the safety of the roads in American Samoa and the other territories, I am requesting that the subcommittee please consider a significant increase to the territorial highways account authorized through the FAST Act. As it stands, there is no formula for which these funds are distributed and are left in the hands of administration officials. This policy has not

benefitted American Samoa, and I also request there be a study of how the funds in this account might be more fairly spread out among the territories.

While I have only begun to touch on the many infrastructure needs in my home district, I wanted to take this limited time to highlight some of the most significant, and I look forward to working with the subcommittee in any way that I can to make sure that the people of American Samoa are being afforded the same resources as their counterparts in the States and other territories.

So thank you again, Chairman Diaz-Balart and Ranking Member Price, for your time and consideration of these requests. Should you have any questions, my staff is happy to work with your staff, my LD, and get you any information you may need. Thank you, and I yield back the balance of my time.

[The information follows:]

**T-HUD & Related Agencies Appropriations Subcommittee**  
**Members Day Statement**  
**Congresswoman Radewagen (AS-At Large)**  
**March 9, 2017 @ 10am in 2358-A RHOB**

Thank you Chairman Diaz-Balart and Ranking Member Price, I appreciate the opportunity to speak to the subcommittee regarding some of the infrastructure needs in American Samoa.

As you may know, American Samoa lies in the middle of the Pacific Ocean, south of the equator. We are the most remote U.S. territory or state and our infrastructure needs reflect that gulf in distance.

Currently, any air traffic that flies into or out of American Samoa, or even between the islands in my home district, must do so under the air traffic authority of Independent Samoa, due to the lack of an Air Traffic Control Tower in the territory...This includes the CODEL that was just there two weeks ago.

A proposed solution that would also be budget neutral, would be to allow the money that the FAA is requiring the American Samoa Government (ASG) to pay them (\$15 million over the next 10 years / \$2.5 million annually).

It seems the 2014 FAA land use audit report found that of approximately 865 acres of land approved by the FAA in 1973 for airport use; 325 acres had been removed from the airport and used for other ASG purposes. To rectify this issue, the ASG has agreed to pay the airport \$2.5 million a year for a 10-year period in exchange for FAA approval of a "Land-Use Change", authorizing an interdepartmental change in jurisdiction for the 325 acres rather than a "release" for the disposal of airport property.

My proposal would be to allow the FAA to repatriate these funds back to ASG for the specific purpose of building and maintaining an airport tower at Pago Pago International Airport. I will be working with leadership on the T&I Committee to secure an authorization for this proposal.

American Samoa is also suffering from dangerous roads and other traffic infrastructure safety issues that must be addressed soon. Because our small islands, which are roughly the same size as Washington, D.C., are hit with extremely powerful cyclones every year, the infrastructure is in constant need of repair. The lack of sufficient funding in the past has caused many of the much needed repairs to go undone.

To rectify this issue, and improve the safety of the roads in the territory, I am requesting that the subcommittee please consider a significant increase to the Territorial Highways Account authorized through the FAST Act. As it stands, there is no formula for which these funds are distributed and are left in the hands of administration officials...this policy has not benefitted American Samoa, and I also request that there be a study of how the funds in this account might be more fairly spread among the territories.

While I have only begun to touch on the many infrastructure needs in my home district, I wanted to take this limited time to highlight some of the most significant, and I look forward to working with the subcommittee in any way that I can to make sure that the people of American Samoa are being afforded the same resources as their counterparts in the states and other territories.

Thank you again Chairman Diaz-Balart and Ranking Member Price for your time and consideration of these requests. Should you have any questions, my Legislative Director Casey Brinck is happy to work with your staff and get you any information you may need.

Thank you and I yield back the balance of my time.

Mr. DIAZ-BALART. Let me thank the gentlewoman for again always being on top of the issues that are important to American Samoa, and I look forward to continuing to work with you. Thank you very much.

Mrs. RADEWAGEN. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Mr. Bridenstine, thank you for being here, sir. You have the floor.

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THURSDAY, MARCH 9, 2017.

WITNESS

**HON. JIM BRIDENSTINE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OKLAHOMA**

Mr. BRIDENSTINE. It is my honor.

Thank you, Chairman Diaz-Balart, Ranking Member Price, Mr. Culberson, and Mr. Valadao. It is an honor to be here. I wanted to bring up something regarding infrastructure that a lot of people don't think about. We think about infrastructure. We think about roads and bridges, highways. We think about hospitals and schools. One piece of infrastructure that I think a lot of people don't consider is launch.

Space has transformed our way of life, the way we communicate, the way we navigate, the way we produce food, the way we produce energy, the way we provide security, do disaster relief, the way we do banking depends on GPS, for example. All of these capabilities require infrastructure, and as you look at how things are moving forward now, what used to be the domain of government, space, is now the domain of private operators and commercial operators, and when you think about things like remote sensing and imagery, the National Geospatial Intelligence Agency now uses a commercial space program in order to buy data from commercial providers for intelligence.

When you think about communications, the Department of Defense, for its routine communications, uses about 80 percent commercial satellites, satellites that are launched to provide broadband from space, DIRECTV, the internet, are now being leased by the Department of Defense to provide communication capabilities for the warfighter.

When you talk about all different sorts of activities happening in space, commercial providers are now carrying a heavy load. What we need to do within the FAA Office of Commercial Space Transportation is make sure they are adequately funded for all of the upcoming launches. Everything I just described is historical.

When you think about the future, we are talking about hundreds, if not thousands, of satellites in low Earth orbit for remote sensing and imagery. When you think about communications, we are talking about actually many, many thousands of satellites. Boeing has a program. OneWeb has a program. SpaceX has a program. Each one of these low Earth orbit communication constellations constitutes multiple thousands of satellites in low Earth orbit. All are going to require launch, and these companies are contracting overseas.



In fact, last week, an American company building imagery satellites for purposes that the Department of Defense will use, they launched 96 American satellites on a foreign rocket, an Indian rocket, to be precise. OneWeb has contracts worth billions of dollars with the Russians because we don't have the capability here in the United States to deliver what they need.

So the Office of Commercial Space Transportation, which is within the FAA, in my estimation, needs to be fully and adequately funded just so that we can go forward with these new programs that are going to change the way we think about space. And, of course, where does that begin?

The Office of Commercial Space Transportation within the FAA is the regulatory body. That is true. But they are also the body that is necessary to promote and facilitate commercial space industry. Right now, they are funded under a continuing resolution at a level that I believe is inadequate.

Last year, I came to this committee, and I requested \$19.8 million, which doesn't seem like a big number, but that was what was in the President's budget request, and what the appropriations process came to was an amount less, and you guys delivered, and I thank you for that.

The challenge is, operating under a continuing resolution, that \$19.8 million never materialized. So I would ask this year, in order to take care of all of these needs that are transforming the way we think about space and assert the way it is transforming the human condition on Earth, I am requesting that the Office of Commercial Space Transportation within the FAA, sometimes called FAA AST, be funded to the tune of \$23 million. With that, I will be open to any questions.

[The information follows:]

**Rep Jim Bridenstine, OK-01**

Chairman Diaz-Balart, Ranking Member Price, members of the Subcommittee, thank you for allowing me to testify before you today.

When most think of infrastructure, they think of roads, bridges, tunnels, ports, and airports. Without a doubt, those are important. But at this point in our nation's history, we are focused on maintaining those pieces of infrastructure. If we are to truly unleash innovation in this nation, we need to be thinking about infrastructure innovatively, and space is a component of that.

Space has transformed our standard of living and has become so integral to modern life that many of the services we rely on could not function without space. It has changed how we do everything from navigation and banking to national security and disaster relief. In recent years, much of this transformation has been due the commercial space industry.

The FAA's Office of Commercial Space Transportation, FAA/AST, is the entity responsible for both regulating and facilitating this industry. At present, this office does not have the adequate resources to effectively carry out these duties. This will only get worse as commercial space activity continues to grow thanks to the exceptionalism of the American people and entrepreneurs.

Each year, millions of dollars flow overseas to foreign launch vehicles because the United States does not currently have the launch capacity to keep up with demand from commercial satellites. Only a few weeks ago, 96 satellites from two American companies were launched on an Indian launch vehicle.

As constellations of hundreds or even thousands of communications and imagery satellites need to be launched, and new activities like human suborbital flight, commercial habitats, asteroid mining, lunar and Mars missions, and in-orbit satellite servicing begin to come on line, demand for launch will only increase.

Fortunately, new launch vehicles from companies such as ULA, SpaceX, OrbitalATK, Blue Origin, Virgin Galactic, RocketLab, and others should be coming on line in the next few years. This is great news and should provide much needed capacity to our domestic launch base. However, this will also cause regulatory, resourcing, and practical restrictions. Those new, next generation vehicles will have to be certified for flight. FAA will also have to approve launch licenses for all those individual missions. If launch cadences increase, coordination among users of spaceports (including NASA and the Air Force), use of ranges and ground infrastructure, and use of air space will have to become more efficient. This means FAA/AST will need a regulatory streamlining as well as more people to adjudicate licenses and other reviews. This means more resources are critical.

I have worked closely with your subcommittee over the past few years to plus up this office from the historical numbers Congress has appropriated, including last year when the Appropriations Committee reported an FY17 bill that matched the last President's Budget Request and provided \$19.8 million for FAA/AST. I would like to commend you all for your recognition of the important role space plays in our economy.

Unfortunately, since we are currently operating under a CR, the office has continued to be strained, and it is hampering the industry. As you begin working on FY 18 appropriations, I ask that you provide FAA/AST with a funding level that allows the office to both dig out from

under the backlog it is currently working under while also providing room to facilitate greater growth in the industry. To this end, I recommend the subcommittee appropriate \$23 million for FAA's Office of Commercial Space Transportation in Fiscal Year 2018. Anything less could lead to costly delays in the granting of launch licenses, which could have detrimental effects on this industry. Thank you.

Mr. DIAZ-BALART. Yes, Mr. Price.

Mr. PRICE. Let me just ask—I thank the gentleman for his testimony. It is very convincing. Am I to conclude also that you will strongly back picking up the remaining 5 months of the current fiscal year so as to take advantage of the appropriations bill that would be included in an omnibus, as opposed to a yearlong CR?

Mr. BRIDENSTINE. I will tell you, I don't like doing CRs. I will also tell you that what we need to do is go through the appropriations process because, as I just described, the world has changed, and we need to make sure that what we are funding as a government reflects that change. I don't want to do a CR. If we do an omnibus and the priorities in there are appropriate, I am certainly willing to consider it.

Mr. PRICE. You are giving us a very good example of why a serious appropriations bill with the detailed work that goes into it is preferable to automatic pilot.

Mr. BRIDENSTINE. Absolutely, yes, sir, and I fully appreciate you making that comment.

Mr. PRICE. Thank you, Mr. Chairman.

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

And also, just for the gentleman, I will tell you: you have been very effective working with this subcommittee.

Mr. BRIDENSTINE. Thank you.

Mr. DIAZ-BALART. And we appreciate your involvement. We appreciate your hard work and look forward to continue doing so. And we agree with you: a CR a lot of folks don't understand how devastating a CR is in so many ways. But, again, I would be remiss if I didn't thank you for your hard work, particularly with your involvement with this subcommittee, and it is greatly appreciated.

Mr. BRIDENSTINE. Thank you for your support.

Mr. DIAZ-BALART. Thank you, sir.

Mr. CULBERSON. Mr. Chairman?

Mr. DIAZ-BALART. Yes.

Mr. CULBERSON. If I may, I also want to thank you, Jim, for your support for NASA for the space program and your understanding of the changing times in which we live. The commercial sector is going to be getting us into low Earth orbit. Like stepping out in front of the Rayburn Building and catching a cab, you will be able to catch a commercial ride into low Earth orbit.

And you are exactly right: this agency needs to be—this portion of the FAA needs to be fully funded. And I really appreciate your support for getting our detailed appropriations bills on the floor, not only this one but the Commerce, Justice, Science bill as well that has NASA.

Mr. BRIDENSTINE. Would the gentleman yield for 15 seconds?

Mr. CULBERSON. Yes, absolutely.

Mr. BRIDENSTINE. When you think about NASA, this agency is critical for NASA to accomplish its mission because NASA is using commercial to get back and forth to the International Space Station. This agency could make that problematic if it is not adequately funded.

It is not just NASA, though. It is also the Department of Defense. It is the National Oceanic and Atmospheric Administration.

This agency touches all of those and more, which is why it is so important.

Mr. CULBERSON. I deeply appreciate your support for it, and I want to also wish Jim good luck. He has been—and I strongly support his application to become the new NASA Administrator. Jim would do a superb job with that position, and I want to strongly express my endorsement and support for your work, and I hope to see you become a new NASA Administrator and look forward to helping you—

Mr. BRIDENSTINE. Thank you.

Mr. CULBERSON [continuing]. In that role. Thank you very much.

Mr. DIAZ-BALART. With Mr. Culberson's strong endorsement, I think the gentleman who was testifying in front of us has had a good day. Thank you. Thank you very up much.

Mr. BRIDENSTINE. Thank you.

Mr. DIAZ-BALART. Mr. Price, while we wait for some other folks to come and testify, why don't we just take a little break, and let's all stick around and see who wants to come and join us shortly. And, again, thank you all for being here. There is nothing more important than listening to our colleagues, and that is how we get a much better bill.

So why don't we just take a few minutes' break, and we will gavel in as soon as our next witness approaches. Thank you.

[Recess.]

Mr. DIAZ-BALART. Let me call the subcommittee to order once again. We are now joined by Mr. DeFazio, who, obviously, has a wealth of experience particular on infrastructure and transportation issues. And we thank you for being here and you are recognized, sir.

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THURSDAY, MARCH 9, 2017.

#### WITNESS

**HON. PETER A. DEFAZIO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON**

Mr. DEFAZIO. Thank you, Mr. Chairman, and thank you for this committee's interest in transportation and related issues. The one, I think, really important point to make at the beginning, I mean, I will talk about the larger needs, but because we are under a continuing resolution we are realizing \$1.5 billion less in transportation spending this year, below the FAST Act levels which were already pretty anemic given our needs.

If we fully fund the FAST Act we will barely tread water. We will not significantly defray any of our accumulated balance of, you know, backlog for maintenance, repair, and replacement. So I would urge the committee to do all they can as we move through whatever continuing resolution or actual appropriations to get us fully up to the FAST Act levels. That would benefit the Nation as a whole.

I would like also to share, I know there has been some members of this committee who have expressed skepticism, but I would like to share some of my concerns about the privatization of the air traffic organization, the ATC. First and foremost, when they start-

ed this discussion I said, well, you know, you have a constitutional issue, and they blew me off and said, no, there is no problem. And subsequent analysis showed, yes, indeed, there is a constitutional issue recently upheld by the Supreme Court, which is you cannot delegate regulatory or rate-making or taxation authority to a private entity which affects competitiveness without government involvement.

So I did not bring my flow chart, but I developed a flowchart of how this new streamlined organization after we cut the FAA in half and move ATO over there, leave safety certification, everything else over here subject to annual appropriations, sequestration, government shutdowns. Over here we will have the new private entity which is supposed to self-fund somehow, we are not sure.

And anything they propose, any route change, approach change, anything they approve, or certainly when they begin to want to assess fees against business aviation or general aviation or something else to pay for the system would have to then to go the Secretary's office, and the Secretary would then have an expanded office to review these proposals, you know, which seems to me not exactly a tremendous improvement. And if the Secretary disagrees, then they go to court. Great way to run a critical government function. So that's one major concern.

I already mentioned the concern about us, you know, severing the agency in half. And, you know, there is a couple of other issues here. They are very critical and I have been critical over the years of procurement at the FAA, and some targeting reforms could benefit us there. Congress, in 1996, actually mandated procurement personnel reforms. Unfortunately, we did not exempt them from OMB and other political interference, and the reforms proposed by the administrator ended up being essentially the same system that we have.

So, yes, we could benefit from reforms there, and we could certainly authorize the FAA administrator to do those things without OMB review and other review and get some needed reforms. But if you talk to Dr. Dillingham of the GAO, who has been very critical of their past acquisitions, he says now they are on a good track. They are implementing NextGen at a good pace. It is benefiting the industry tremendously with new fuel-efficient approaches, and they are rolling them out quite quickly now. So really, the whole complaint is about problems in the past.

Administrator Huerta has been doing a good job. And should we move over to a private corporation one can imagine the interruptions that might happen. In Canada, it was a very rocky 8-year transition process. In England, actually, the government had to come back in and bail out the organization. Again, a rather rocky transition process.

And another point which should be of concern is that in both Great Britain and in Canada, the only two privatized ATC operations in the world. All the other countries have gone to government corporations, which could work here, also. They had to pay for the assets. Under this plan we would give away tens of billions of dollars of assets to this new private corporation. Should the pri-

vate corporation fail, as it did in England, and we wanted to take it back, we would have to pay for it.

So not only are we going to give away assets taxpayers have paid for, should this new experiment fail we are going to have to buy back the assets that we already paid for that we gave away. You know? An absolute absurdity. You know, and then there is a number of other issues regarding the magnitude of our system in comparison to others.

One other quick point. We are downstairs holding a hearing in Water about how we can deal with, you know, the backlog of maintenance in our ports which is causing lines of ships far, far out into the Pacific in L.A. and other parts of the country, raising the costs of imported goods. One way to deal with it is to actually spend the Harbor Maintenance Trust Fund tax collections on harbor maintenance.

On a daily basis our 59 major harbors in the United States have 35 percent availability of authorized depths, 35 percent. We could deal with that if we merely appropriated every year the full amount of the tax that is collected. About \$1.8 billion a year is collected. We are spending, generally, half of that, and the rest of it goes into a theoretical account.

So not only could we begin by just fully appropriating the tax that comes in to deal with our maintenance backlog, we could also, hopefully, access and spend down the \$9 billion that is in a theoretical account. But anyway, they talked about that downstairs a little bit.

But the other major focus downstairs is regulatory delays. Well, there is a new report. And I agree that there are sometimes over onerous regulations. But the principle cause of delays in projects, like the 140,000 bridges that need repair/replacement of the Federal system, National Highway System, none of those are going to have to go through NEPA, or virtually none of them, if they are just replacements. But the money is not there. Plain and simple, the money is not there.

A major study done by AECOM, an independent firm, ordered by Treasury, has just come out and they looked at 40 major pending projects. And of the 40, 39 are challenged by inadequate funding; out of 40, 19 by increased capital costs, 20 by local opposition, and 9 by regulatory issues. So, you know, money is at the heart of many of our infrastructure needs and problems in this country.

I know that you realize that on this committee and I recommend to you to do whatever you can to help increase needed funds. With that, I—

[The statement of Mr. DeFazio follows:]



THE HONORABLE PETER A. DEFazio  
4<sup>TH</sup> DISTRICT OF OREGON  
STATEMENT BEFORE THE U.S. HOUSE COMMITTEE ON APPROPRIATIONS,  
SUBCOMMITTEE ON TRANSPORTATION, HOUSING, AND URBAN DEVELOPMENT  
MARCH 9, 2017

Chairman Diaz-Balart, Ranking Member Price, and Members of the Subcommittee, thank you for the opportunity to share my concerns with you about a proposal pending before the Committee on Transportation and Infrastructure to tear the Federal Aviation Administration (FAA) apart and devolve air traffic control—a critical safety and security function—to the private sector.

This proposal is nothing new or imaginative. In fact, last year marked the 30<sup>th</sup> anniversary of a similar proposal by the airline industry to take control of the air traffic control system from the FAA, which has operated the system since its creation. Congress and commissions have studied the idea three times since then, yet it has never taken flight because, each time, it was found to be unworkable, unproven, unwise, and extremely controversial.

That's why, last year, every Democrat and two Republicans on the Committee on Transportation and Infrastructure opposed a long-term FAA reauthorization bill that included the privatization proposal. So did the bipartisan leadership of this Committee and your counterparts in the Senate. The Congressional Budget Office concluded the proposal would add **\$20 billion to the Federal deficit over the next 10 years** and tens of billions more in decades thereafter.

Last year, faced with this choice of conducting a science experiment with a risky privatization scheme, Congress enacted—not a long-term FAA reauthorization act—but yet another short-term extension.

I do not know how, if at all, this year's privatization proposal will differ from last year's; but I do know that it will suffer from the same fundamental problems as any privatization proposal. According to a review of recent Supreme Court and D.C. Circuit Court of Appeals decisions, privatization of the air traffic control system is an unconstitutional delegation of regulatory functions – not even airline industry lawyers have disputed my analysis of that.

In an attempt to work around these constitutional problems, the proposal keeps the Secretary of Transportation intimately involved in every major decision of the private ATC Corporation. This will require a huge new government bureaucracy within the Department of Transportation—and who will pay for that?—and would slow down, rather than speed up, important reforms and improvements. In fact, last year, the Government Accountability Office (GAO) reported that privatizing the air traffic control system would bring innumerable challenges and could take up to seven years even if done right.

Stakeholders say the air traffic control system needs stable, predictable funding. But that's an FAA-wide need, a government-wide need, not just an air traffic control need. Moreover, severing the \$11 billion air traffic control system from the FAA would leave the rest of the agency—especially its critical safety-oversight offices and personnel—subject to the general risks of fiscal crises and political gridlock that have become commonplace in recent years, despite the hard work and dedication of this Subcommittee to keeping the lights on at the FAA.

Stakeholders say the FAA has been too slow with NextGen implementation. You can count me among those in Congress who think the FAA could have managed past NextGen programs better. But the agency is due some credit: It has implemented more than 8,000 satellite-based navigation procedures, has installed the ground infrastructure for a satellite-based system of surveillance to replace radar, and has implemented 99 percent of the milestones jointly agreed upon by the FAA and industry stakeholders. The FAA's work on NextGen has already delivered \$2.7 billion in benefits to government and users, and is expected to provide more than \$160 billion in benefits by 2030.

No one can explain precisely how privatization would speed up NextGen. My natural intuition is that privatization would only slow NextGen down. It would create a three-to-five-year period of uncertainty for FAA employees who work currently on NextGen projects, and jeopardize the expected benefits that I just described.

Privatization would sever the thousands of threads between the Air Traffic Organization (ATO) and other FAA offices that are absolutely necessary to keeping NextGen on course and on time. Certification is a prime example. The ATO may be ready to implement dozens of new

performance-based navigation procedures, but it's up to certification specialists in the Aviation Safety Office to verify that airplanes are capable of flying those procedures safely by certifying avionics and pilots and making sure airlines are on the same page. And it's up to the Office of Airports to collaborate with communities underneath new flight paths.

The ATO will soon be ready to switch on the automatic dependent surveillance-broadcast (ADS-B) network everywhere and for every aircraft, but again it's up to the Aviation Safety Office to certify the ADS-B avionics necessary to make it happen. The list goes on.

Some say other countries have successfully separated their air traffic control systems from civil aviation regulators. That's not entirely true. First, privatization is the exception rather than the rule: At least 21 countries have separated air traffic control, but only two—Canada and the United Kingdom—have privatized it, and then with extremely mixed results.

And, importantly, those countries are not the United States. The Department of Transportation Inspector General reported in 2015 that there are “significant” differences between those countries’ systems and ours. For example:

- **Ours is the biggest.** Canada, the United Kingdom, France, and Germany combined control only 65 percent of the airspace controlled by the United States. (The four countries’ combined airspace comprises 48.57 million square kilometers; ours comprises 75.1 million square kilometers.)
- **Ours is the busiest.** If you add up the instrument flight rules (IFR) movements handled by controllers in Canada, the United Kingdom, France, and Germany combined, you wouldn’t come close to reaching the number of IFR movements handled by FAA controllers. (12.1 million IFR movements in the four countries together versus 15.5 million in the United States.)
- **We have a much larger general aviation presence.** Nearly twice as many general aviation aircraft are registered in the United States as in the four other countries combined. (209,034 in the United States versus 109,435 in the four countries together.)

- **And we're writing the blueprint for NextGen;** many of the others just buy NextGen technologies off the shelf.

I would speculate that these are but some of the reasons that a distinct minority of the stakeholders whom GAO surveyed in 2014 said that spinning off the Air Traffic Organization would even be a viable option.

As I have said many times before, privatization of air traffic control is a solution in search of a thousand problems.

In its report on fiscal year 2017 Transportation, Housing and Urban Development appropriations, the Senate Appropriations Committee described the privatization proposal as “fraught with risk”, full of potential to “lead to uncontrollable cost increases to consumers” and to reduce aviation access to rural America. I hope and respectfully urge this Subcommittee to recognize similarly these concerns in its fiscal year 2018 appropriations bill.

Thank you again, Mr. Chairman, for allowing me the opportunity to testify today, and I stand ready to work together with Members of the Appropriations Committee to remove this poison pill from the FAA reauthorization bill or any other legislation in which it may be included.

Mr. DIAZ-BALART. Let me thank you, sir, for your very on-point testimony. I would ask you, by the way, you talked about the flow-chart, if you could bring it forward to the committee, we would love to submit that in the record.

Mr. DEFAZIO. Sure.

Mr. DIAZ-BALART. I think without objection. So, Mr. Price.

Mr. DEFAZIO. Mr. Chairman, if I could, the first time when we were holding one hearing on this in the last Congress and I put it up on the screens and the chairman looked at it and he said, I have never seen that before. I said, yeah, well, your staff could have developed it. We just followed the legislation and it looks like a Rube Goldberg, so I would be happy to provide it.

Mr. DIAZ-BALART. Thank you. Mr. Price.

Mr. PRICE. Thank you. My colleague and I have been on this journey together since we were both elected some years ago, so I appreciate it.

Mr. DEFAZIO. Do not say how many.

Mr. PRICE. We will not say. So I appreciate your testimony on a number of fronts this morning, and actually, you are not the first member to testify this morning as to the harm we will suffer if we have a yearlong CR, if we cannot get off of this CR and into a regular appropriations, at least for the last 5 months of the year. So I appreciate you underscoring that. It is not just dollars that are involved. It is also how those dollars are directed. But thank you for being here.

Mr. DEFAZIO. Thank you.

Mr. DIAZ-BALART. Any further questions?

Mr. DEFAZIO. Thank you, sir. Thank you very much.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. We will now proceed. The gentleman from Arizona, Mr. Gosar, you are recognized for 5 minutes, sir. And, again, thank you for being here, sir.

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THURSDAY, MARCH 9, 2017.

**WITNESS**

**HON. PAUL A. GOSAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ARIZONA**

Mr. GOSAR. Thank you. I would like to first thank you, Chairman Diaz-Balart, Ranking Member Price, and the committee for their work on the appropriations process under their jurisdiction. I am Paul Gosar and I represent the 4th Congressional District of Arizona, and I appreciate the opportunity to provide testimony supporting the specific appropriation priorities for Arizona and the country as a whole.

First, I would like to applaud the committee's leadership and fiscal prudence in previous years that saved taxpayers money and protected the civil liberties of our constituents by preventing funds from going to the wasteful National Roadside Survey. As such, I request once again that the following language be retained in the next fiscal year Transportation Housing and Urban Development and related agencies appropriation that, quote, "None of the funds made available by this act may be used to obligate or award funds

for the National Highway Traffic Safety Administration's National Roadside Survey," end of quote.

Civil libertarians have raised legitimate concerns about the unconstitutionality of this program. Put simply, this survey looks like and acts like a police checkpoint and uses uniformed officers to pull cars over. Under the Fourth Amendment, the United States Supreme Court has ruled that a seizure occurs when a vehicle is stopped at a checkpoint. The question thus becomes whether such seizures are reasonable under the Fourth Amendment.

More importantly, the courts have allowed police checkpoints only when there is compelling public safety justification, such as stopping and arresting drunk drivers. However, under the circumstances of this program there is no public safety jurisdiction. The surveys do nothing to make our communities safer because drivers who ultimately refuse to participate are free to drive away, even if the driver is impaired. This results in a wasteful program that is invasive in the least, and at worst is an abuse of power and the violation of our civil liberties.

Let me be clear. I strongly support efforts which are proven to have actually contributed to the decrease in impaired driving since the 1970s, such as local law enforcement operations, effective State and municipal policings, curb abuse, and worthwhile education efforts from organizations like Mothers Against Drunk Driving, or MADD, and similar groups.

I thank the committee for their previous support of the civil liberty language and ask that it be included again in the next appropriations bill.

Another issue I would like to highlight for the committee's support is funding for congressionally designated high-priority corridors, or HPCs. These corridors are critical to the economy and security of the United States.

Last Congress I was proud to work with a bipartisan group of members and stakeholders to pass legislation which expanded the designation of the future Interstate 11 to extend from Mexico all the way to Northern Nevada. This interstate comprises two high-priority corridors: the CANAMEX Corridor and the Intermountain West Corridor. Since 1991, HBCs have been identified, updated, and funded in various transportation and appropriation bills. Although funding has been authorized, Congress has not recently appropriated funds specifically to these high-priority corridors.

The statutory definition of these corridors found in 1105 of the Intermodal Surface Transportation Efficiency Act in 1991 clearly identifies HPCs as appropriation projects of national importance and appropriate recipients of Federal funding. As this committee works to identify spending priorities that will address truly national, multistate transportation needs, I would encourage support of the high-priority corridors.

Now, I understand the monumental task this committee faces each year to appropriate scarce taxpayer dollars to national priorities, and I appreciate their hard work. As you well know, the conversation cannot always be about finding more money. We must also look for ways to spend money more efficiently. In that regard, I look forward to working with this committee as well as other leg-

islating and authorizing committees to institute reforms that will make our scarce transportation dollars go further.

The high-priority corridors identified as a future interstate present an amazing opportunity to build truly 21st century infrastructure. Real policy reforms, such as streamlining NEPA process and simplifying Davis-Bacon preventing wage requirements, can reduce the costs of these projects by millions. These future interstates could serve as the pilot programs to test and demonstrate innovative policy reforms that save taxpayer money and better meet the infrastructure development we need to make American great again.

I appreciate the opportunity to testify before you. I would like to thank all of the members for all that you do and the important work that goes forward from this committee. I yield back.

[The statement of Mr. Gosar follows:]

**Representative Paul A. Gosar, D.D.S.**

**Arizona's 4<sup>th</sup> Congressional District**

**Testimony for members Day - House Committee on Appropriations Subcommittee on Transportation, Housing and Urban Development, and Related Agencies**

I would like to thank Chairman Diaz-Balart, Ranking Member Price and the Committee for their work on the appropriation process under their jurisdiction. I am Paul Gosar and I represent the 4<sup>th</sup> Congressional District of Arizona. I appreciate this opportunity to provide testimony supporting specific appropriations priorities for Arizona and the country as a whole.

First, I applaud the Committee's leadership and fiscal prudence in previous years that saved taxpayer money and protected the civil liberties of our constituents by preventing funds from going to the wasteful National Roadside Survey. As such, I request once again that the following language be retained in the next fiscal year Transportation, Housing and Urban Development, and Related Agencies Appropriations Act:

*"SEC \_\_\_\_\_. None of the funds made available by this Act may be used to obligate or award funds for the National Highway Traffic Safety Administration's National Roadside Survey."*

Civil libertarians have raised legitimate concerns about the unconstitutionality of this program. Put simply, this "survey" looks like and acts like a police checkpoint and uses uniformed officers to pull cars over. Under the Fourth Amendment, the United States Supreme Court has ruled that a "seizure" occurs when a vehicle is stopped at a checkpoint. The question thus becomes whether such seizures are "reasonable" under the Fourth Amendment. More



importantly, the courts have allowed police checkpoints only when there is a compelling public safety justification—such as stopping *and arresting* drunk drivers.

However, under the circumstances of this survey, there is no public safety justification that would warrant a checkpoint stop under this program. This wasteful and invasive survey does nothing to curb impaired driving; it is an abuse of power and a violation of our basic civil liberties. While the National Highway Traffic Safety Administration (NHTSA) claims the survey is voluntary, the process begins—as the NHTSA describes—with a “police officer working with the survey team to direct the potential respondent into the survey site without speaking to the driver.” Typically, a researcher then approaches the driver and takes a passive alcohol sensor reading before the driver agrees to participate in the survey. Passive alcohol sensors are small electronic units used to detect alcohol and are usually built into police flashlights or clipboards.

The National Highway Traffic Safety Administration has previously reported that they obtained, without permission, “sensor readings from well over 90 percent of these drivers who did not provide actual breath tests” or agree to participate in the survey. The latest survey squandered almost \$8 million in taxpayer money and did nothing to make our communities safer because drivers who ultimately refuse to participate are free to drive away even if the driver is impaired.

Let me be clear, I strongly support efforts which are proven to have actually contributed to the decrease in impaired driving since the 1970’s – such as local law enforcement operations, effective state and municipal policies that curb abuse, and worthwhile education efforts from organizations like Mothers Against Drunk Driving (MADD) and similar groups.

I thank the committee for their previous support of this civil liberty language and ask that it be included again in the next appropriations bill.

Another issue that I would like to highlight for the Committee's support is funding for congressionally designated High Priority Corridors or HPCs. These corridors are critical to the economy and security of the United States. Last Congress, I was proud to work with a bipartisan group of Members and stakeholders to pass legislation which expanded the designation of the future Interstate 11 to extend from Mexico all the way to Northern Nevada. This interstate comprises two High Priority Corridors, the CANAMEX Corridor and the Intermountain West Corridor.

Since 1991 HPCs have been identified, updated and funded in various transportation and appropriations bills. Although funding has been authorized, Congress has not recently appropriated funds specifically to High Priority Corridors. The statutory definition of these corridors, found in Section 1105 of the Intermodal Surface Transportation Efficiency Act of 1991, clearly identify HPCs as appropriate recipients of federal funding, stating:

*"It is the purpose of this section to identify highway corridors of national significance ... and to provide increased funding for segments of these corridors that have been identified for construction... Many regions of the Nation are not now adequately served by the Interstate System of comparable highways and require further highway development... the development of transportation corridors is the most efficient and effective way of integrating regions and improving efficiency and safety of commerce and travel and further promoting economic development."*

As this Committee works to identify spending priorities that will address truly national, multi-state transportation needs, I would encourage support of High Priority Corridors.

I understand the monumental task this committee faces each year to appropriate scarce taxpayer dollars to national priorities, and I appreciate their hard work. As you well know, the conversation cannot always be about finding more money. We must also look for ways to spend money more efficiently. In that regard, I look forward to working with this committee as well as other legislating and authorizing committees to institute reforms that will make our scarce transportation dollars go farther.

The High Priority Corridors identified as a “future interstate” present an amazing opportunity to build truly 21<sup>st</sup> Century infrastructure. Real policy reforms, such as streamlining the NEPA process and simplifying Davis-Bacon prevailing wage requirements can reduce the costs of these projects by billions. These future interstates could serve as pilot programs to test and demonstrate innovative policy reforms that save taxpayer money and better meet the infrastructure development we need to make America great again.

I appreciate the opportunity to testify today. I would like to thank all members of the Committee for your important work and with that, I yield back.

Mr. DIAZ-BALART. Mr. Gosar, thank you for your testimony, and we have been working for a long time on a lot of these issues. I appreciate you bringing up some very important issues, and I look forward to continue to working with you on those issues.

Mr. Price.

Mr. PRICE. Let me echo the chairman, say we appreciate your testimony and we will give it careful attention.

Mr. GOSAR. Thank you, Ranking Member.

Mr. DIAZ-BALART. Actually, before I recognize our next colleague I want to once again congratulate Mr. Joyce, who has been recently named as vice chairman of the subcommittee. Mr. Joyce, you are a heartbeat away from the chairmanship of this subcommittee. So I do not know why you keep giving me fatty goods all the time now and I am a little concerned about that. But, again, congratulations.

Mr. JOYCE. Thank you very much and I apologize for being late, but there was somebody who slightly resembled you, not as good-looking and not as well-dressed, named Diaz-Balart that I ran into on the way here who tied me up, so.

Mr. DIAZ-BALART. Obviously——

Mr. JOYCE. Lincoln something or other.

Mr. DIAZ-BALART [continuing]. Cannot be related to me. Cannot be related to me. Thank you.

Now we will recognize the distinguished gentleman from California, Mr. Panetta. You are recognized. Thank you for your testimony.

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THURSDAY, MARCH 9, 2017.

WITNESS

**HON. JIMMY PANETTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. PANETTA. Thank you. I appreciate that, Chairman Diaz-Balart, Ranking Member Price, other members, and congratulations Mr. Joyce as well. Thank you for this opportunity to speak here this morning.

I would like to talk about the important programs that are very critical to my district's transportation infrastructure and its economy. I represent the Central Coast of California in the 20th Congressional District. And this winter, although we had been clamoring for it for quite a while, we got a lot of rain, a tremendous amount of rain, actually. And we were hit by a hard series of record-setting storms, storms that washed out major roads, highways. They isolate communities and they caused a tremendous amount of damage to individuals' homes and properties.

And because of these storms the Pacific Coast Highway, in my biased opinion, one of the most beautiful stretches of road in the world, remains temporarily closed in many places. And near the southern part of that highway, the Town of Lucia, debris from landslides have covered lanes of traffic and closed an 8-mile section of that road. The boulders, as said on some of these slides, are so big, literally truck-sized boulders, have had to be removed by explosive ordnance. They are that big.

In Big Sur, on the main route, Highway 1, there is a bridge, a 315-foot bridge, the Pfeiffer Canyon Bridge, that has suffered irreparable structural damage and has had to be taken down and replaced. Now, it is not that iconic Bixby Creek Bridge that you all see when you hear about Big Sur, but it is just as important of a venue, literally in the main part of Big Sur. And as you can see from this picture that I am holding up the slide occurred right here underneath this pillar, took out that pillar, caused the bridge to sink. No one can go on this bridge, you cannot walk over it, you cannot drive cars over it; it has got to be taken down and completely replaced.

The residents who are in between this bridge and the slides are isolated. There are families who are separated, there are children who cannot go to school, and there are businesses who are absolutely shut down at this point because no one is driving on this highway. And just last week I took part in an airlift where pallets of food, supplies, and actually fuel were brought to these individuals, to these families, by helicopter.

Repair crews are on the ground and they are trying to repair this all-American highway as quick as possible. However, with more rain in the forecast for the coming days many are concerned whether this work will have a lasting impact.

To live in Big Sur you have to be tough, you have to be hardy; there is no doubt about it because they deal with these types of extreme weather situations. In 1982, parts of Highway 1 were closed for 13 months after a massive mudslide buried more than a quarter-mile of road. In the wake of this event 400 people lost their jobs and the tourist industry lost nearly \$34 million.

Now, hopefully, history will not repeat itself this year when it comes to the amount of losses. But if not replaced quickly, that bridge that you just saw, the fact that it won't be replaced could devastate the economies of the communities of that Big Sur area. They rely on that influx of tourism during the spring and summer months. It is times like these when communities like mine look to the Federal Highway Administration's Emergency Relief Program for assistance.

So I appreciate the \$1 billion supplemental appropriation included in last year's continuing resolution and I encourage this committee to continue to provide the needed support for this critical program. Though we have not yet seen the President's budget proposal for fiscal year 2018, it is my hope that he demonstrates his commitment to improving our roads, bridges, airways, transit systems, and railroads through a strong Federal investment with the understanding of the importance of a strong Emergency Relief Program.

Your subcommittee, Mr. Chairman, has the opportunity to make infrastructure investments that are desperately needed in districts all across the Nation so that we can ensure a modern transportation system that sustains economic growth.

Thank you for the opportunity to advocate on behalf of these programs and thank you for the opportunity to be here to speak to you today.

[The statement of Mr. Panetta follows:]

JIMMY PANETTA  
20TH DISTRICT, CALIFORNIA

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AGRICULTURE

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**Testimony before the House Appropriations Subcommittee on  
Transportation, Housing and Urban Development, and Related Agencies  
U.S. Representative Jimmy Panetta (CA-20)  
March 9, 2017**

Chairman Diaz-Balart, Ranking Member Price, thank you for allowing me the opportunity to speak this morning. Although new to Congress, I am keenly aware of the Appropriations Committee's annual check on our nation's priorities through the power of the purse. I am grateful to appear before you today and talk about the important programs that are critical to my district's transportation infrastructure and economy.

**Department of Transportation**

My district has been hit hard by a series of record setting storms during the last six weeks that have washed out major roads and highways, isolated communities and threatened homes and property. The Pacific Coast Highway remains temporarily closed in many places between Ragged Point and Carmel. Near Lucia, debris from a nearby landslide covered a lane of traffic and closed an eight-mile section of road. Boulders are being cleared with dynamite charges to make removal easier. Repair crews are on the ground in an attempt to repair this All American Road as quickly as possible, but with more rain forecast for the coming days many are concerned whether this work will have a lasting impact. Today, I want to highlight the importance of a strong Emergency Relief program.

In addition to the debris blocking parts of Highway 1, the Pfeiffer Canyon Bridge in Big Sur has suffered irreparable structural damage and has started to sink into the mountainside. Last month, Caltrans, the State's transportation authority, closed the bridge to vehicles and pedestrians, cutting the Big Sur community in half and profoundly affecting residents and the local economy. This is not the first time Big Sur has suffered because of extreme weather events and our failing infrastructure. In 1982, parts of Highway 1 were closed for 13 months after a massive mudslide buried more than a quarter-mile of the road. In the wake of this event, four hundred people lost their jobs and the tourist industry lost nearly \$34 million.

We cannot allow for history to repeat itself. If not replaced quickly, the Pfeiffer Canyon Bridge closure could devastate the economies of communities in the Big Sur area, which rely on an influx of tourists during the spring and summer months. It is times like this when communities like mine look to the Federal Highway Administration's Emergency Relief Program (ER) for assistance.

I appreciate the \$1 billion supplemental appropriation included in last year's continuing resolution, and encourage the committee to continue to provide robust support for this critical program.

I also would also like to take this opportunity to highlight an important program my predecessor, Sam Farr authored, the Small Transit Intensive Cities (STIC) program. Funded through a set-aside of Section 5307 formula funds, the STIC program has been used by smaller transit systems, like Santa Cruz Metro and Monterey Salinas Transit, to expand service and upgrade and modernize facilities to improve the quality of public transit service in smaller, rural communities. I encourage the Subcommittee provide robust funding to the Section 5307 formula program.

Many of your districts may be experiencing unacceptable noise levels as a result of Next Gen route changes. In my district, the windows were shaking in homes in the flight path as planes prepared to land at San Francisco Airport. While the FAA says the noise is within the acceptable 65 Day Night Level (DNL), that standard was developed more than a decade ago. I believe the FAA needs to conduct an expedited review of the 65 DNL standard and incorporate actual noise sampling, not just rely on modeling and simulation. Therefore, I ask the Committee to include report language urging the FAA to expedite the DNL review and to provide the Committee with a report no later than 60 days after enactment of the ACT describing a pilot program for conducting actual noise sampling as part of the DNL review.

#### **Department of Housing and Urban Development**

While the goal of permanent housing is laudable, in some communities the difficulty of finding permanent housing is a challenge because of affordability and scarcity. I urge the committee to strengthen funding for transitional housing grants which continue to be heavily utilized in my district for homeless veterans housing. I also urge the Committee to fully fund the VASH-HUD program as not less than the FY17 level.

#### **Continuum of Care**

While we may have made great strides in reducing the nation's homeless population through sustained funding across multiple agencies, we need to continue our efforts. I urge the Committee to fully fund the CoC program as no less than the FY17 level.

#### **CDBG**

This is one of the most effective federal programs that provides critical economic support to more than 1,200 low- and moderate-income communities across the nation. CDBG touches the lives of virtually every American by funding affordable housing, public infrastructure improvements, employment training and economic development, while also providing public services for seniors, youth and the disabled. I urge the Committee to fund CDBG at no less than the FY17 level.

Though we have not yet seen the President's budget proposal for FY18, it is my hope that he is serious in his commitment to improving our transportation infrastructure through a mix of increased federal and private investments. Your subcommittee has the opportunity to make infrastructure investments that are desperately needed in districts all across the nation so that we can ensure a modern transportation system that sustains economic growth.

The programs I have highlighted are critical to my home and the communities that depend on a robust public transportation infrastructure, affordable housing and resources for our most

vulnerable populations. Thank you for the opportunity to advocate on behalf of these programs



Mr. DIAZ-BALART. And let me thank the gentleman for his testimony, and for being here. I know I can speak for everybody in the subcommittee when we tell you that we look forward to working with you.

Mr. JOYCE. I am sorry, sir, I might have missed it. For the bridge replacement, as I understood you, was there a cost estimate that you gave them?

Mr. PANETTA. They have not come up with that. So I cannot give you that now, but I can assure you that Caltrans, the California Transportation Authority, is working on that. I actually spoke with one of the heads of Caltrans, they said that they are obviously going to have to do an emergency replacement and that is going to take—what they are saying, which I was actually surprised, could be 6 months, which I think is pretty quick for that long a bridge, that big a bridge, in that area that is on such a dangerous cliff like that. But I think that that is, though, the time that he gave me. I will get back to you in regards to a number as to what it is going to cost.

Mr. JOYCE. Thank you.

Mr. DIAZ-BALART. And I want to thank the members of this subcommittee because they have been very, very sensitive to making sure that we have that money there. And so, again, we look forward to working with you. Thank you.

Mr. PANETTA. Thank you, sir.

Mr. DIAZ-BALART. Thank you.

Mr. AGUILAR. Mr. Chairman?

Mr. DIAZ-BALART. Yes, sir.

Mr. AGUILAR. It is a terrible place to live. Beautiful, you know. Very tough vistas as well. So if there is a, you know, a trip that needs to be seen, I am sure Mr. Panetta would host you, Mr. Chairman, to take a look at the seriousness of this issue.

Mr. DIAZ-BALART. Well, Mr. Aguilar, you are always willing to sacrifice greatly to help our colleague here.

Mr. AGUILAR. Yeah. As I shared privately I just want to be a team player, Mr. Chairman.

Mr. DIAZ-BALART. I am getting choked up. I am getting choked up and emotional. But thank you, thank you very much.

Mr. PANETTA. Open invitation.

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

Mr. PANETTA. Thank you.

Mr. DIAZ-BALART. We will now recognize The Honorable Sheila Jackson Lee. And thank you for your testimony and we know you have a number of different issues that you want to talk about. We might be able to give you a little bit more than the 5 minutes. If somebody else shows up, then I will have to cut you off, and if not, we might be able to give you a little more. So we will have to play that by ear, ma'am, but you are recognized.

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THURSDAY, MARCH 9, 2017.

WITNESS

HON. SHEILA JACKSON LEE, A REPRESENTATIVE IN CONGRESS FROM  
THE STATE OF TEXAS

Ms. JACKSON LEE. That may not be somewhat contentious, but I want to emphasize some points that I think are important. And, first of all, I want to thank this committee and thank the ranking member, thank the chairman. We admire and appreciate the bipartisan efforts of the Appropriations Committee as a whole, but, more importantly, Subcommittee on THUD, which I know you are very popular. And so I really appreciate there is a great need for both the protection and enhancement of our infrastructure.

Let me quickly say I support \$1.25 billion for transportation investment generating economic recovery. These are the TIDA Grants. TIDA Grants encourage cooperation between agencies and jurisdictions and often funds multimodal, multijurisdictional projects that are difficult to support through traditional transportation projects, and I think that is very important.

I support \$2.5 billion for New Starts Program. The New Starts Program provides funding for commuter rails, subway, light rail, ferries, and bus transit. And I want to make the point that Houston is a transit city, Harris County is a transit county. No one should suggest that the people of Houston do not advocate for transit. City government is a transit city government. Our metro is very responsive to the community, and we are eager to listen to members of Congress and community leaders on how best and how effective we can make this transit system. Harris County is a \$4+ million metropolplex area. The City of Houston is growing past a million and we need mass transit, and I would say that we need it now.

So we support the Starts Program. We are one of the New Starts. We want to continue to finish our work. We just finished celebrating an overpass for the Harrisburg Bridge that will help that community make transit more effective. And we invite any of you to see how we are using the transit system. Certainly the Super Bowl evidenced how important our transit was and I think the NFL, if I might say, went away and said that we are one of the best cities in their scheme of cities for the Super Bowl and it was because of the transit system.

I support \$120 million for the Federal Transit Authority, provides grant funding to State, local, and tribal governments, public and private operators, and other recipients. And I support the funding request because access to transportation is a civil right, and that full funding for transit is imperative. It is very important for those citizens that rely upon it.

I support the \$2.3 billion for the Amtrak passenger rail. I think that is a vital part of that corridor.

I support \$3.1 billion for capital systems for high-speed rail corridors and inner-city passenger rail service. We are in the midst of a high-speed rail system in Texas. It is mostly privately funded. We are going through some of our challenges, but I know that it is an important element of our transportation.

The airport, the major airport, Bush Intercontinental Airport, is in my congressional district. I support \$3.4 billion for an airport improvement program which provides grants to public agencies for planning and development of public use airports. We are growing. We are growing in our terminals, we are growing in the per passenger travel. And the improvements, we hope that we have been

important fiscal agents of the Federal Government in using your money effectively and building on the national system of aviation.

Now, I understand there is rumor that there may be a 14 percent cut in public housing, \$6 billion. I don't know whether to throw myself on the floor or the table or to show you to have mercy. And I know it all deals with your—I do not want to use the term “allotment,” but what you all have to work with. I am on the Budget Committee. We will be seeing that budget next week, and I hope to be bipartisan in my passion that that just cannot be.

I support \$3 billion for Community Development Block Grant. We have not seen fraud of any extensive form. This is down payment for homes, this is fixing roofs after hurricanes. And we are loaded, what we call blue tarps, with senior citizens in my district still from Hurricane Ike. They have never had their roofs fixed. We have a program in the city that we are trying to fix it, Mr. Chairman, and trying to use that money effectively.

Parks and other forms of community development are lifelines to inner city and rural communities, which I support greatly, even though there is an Agricultural Rule Program that I have been involved in and support heavily. And so I hope that is not true.

I support \$120 million for housing for the elderly, and that is extreme in my community.

I support \$1.6 billion for the Home Investment Partnership Program, which is the largest combination for affordable housing. I worked with Habitat for Humanity. Our community helps build homes, but a lot of that is in partnership with Habitat for Humanity.

I support \$20 billion for the tenant-based rental assistance, \$42 billion for fair housing.

I support \$500 million for HUD-VASH program that is for our veterans; \$87.5 million for housing counseling; \$155 million for childhood lead poisoning. Just to comment that there is lead poisoning going on today in many of our communities and we cannot be less active in that program because our children are still getting lead poisoning.

Finally, I support \$355 million for housing opportunities for persons with AIDS. One of the first programs that I utilized as a member of the Houston City Council, still today is for housing for people living with AIDS, affected by AIDS, and it is an effective program.

So, Mr. Chairman, finally, you do great work. We want transit in Houston, Harris County; I want transit for the Nation. And, finally, I think that the HUD work for providing people access to housing is crucial and these are the programs that allow that to happen.

[The statement of Ms. Jackson Lee follows:]

**CONGRESSWOMAN SHEILA JACKSON LEE (TX-18)**

**STATEMENT BEFORE THE  
COMMITTEE ON APPROPRIATIONS  
SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT, AND  
RELATED AGENCIES**

**MEMBER DAY HEARING ON  
TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT, AND RELATED  
AGENCIES APPROPRIATIONS ACT FOR FY2018  
WEDNESDAY, MARCH 8, 2017  
2358-A RAYBURN  
10:00 A.M.**

*Chairman Diaz-Balart, Ranking Member Price and distinguished Members of the Subcommittee:*

- As the Ranking Member of the Judiciary Subcommittee on Crime, Terrorism, Homeland Security, and Investigations, let me offer my appreciation and thanks to Chairman Diaz-Balart and Ranking Member Price for the difficult work and choices that must be made to produce a truly bipartisan Labor-HHS spending bill, and for their commitment to producing a bill that fairly reflects the interests and priorities of the American people.
- Mr. Chairman, I understand that my entire statement will be made part of the record so I will keep my remarks brief.
- In the few minutes allotted I wish to highlight the transportation and housing which warrant the Committee's continuing attention and support.

**I. TRANSPORTATION**

**I support \$1.25 billion for Transportation Investment Generating Economic Recovery.**

TIGER grants have helped to finance a wide variety of innovative projects building and repairing roads, bridges, public transit systems, ports, rail lines, and bicycle and pedestrian networks. Moreover, TIGER encourages cooperation between agencies and

jurisdictions and often funds multi-modal, multi-jurisdictional projects that are difficult to support through traditional transportation programs.

**I support \$2.5 billion for New Starts Program Funding.**

The New Starts program provides funding for commuter rail, subway, light rail, ferries and bus rapid transit projects. New Starts transportation projects throughout the nation create jobs, spur economic development, ease congestion, expand our national transportation network, and foster the development of safer, more livable communities.

**I support \$120 million for the Federal Transit Authority.**

The Federal Transit Administration (FTA) provides grant funding to State, Local, and Tribal governments, public and private transit operators, and other recipients to support public transit infrastructure and operations. I support the funding requested because access to transportation is a civil right and that full funding for transit is imperative in order to ensure that low-income and vulnerable communities have access to jobs, housing, grocery stores, and childcare, among other needs.

**I support \$2.3 billion for the Amtrak Passenger Rail Service.**

The \$2.3 billion in funding requested for the Passenger Rail Service will provide grants to Amtrak and state corridors to ensure passenger rail assets are maintained to provide safe and reliable life-cycle service, as well as to continue operating long-distance train services.

**I support \$3.1 billion for Capital Assistance for High Speed Rail Corridors and Intercity Passenger Rail Service.**

This program establishes a long-term partnership between States and the Federal Government to support intercity passenger rail. The program establishes the first-ever Federal-State partnership for intercity passenger rail investment along the model of those that currently exist for other modes of transportation such as for highways, airports, and transit systems.

**I support \$3.4 billion for Airport Improvement Program.**

The Airport Improvement Program (AIP) provides grants to public agencies for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Sponsors can use AIP funds on most airfield capital improvements or repairs and in some specific situations, for terminals, hangars, and non-aviation development.

**HOUSING**

**I support \$3.3 billion for Community Development Block Grants**

CDBG is the centerpiece of the federal government's efforts to help more than 1,100 cities, urban counties, and states meet the needs of low- and moderate-income communities. It has proven to be one of the most effective federal domestic programs in revitalizing communities.

**I support \$120 million for Housing for the Elderly (Section 202) Capital Advance Program.**

This funding facilitates construction, rehabilitation, or acquisition of structures that will serve as supportive housing for very low-income elderly persons. Section 202 provides rent subsidies for projects to help keep them affordable for these vulnerable populations.

**I support \$1.6 billion for the HOME Investment Partnership Program**

The HOME Investment Partnerships Program is the largest Federal block grant to state and local governments designed exclusively to produce affordable housing for low-income families. The requested funding will result in 14,014 units of affordable housing for new homebuyers; 13,264 units of newly constructed and rehabilitated affordable rental units; 6,576 units of owner-occupied rehabilitation for low-income homeowners; 7,799 low-income households assisted with HOME tenant-based rental assistance; and 533 affordable homeownership units with SHOP funds.

**I support \$20.9 billion for Tenant Based Rental Assistance Program.**

HUD's Section 8 programs help low-income elderly, families with children, and people with disabilities secure and maintain decent, affordable homes. In both urban and rural communities, Section 8 rental assistance provides the foundation for millions of individuals and families to live with dignity, maintain steady work, and improve the lives of their children.

**I support \$42.5 million for Fair Housing Initiatives.**

FHIP is a competitive grant program and is the primary source of funding for fair housing education and enforcement activities at the local level. Local fair housing organizations funded by FHIP protect the housing rights of the public and educate people about their fair housing rights. Fair housing education and enforcement play a pivotal role in increasing housing choice and minority homeownership and combating predatory lending.

**I support \$500 million for HUD-VASH Program**

HUD—VASH is the only program that supports the permanent housing and rehabilitation of homeless veterans. HUD-VASH is a joint HUD and VA initiative that provides specially designated Section 8 “Housing Choice” vouchers, case management, and supportive services to homeless veterans. Vouchers are used to assist with the payment of rent for veterans and their families. The goal of the program is to support veterans’ permanent housing in the community.

**I support \$87.5 million for Housing Counseling Assistance.**

We respectfully request \$87.5 million for the Housing Counseling Assistance Program in the Fiscal Year 2014. The Housing Counseling Assistance Program is a vitally important resource for current and prospective homeowners. This funding supports HUD-approved housing counseling agencies that provide unbiased information and education

for consumers on foreclosure mitigation programs, rental assistance, pre-purchase counseling, reverse mortgages, and homelessness assistance.

**I support \$155 million for Childhood Lead Poisoning Prevention Programs and Office of Healthy Homes and Lead Hazard Control.**

Over the past two decades, HUD's Office of Healthy Homes and Lead Hazard Control Program has developed programs to address lead hazards in the home, successfully creating 165,000 lead-free units, ensuring that over 185,000 units are lead-safe, and upgrading 20,000 substandard housing units. Providing the Office of Healthy Homes and Lead Hazard Control with \$120 million in FY 14 is critical to continuing this progress.

**I support \$355 million for Housing Opportunities for Persons with AIDS.**

The requested funding for this important, effective and bipartisan program will provide relief to the HIV/AIDS community by providing much needed support to more 62,500 households in need of housing assistance.

**CONCLUSION**

Mr. Chairman, I thank you and the Ranking Member for your leadership and for extending me this opportunity to share my major priorities with the Subcommittee.



Mr. DIAZ-BALART. Let me first thank the gentlelady for your testimony.

Ms. JACKSON LEE. Thank you.

Mr. DIAZ-BALART. For your hard work. And by the way, you have done an extensive testimony, you have done it in record time. So again, thank you very much. Thank you. Thank the lady from Texas.

Ms. JACKSON LEE. Thank you.

Mr. DIAZ-BALART. We will now recognize The Honorable Congresswoman Plaskett. Thank you for being here. We look forward to your testimony.

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THURSDAY, MARCH 9, 2017.

**WITNESS**

**HON. STACEY E. PLASKETT, A REPRESENTATIVE IN CONGRESS FROM THE VIRGIN ISLANDS**

Ms. PLASKETT. Good morning, gentlemen. Thank you, Chairman Diaz-Balart, Ranking Member Price, for the opportunity to testify on appropriations for the Departments of Transportation and Housing and Urban Development over the next fiscal year. This legislation will serve as a statement of the commitment from the Federal Government to address some of our most pressing local needs in the Virgin Islands. In the United States territories, despite being home to nearly 4 million Americans, we are too often left out of important programs or underfunded compared to benefits available to Americans living in the mainland United States.

For example, in the Virgin Islands, despite benefits we bring to the United States, including enormous tourism commerce from airline visits, cruise ships, and other vessels, Federal transportation funding to the Islands falls behind other jurisdictions even though the traffic strain on our infrastructure is often greater due to the high number of visitors year round. We have approximately 105,000 individuals, but have several million tourists that visit and strain our infrastructure every year. Territorial roads continue to be under stress from inadequate capacity. And in the Virgin Islands most of the Federal highways do not meet current standards. Because the territories are islands, most of the road construction is much more expensive than the mainland to accommodate due to supplier costs, costs of transportation. As a result of inadequate funds, crucial projects have been shelved, leaving only stopgap repairs to resolve maintenance issues, even on primary artery highways.

I would like to emphasize that this negatively impacts everything, from commerce to disaster relief management, emergency response, law enforcement capacity, and my own shock-absorbing bills that I have to pay for our vehicle on the road.

Extreme weather during hurricane season annually demonstrates how fragile our infrastructure is and how much we depend on it. The territories are generally less well off than the States economically, partly due to lower per capita domestic product. And we pay higher prices for many basic necessities. We do not

have local revenue means to provide for needed highway infrastructure without Federal assistance.

Although the goal of bringing the territories into economic parity with the States has been a principle embraced by several acts of Congress over decades of partnership work, this has yet to be fulfilled in the area of transportation infrastructure. Each of the territories were acquired for specific strategic purposes and we continue to be of vibrant strategic value to the United States.

Accordingly, I request full funding at or above current authorization levels for the territorial highway program over the next fiscal year. I also join others in calling for enhanced funding for TIGER Grants, preferably at or above the fiscal 2017 requested levels of \$1.25 billion. TIGER Grants have been particularly important for our ports and transshipment projects in the Virgin Islands, which we believe will have adequate benefit to us in terms of growing our economies.

I also welcome recent statements from leaders in Congress on both sides of the aisle for new supplemental transportation infrastructure programs and decisions by the President for this to be part of his agenda.

If and when this committee will be working with the Authorizing Committee on any new transport expenditure program, it is imperative that the territories be fully incorporated in the package. New infrastructure projects in the Virgin Islands will create much-needed immediate jobs as well as help promote safety and security in an economy that is heavily based on tourism. There are numerous examples of needs that we have that are out of reach right now due to current levels of funding, but which could be covered with new or supplemental assistance.

Again, I would point to our desire to really beef up our transshipment, our ports, which would grow our economy exponentially, provide jobs, and much-needed capital in the area. The U.S. Virgin Islands was purchased specifically because of our transshipment and our strategic location as the most easterly point in the United States.

In addition, investment in airports and continued pressure on airlift is crucial to a place like the Virgin Islands. I urge that any discretionary program reforms expand eligibility in funding for the Airport Improvement Program, which has been very important for the necessary modernization of our airport on St. Thomas, Cyril King Airport.

We also depend on well-funding maritime infrastructure. And I will be seeking fair inclusion of the Virgin Islands in the NHS and FTA Ferry Programs to assist in the purchase of much-needed vessels to accommodate heightened transit demands along the route from St. Thomas to St. Croix. We at this point have to have duplicative services in every area, hospitals, our generators, everything because of the distance between the two major islands. Individuals cannot travel by airlift because of the cost, and so a ferry system would be really important to us to drive the cost down, stop some of the duplication, and really make our economy a much more vibrant one.

I also strongly support the inclusion of school construction and broadband expansion programs in any new infrastructure package.

Many of the people living in the Virgin Islands do not have ordinary access to the computer connected to the Internet and this continues to have a negative impact on educational opportunities, workforce development for a growing isolated island economy.

Lastly, I would like to touch on housing-related programs, which service antipoverty tools for low-income people. Greater investment in home and CDBG Block Grants, Section 8 rental assistance, are critical for the availability of decent affordable housing in the Virgin Islands. These resources are especially important amid higher costs facing my constituents in communities across our country and I urge that they be strengthened through the next fiscal year.

Thank you for the opportunity to present my testimony today.

[The statement of Ms. Plaskett follows:]

**Congress of the United States**  
**Washington, DC 20515**

March 5, 2017

**Testimony submitted by: Congresswoman Stacey E. Plaskett (VI)**

Thank you Chairman Diaz-Balart, Ranking Member Price, for the opportunity to testify on appropriations for the Departments of Transportation and Housing and Urban Development over the next fiscal year. This legislation will serve as a statement of the commitment from the federal government to address some of our most pressing local needs in the U.S. Virgin Islands.

In the United States territories, there are nearly 4 million Americans, and we are too often left out of important programs or underfunded compared to benefits available to Americans living on the mainland United States. For example in the U.S. Virgin Islands, despite benefits we bring to the United States including enormous tourism commerce from airline visits, cruise ships and other vessels, federal transportation funding to the Islands falls behind other jurisdictions even though the traffic straining our infrastructure is often much greater due to the high number of visitors year-round.

Territorial roads continue to be under stress from inadequate capacity, and in the Virgin Islands, most of the federal highways do not meet current standards. Because the territories are islands, much of the road construction is more expensive than on the mainland to accommodate supplier costs. As a result of inadequate funds, crucial projects have been shelved, leaving only stopgap repairs to resolve maintenance issues, even on primary arterial highways.

I would like to emphasize that this negatively impacts *everything* from commerce, to disaster relief management, to emergency response and law enforcement capabilities. Extreme weather during hurricane season annually demonstrates how fragile our infrastructure is and how much we depend on it.

The territories are generally less well off economically than the states due to a lower per capita domestic product, and we pay higher prices for many necessities. We do not have local revenue means to provide for needed highway infrastructure without adequate federal assistance.

Although the goal of bringing the territories into economic parity with the states has been a principle embraced by several Acts of Congress over decades of partnership work, this has yet to be fulfilled in the area of transportation infrastructure. Each of the territories were acquired for specific strategic purposes, and we continue to be of vibrant strategic value to the United States.

Accordingly, I request full funding at or above current authorization levels for the Territorial Highway Program over the next fiscal year. I also join others in calling for enhanced funding for TIGER grants over the next fiscal year, preferably at or above the fiscal 2017 requested level of \$1.25 billion.

I also welcome recent statements from leaders in Congress on both sides of the aisle for new, supplemental transportation and infrastructure programs, and the decision by the President for this to be part of his agenda.

If and when this committee will be working with the authorizing committees on any new transport expenditure programs, it is imperative that the territories be fully incorporated into the package. New infrastructure projects in the Virgin Islands will create much needed, immediate jobs, as well as help to promote safety and security in an economy that is heavily based upon tourism. There are numerous examples of needs we have that are out of our reach right now due to current levels of funding but which could be covered with new or supplemental assistance.

In addition, investment in airports and continued pressure on airlift is critical to a place like the Virgin Islands, and I urge that any new discretionary program reforms expand eligibility and funding for the Airport Improvement Program, which has been crucial to the much-needed modernization of Cyril King Airport on Saint Thomas. We also depend on well-functioning maritime infrastructure, and I will be seeking fair inclusion of the Virgin Islands in the National Highway System and Federal Transit Administration ferry programs to assist in the purchase of necessary vessels to accommodate heightened transit demand along the route from Saint Thomas to Saint Croix.

I also strongly support the inclusion of school construction and broadband expansion programs in any new infrastructure-funding package. Many of the people living in the Virgin Islands do not have ordinary access to a computer connected to the internet, and this continues to have negative impact on educational opportunities and workforce development to grow our economy.

Lastly, I would like to touch on housing-related programs, which serve as critical anti-poverty tools for lower-income people. Greater investments in HOME and CDBG block grants, and Section 8 rental assistance, are critical for the availability of safe, decent, and affordable housing in the Virgin Islands. These resources are especially important amid higher costs facing my constituents and communities across our country, and I urge that they be strengthened over the next fiscal year.

Thank you again for the opportunity to present my testimony today.

Mr. DIAZ-BALART. Let me thank our colleague for bringing up very important issues. And it is important. And this is a subcommittee that has always been very sensitive to making sure that our territories are not only not forgotten, but they are emphasized.

Ms. PLASKETT. Thank you. I appreciate that.

Mr. DIAZ-BALART. So thank you. And now I know that Mr. Aguilar, he does not feel comfortable voting for things unless he sees it personally, so he might have to—but we will have to work on the potential.

Mr. AGUILAR. You did not talk about Houston, though.

Ms. PLASKETT. Mr. Chairman, you know the end of the month is our 100th anniversary as being part of the United States. So all of you can come down for the celebrations on March 31 and get a view of it yourself, particularly you, Pete.

Mr. DIAZ-BALART. Thank you very much. We appreciate your testimony and we look forward to working with you.

Why don't we then now take a short recess and let us reconvene at 11:25, if there is no objection. Without objection.

[Recess]

Mr. DIAZ-BALART. Committee will come to order. Welcome, Mr. Cartwright.

Mr. CARTWRIGHT. Thank you, Chairman.

Mr. DIAZ-BALART. Love to hear your positions. You have 5 minutes.

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THURSDAY, MARCH 9, 2017.

#### WITNESS

#### HON. MATTHEW CARTWRIGHT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. CARTWRIGHT. All right, and I want to thank all my fellow appropriators for having me here today. Today, I want to talk about three policy areas where I urge your subcommittee to give attention during the fiscal year 2018 appropriations process.

First one is lead hazard control. I want to invite your attention to the persistent problem of lead in our communities and to advocate for full funding support for the Office of Lead Hazard Control and Healthy Homes in the Department of Housing and Urban Development. Citizens across the country are rightly concerned about the threat of lead to public health, and obviously that was something that was brought to the floor in Flint, Michigan. But in districts like mine, the threat of lead comes not just from the public drinking water systems, but also from old plumbing and paint in our houses.

As you may know, in fiscal year 2014, the Centers for Disease Control and Prevention spent nearly \$2 million as a part of a 3-year funding commitment to help some of the biggest cities in the country monitor lead exposure. The results were alarming. In Pennsylvania, nearly 10 percent of the more than 140,000 kids tested had elevated levels of lead in their blood.

The major cities in my district, Scranton and Wilkes-Barre, have a high percentage of homes built before the 1940s when the use of lead-used paint was highly prevalent. That is why I strongly sup-

port robust funding for HUD's lead prevention programs. The Office of Lead Hazard Control and Healthy Homes provides funds to State and local governments to develop cost-effective ways to reduce lead-based paint hazards.

In addition, the Office enforces HUD's lead-based paint regulations, it provides outreach and technical assistance, and conducts technical studies to help protect children and their families from health and safety hazards in the home. As the problem of lead in our homes and its impact on our health and our children's health persists, we need to continue this important work, and I do ask the subcommittee to provide full funding for that office's efforts.

Secondly, rail. I urge the subcommittee to increase its support for our long-neglected national railway network. In many parts of the world, especially in Europe and in the emerging fast-growing economies of Asia, citizens enjoy advanced modern inner-city railway systems that improve their quality of life, drive business activity, and boost productivity. America has fallen behind the curve in this area.

In Northeastern Pennsylvania, where I live and represent, for example, our cities would benefit tremendously from rail links that connect our region to New York and New Jersey. This would help bring companies and growth to our region, improve the lives of the thousands of people who make a grueling commute, particularly from southern Monroe County, Pennsylvania, to greater New York City every day by car and bus.

In addition, investment in rail decreases road congestions, improved transportation safety, and curbs our emission of pollutants that contribute to climate change. And I know that Chairman Frelinghuysen has getting those cars off the road in northern New Jersey as one of his priorities.

By laying new tracks and increasing connectivity for our workers, entrepreneurs, and visitors, we will send a powerful signal to the private sector that our rural regions and cities are places where businesses can thrive and have access to resources, talent, and new ideas. In short, restoring an efficient railway network will create jobs in the near term and make our economy more competitive in the long term.

And finally, aviation.

I want to begin by commending the subcommittee's work in the area of aviation over the last 8 years. This committee has provided more than 99 percent of the FAA's budget requests. Your support of the programs and activities of the FAA are a recognition that the United States operates the largest, most complex air traffic control system in the world.

In that regard, I want to urge the subcommittee to continue its vigorous support for the FAA's effort to modernize our air traffic control system. Transitioning from ground-based radar navigation to satellite-based navigation is a complicated endeavor and through your support, the FAA has made noteworthy progress in its NextGen program from the installation of automatic dependent satellite broadcast ground stations to the advancements in data communications. Investments in NextGen will not only create a more efficient system, but will yield additional capacity and safety benefits.

Finally, I want to urge the subcommittee to continue to support efforts to ensure that our pilots are adequately trained and rested, to ensure our Nation's excellent record of safety. In that regard, I hope you will resist any efforts to weaken or eliminate regulations that put the flying public at risk. Our Nation's ATC system is a public asset and your work is supported by the millions of passengers that pay into the Airport and Airway Trust Fund each and every time they fly. I do hope you will continue to make your effort to ensure that our ATC system remains under your careful oversight.

I thank you for your time and I yield back, Mr. Chairman.

[The statement of Mr. Cartwright follows:]



**The Honorable Matt Cartwright (PA-17)**  
**Committee on Appropriations**  
**Subcommittee on Transportation, Housing and Urban Development, and Related Agencies**  
**Member's Day Testimony**  
**March 9, 2017**

Thank you Mr. Chairman, Ranking Member, and members of the subcommittee for the opportunity to speak with you today. In my testimony, I will highlight three policy areas where I urge this subcommittee to give attention to during the FY18 appropriations process.

**LEAD HAZARD CONTROL**

I first call attention to the persistent problem of lead in our communities and to advocate for full funding support for the Office of Lead Hazard Control and Healthy Homes in the Department of Housing and Urban Development (HUD). Citizens across the country are rightly concerned about the threat of lead to public health—a concern highlighted by the crisis in Flint, Michigan. But in districts such as mine, the threat of lead comes not from the public drinking water systems but from old plumbing and paint in our homes.

As you may know, in FY2014 the Centers for Disease Control and Prevention spent nearly \$2 million as part of a three-year funding commitment to help some of the biggest cities in the country monitor lead exposure. The results were alarming. In Pennsylvania, nearly 10 percent of the more than 140,000 kids tested had elevated levels of lead in their blood. The major cities of my district—Scranton and Wilkes Barre—have a high percentage of homes built before 1940s, when the use of lead-based paint was still common.

This is why I strongly support robust funding for HUD's lead prevention programs. The Office of Lead Hazard Control and Healthy Homes provides funds to state and local governments to develop

cost-effective ways to reduce lead-based paint hazards. In addition, the office enforces HUD's lead-based paint regulations, provides public outreach and technical assistance, and conducts technical studies to help protect children and their families from health and safety hazards in the home. As the problem of lead in our homes and its impact on our health and our children's health persists, we need to continue this important work, and I ask the Subcommittee to provide full funding for this office's efforts.

### **RAIL**

Second, I urge the Subcommittee to increase its support for our long-neglected national railway network. In many parts of the world, especially in Europe and in the emerging, fast-growing economies of Asia, citizens enjoy advanced, modern intercity railway systems that improve their quality of life, drive business activity, and boost productivity. America has fallen behind the curve in this area.

In Northeast Pennsylvania, for example, our cities would benefit tremendously from rail links that connect our region to New York and New Jersey. This will help bring companies and growth to our region and improve the lives of the thousands of people who make this grueling commute already by car. In addition, investment in rail decreases road congestion, improves transportation safety, and curbs our emission of pollutants that contribute to climate change. By laying new tracks and increasing connectivity for our workers, entrepreneurs, and visitors, we will send a powerful signal to the private sector that our rural regions and cities are places where businesses can thrive and have access to resources, talent, and new ideas. In short, restoring an efficient railway network will create jobs in the near term and make our economy more competitive in the long term.

**AVIATION**

I begin by commending the Subcommittee's work in the area of aviation. Over the last eight years, this Committee has provided more than 99% of the Federal Aviation Administration's budget request. Your support of the programs and activities of the FAA are recognition that the United States operates the largest, most complex air traffic control system in the world.

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Finally, I urge the Subcommittee to continue to support efforts to ensure that our pilots are adequately trained and rested to ensure our nation's excellent record of safety. In that regard, I hope that you will resist any efforts to weaken or eliminate any regulations that might put the flying public at risk.

Our nation's air traffic control system is a public asset and your work is supported by the millions of passengers that pay into the airport and airway trust fund each and every time they fly. I hope you will continue to make your effort to ensure that our air traffic control system remains under your careful oversight. Thank you for your time.

Mr. DIAZ-BALART. Thank you, Mr. Cartwright. Your time has expired. Anyone have any questions? Thank you for your time here today.

Moving along. Recognized now, Congresswoman Diaz Barragán.

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THURSDAY, MARCH 9, 2017.

WITNESS

**HON. NANETTE DIAZ BARRAGÁN, A REPRESENTATIVE IN CONGRESS  
FROM THE STATE OF CALIFORNIA**

Ms. BARRAGÁN. Yes, thank you very much. Thank you, Mr. Chairman, the ranking member, and members of the Transportation and Housing and Urban Development Subcommittee. I want to thank you for an opportunity to allow me to speak to you today. I am one of the new members of Congress. I represent California's 44th Congressional District. It includes the Port of Los Angeles and San Pedro, and then goes through areas like Compton and Watts, up into Southgate.

Most notably, as I mentioned, is the Port of Los Angeles is in my district. It is North America's largest seaport. It touches every single congressional district in this country. I am proud to represent the thousands of workers that are directly and indirectly associated with the Port of Los Angeles. The San Pedro Bay ports, which includes both the L.A. port and the Long Beach port, accounts for one-quarter of the Nation's cargo and supports over 3 million jobs nationwide.

My message today is simple. I urge you to invest in our Nation's freight transportation network, particularly on the multimodal transportation and on programs that provide comprehension solutions to combat homelessness.

I want to start first with the freight transportation. With raising freight volumes, increasing population density, and growing international competition, we need to make sure to maintain and modernize and expand our infrastructure, including landslide freight connections that are necessary to move goods to and from our ports. A competitive grant program for freight and multimodal transportation, like fast-lane grants, will improve congestion, air quality, and helps goods get to where they need to go faster.

In 2014, the FAST Act was enacted into law, making freight a national issue, and the first time that ports and freight were fully integrated into the surface transportation network. Now, the FAST Act also established dedicated freight programs, including discretionary grant programs known as FASTLANE, which authorized \$4.5 billion over 5 years. The goals of the FASTLANE program are to increase the U.S. global economic competitiveness, reduce congestion and bottlenecks, increase efficiency and reliability of the highway network, and reduce the environmental impact of freight movement.

In keeping with these goals, one particular program that is of national significance is something that was just funded in 2017 for the—rather, an application for the fiscal year 2017 program at the Port of Los Angeles. We submitted an application known as America's Global Freight Gateway Southern California Rail Project. This

request represents only 29 percent of the project's total cost. This investment is needed to accommodate more cargo via on-dock rail at the largest port complex in the Western Hemisphere while reducing community impacts inland by grade, separating high-priority railroad crossings.

Now, the two Port of Los Angeles project components currently accommodate approximately \$6 million for—rather, sorry, they accommodate approximately 6 percent of all waterborne containers entering and exiting the United States.

So I urge the subcommittee to fund FASTLANE grants at the authorized amounts of \$900 million for fiscal year 2018, and \$850 million for the fiscal year 2017. I also want to mention that Congress should consider raising or eliminating the \$500 million lifetime cap for multimodule projects, like highway connectors and on-dock rail, that are needed to move goods to and from our port.

I will move on to homelessness. It is a issue that has just been exploding just throughout the country, more so in Los Angeles. And my district in Los Angeles County has the highest homeless population in the Nation with 47,000 homeless men, women, and children on any given night. It has reached epidemic proportions and I urge this body to support programs that will help break the silence, the cycle of homelessness.

Just to highlight one of the programs is the Continuum of Care. It provides a comprehensive solution to homelessness epidemic which emphasizes housing first and provides supportive services. In Carson and Compton, both in my district, the L.A. County Continuum of Care has been crucial in preventing a return to homelessness by providing comprehensive solutions that previous efforts lacked. The funds can be used to provide transitional housing, rapid rehousing, permanent supportive housing, support services, and planning to improve program performance. It has been successful and I urge the subcommittee to support the \$2.7 billion for homeless assistance grants for fiscal years 2018 and 2017, specifically, the Continuum of Care program at \$2.4 billion for both fiscal years.

To maintain housing affordability and prevent people from becoming homeless in the first place, we should support key programs that ensure access to affordable housing, such as the Community Block Development Grants. Since fiscal year 2010, CDBG has been cut nearly 25 percent, amounting to roughly \$1 billion annually. So just to get to the end here, I urge this committee to support things like HUD-VASH at a funding level of \$75 million for both fiscal years 2018 and 2017. We do not have to accept homelessness. I think it is a solvable problem, and I thank this subcommittee for your time.

[The statement of Ms. Barragán follows:]

**U.S. Representative Nanette Diaz Barragan (CA-44)**

**Testimony**

**House Appropriations Subcommittee on Transportation, Housing and Urban Development**

**March 9, 2017**

Chairman Diaz-Balart, Ranking Member Price and Members of the Transportation and Housing and Urban Development Subcommittee, I want to thank you all for allowing me the opportunity to provide testimony today.

I am Nanette D. Barragan and I represent California's 44<sup>th</sup> congressional district which includes San Pedro, Wilmington, South Gate, Watts, Compton and North Long Beach.

Most notably, the Port of Los Angeles, North America's largest seaport by container volume and cargo value, is in my district.

I am proud to represent thousands of workers that are directly and indirectly associated with the Port of Los Angeles.

The San Pedro Bay Ports Complex, which includes both the Ports of Los Angeles and Long Beach, accounts for one quarter of the nation's cargo and it supports over 3 million jobs nationwide.

My message today is simple: I urge you to invest in our nation's freight transportation network, particularly on multimodal transportation.

The American Society of Civil Engineers has graded our entire infrastructure system, our ports, roads, bridges and rail system, with a D+, costing American families thousands of dollars each year.

The Army Corps of Engineers estimates that 95 percent of overseas trade moves through our ports.

With rising freight volumes, increasing population density and growing international competition, we need to maintain, modernize and expand our infrastructure, including landside freight connections that are necessary to move goods to and from our ports.

Competitive grant programs for freight and multimodal transportation like the FASTLANE and TIGER grants will improve congestion, air quality and help goods get to market faster.

In 2014, the FAST Act was enacted into law, making freight a national issue and the first time that ports and freight were fully integrated into the surface transportation network.

The FAST Act also established dedicated freight programs, including the Nationally Significant Freight and Highways Program, a discretionary grant program also known as FASTLANES which is authorized at \$4.5 billion dollars over 5 years.

The goals of the FASTLANE grants program are to increase U.S. global economic competitiveness, reduce congestion and bottlenecks, increase the efficiency and reliability of the highway network and reduce the environmental impact of freight movement.

I urge the Subcommittee to fund FASTLANE grants at the authorized amounts of \$900 million dollars for Fiscal Year 2018 and \$850 million for Fiscal Year 2017.

I would also simply like to mention that Congress should consider raising or eliminating the \$500 million dollar lifetime cap for multimodal projects like highway connectors and on-dock rail that are needed to move goods to and from ports.

I also urge the Subcommittee to fund “national infrastructure investment” also known as TIGER at \$1.25 billion dollars for both Fiscal Years 2018 and 2017.

TIGER is a multimodal, multi-jurisdictional competitive grant program that has leveraged \$700 million dollars for the freight network since 2009.

The port-related freight network is in need of \$29 billion dollars.

While we wait for Congress to consider an infrastructure package, we should invest to the fullest amount possible in the freight network, especially on multimodal projects.

Thank you for your time.



Mr. FRELINGHUYSEN. Thank you very much for your testimony here today. Appreciate it. Any questions? Hearing none, thank you.

Now I have Congressman Johnson from the fine State of Louisiana.

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THURSDAY, MARCH 9, 2017

WITNESS

**HON. MIKE JOHNSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA**

Mr. JOHNSON. That is right, Mr. Chairman. Thank you and committee members. We will go from the other L.A. to the real L-A and that is Louisiana, right?

I appreciate the opportunity to come before you today to consider funding priorities for the fiscal year 2018. I am grateful for your continued support of our Nation's infrastructure and transportation priorities.

Given the importance of northwest Louisiana's unique national security footprint and mixed infrastructure needs, I am truly thankful for the opportunity to bring important and noteworthy projects to your attention. I am going to try to speak quickly so I can get it all in.

Today I share my support for providing adequate formula funding for the FAST Act, and specifically grant opportunities in the FASTLANE program to aid the national needs we have heard here today. My district, Louisiana's Fourth Congressional, contains five of the nine Louisiana Department of Transportation State sectors, and that makes us the largest. Within that area, my district contains 3,403 bridges; a total of over 20,000 miles of local and interstate roadway. It is also home to four shallow draft port authorities with 485 miles of navigable waterways, 7 freight railroads, and 875 miles of railroad track. Every single one of these areas are in need of immediate attention.

We are a poor State and I know there are many needs in your own districts, as well. Long-term statewide transportation plans have identified incredibly significant amounts in transportation needs right now. And we demonstrated that without adequate funding of about \$1.86 billion to address these critical infrastructure projects, efforts aimed to improve safety needs will go unaddressed.

Louisiana, despite maximizing and capturing available Federal dollars every year, sees a transportation budget that is only about 6- to \$700 million annually, and it puts us drastically short of our critical needs.

Just as many of the other members have here stated, my State is in desperate need of immediate action. To provide just a few examples of the critical issues in this district, since January alone, we have had nine bridges that have been forced to shut down. According to official reports in recent years, northwest Louisiana's economic health and our quality of life are at risk if these transportation and infrastructure funding challenges continue to go unanswered. Without the necessary funding, it will not be possible to re-

verse the damage done by previous year's failures to address these economic challenges.

In the Fourth Congressional District of Louisiana alone, our statewide plan identifies at least 13 category A through D megaprojects.

Given the realities of needing to maintain a fiscally balanced budget, we obviously accept that every infrastructure project cannot be met. But despite this fact, we have been presented with an opportunity to once again prioritize the most important and noteworthy projects. So in addition to advocating for adequate funding formula for the FAST Act, I would also ask that the committee support competitive grant opportunities and the FASTLANE program.

I would like to provide some specific examples, very quickly, of the infrastructure and highway projects in my district that are critical for improving not only the local economy, but national security, as well.

First, funding for the final portion of I-49. We have got 3.6 miles of the proposed new highway that will intersect Shreveport, our largest city, in order to connect to I-49, at the I-20 interchange with I-49 North near the I-220 interchange. This will add a seamless and helpful connection for a highway that extends all the way from Canada to New Orleans. This project will reduce travel time and travel distance for those remaining on I-49, and provide a more direct access to downtown Shreveport, as well as align needs for supporting current Air Force plans for our Air Force base at Barksdale.

A second example is with the interstate project of I-69. It has been named by the U.S. DOTD as one of the six corridors of the future. And construction of I-69 is critically important to provide exponential resources to the port of Shreveport Bossier, Barksdale Air Force Base, and a much-needed loop around the urban area of Shreveport and Bossier City. In northwest Louisiana, the sections of independent utility 14, 15, and 16 need to be completed in order for the project to continue.

Third, we have a project that would greatly benefit from these programs, the interstate widening efforts for I-49 and I-20 in the Fourth Congressional District. The I-20 corridor is congested with vehicle traffic at several points with conditions expected to worsen in the coming years. And grant opportunities have the potential to allow for further development of these interstates. They are critical for the economies of the local regions and States.

Bossier Parish is one of the fastest growing areas of our State, and this rapid growth has caused severe traffic congestion, especially on Highway 3 and Highway 3105, Benton Road and Airline Drive. And that congestion threatens future development in the area. We have to act now. We need funding for that.

Last but not least, I would like to mention the Barksdale Air Force Base gate project. Barksdale is a key national security asset located in Bossier Parish that does not have sufficient direct access to the interstate system. It is an issue which is a hindrance to national Air Force priority, and I met with our four-star general there about this 2 weeks ago.

The State is advancing a project to fix this, supporting DOD's investment in our national security and in our State. The project will

improve base security and connect the new public road extending from I-20 at the I-220 interchange to a new gate at Barksdale Air Force Base, moving the commercial vehicle inspection station away from aircraft approach. We think this is critical, especially for the future weapons storage and maintenance facility that will be there. And it has a preliminary cost estimate of 80- to \$100 million. However, there is an immediate \$11.8 million fiscal year 2019 MILCON request by the Air Force which has been briefed to the Secretary of Transportation and our State's governor.

Like each of you, I have got dozens of projects that I could go on about. I realize that I am quickly running out of time, but in addition to these new capacity projects, costs to maintain the transportation system we already have continue to grow. Providing the needed resources to competitive grant opportunities in the FASTLANE program to address longstanding challenges will serve as an economic generator and help protections for Louisiana, Texas, Arkansas, and our surrounding areas. It is my understanding that many of these top priority infrastructure projects have been raised to the President, as well as to our governor.

I know I am out of time and I want to thank you again for your hard work and your diligent efforts on all these things.

[The statement of Mr. Johnson follows:]

**Testimony of Congressman Mike Johnson (LA-04)****Submitted to the Appropriations Subcommittee on Transportation, Housing and Urban Development, and Related Agencies****March 9, 2017**

Thank you, Mr. Chairman, Mr. Ranking Member and members of the committee.

I appreciate the opportunity to come before you today as you consider funding priorities for the fiscal year of 2018. I ask for your continued support of our nation's infrastructure and transportation priorities.

Given the importance of Northwest Louisiana's unique national security footprint and mixed infrastructure needs, I am very thankful for the opportunity to bring important and noteworthy projects to your attention. Today I share my support of providing adequate formula funding for the Fixing America's Surface Transportation (FAST) Act, specifically grant opportunities and the FASTLANE program, to aid the national needs we have heard here today.

I recently learned that Louisiana's Fourth Congressional District contains five of the nine Louisiana Department of Transportation's (LA DOTD) state sectors, making it the largest. Within that area, my district contains 3,403 bridges and a total of over 20,000 miles of local and interstate roadway. It is also home to four shallow draft port authorities, with 485 miles of navigable waterways, seven freight railroads and 875 miles of railroad track. Every one of these areas are in need of attention, as I am sure they are in many of your districts.

Long-term statewide transportation plans have identified incredibly significant amounts in transportation needs, and demonstrated that without adequate funding, of \$1.86 billion, to address critical infrastructure projects efforts aimed to improve safety needs will go unaddressed. Louisiana, despite maximizing and capturing available federal dollars every year, sees a

transportation budget that is only about \$600-700 million annually, putting it drastically short of its needs.

Just as many of the other members here have stated, my state is in desperate need of immediate action. To provide just a few examples of the critical issues in my district, since January alone, nine bridges in my district were forced to shut down. According to official reports in recent years, Northwest Louisiana's economic health and quality of life may be at risk if these transportation and infrastructure funding challenges continue to go unanswered. Without the necessary funding, it will not be possible to reverse the damage done by previous years' failures to address economic challenges.

In the 4<sup>th</sup> congressional district of Louisiana alone, our statewide plan identifies at least 13 category A through D megaprojects. Given the realities of needing to maintain a fiscally balanced budget, I am aware that every infrastructure project cannot be met. Despite this fact, we have been presented with an opportunity to once again prioritize the most important and noteworthy projects. In addition to advocating for adequate formula funding for the FAST Act, I would also ask that the Committee support competitive grant opportunities and the FASTLANE program. I'd like to provide some specific examples of infrastructure and highway projects in my district that are critical for improving national security and growing the local economy.

- First, funding of the final portion of I-49. The 3.6 miles of proposed new highway will intersect Shreveport in order to connect I-49 at the I-20 interchange with I-49 North near the I-220 interchange. This will add a seamless and helpful connection for a highway that extends from Canada to New Orleans. This project will reduce travel time and travel distance for those remaining on I-49 and provide a more

direct access to downtown Shreveport as well as align needs for supporting current Air Force plans for Barksdale Air Force Base.

- A second example is with the interstate project of I-69. As named by the U.S. DOT as one of the six “Corridors of the Future”, construction of I-69 is critically important to provide exponential resources to the Port of Shreveport-Bossier, Barksdale Air Force Base and a much-needed loop around the urban area of Shreveport and Bossier City. In Northwest Louisiana, the Sections of Independent Utility (SIU) 14, 15 and 16 need to be completed in order for the project to continue.
- A third example of a project that would greatly benefit from these programs is interstate widening efforts for I-49 and I-20 in the 4<sup>th</sup> Congressional District. The I-20 corridor is congested with vehicle traffic at several points with conditions expected to worsen in the coming years. Grant opportunities have the potential to allow for further development of these interstates that are crucial to the economies of the local regions and states.
- Bossier Parish is one of the fastest growing areas of our state. This rapid growth has caused severe traffic congestion, especially on Highway 3 (Benton Road) and Highway 3105 (Airline Drive). The increased congestion threatens future development in the area, and we must act now to ensure that new growth does not hinder further progress. Improvements and expansion of existing infrastructure on these roads will support further growth.
- Lastly, I’d like to mention the Barksdale Air Force Base (BAFB) Gate Project. Barksdale AFB is a key national security asset located in Bossier Parish that does

not have sufficient, direct access to the interstate system an issue which is a hindrance to a national Air Force priority. The state of Louisiana is advancing a project to fix this, supporting the Department of Defense's investment in our national security and in Louisiana. This project will improve base security and connect a new public road extending from the I-20 at the I-220 interchange to a new gate at Barksdale Air Force Base, moving the commercial vehicle inspection station away from aircraft approach. According to the Air Force this transportation project will remove a current national security risk, and add in necessary Force Protection components for a future Weapons Storage and Maintenance Facility, as well as alleviate traffic congestion and delay. The project is currently in the environmental phase and has a preliminary cost estimate of \$80-100 million. However, there is an immediate \$11.8 million FY19 MILCON request by the Air Force which has been briefed to Secretary of Transportation and Louisiana Governor.

Like each of you, I could go on about the importance of dozens of projects. In addition to these new capacity projects, costs to maintain the transportation system we already have continue to grow. Providing the needed resources to competitive grant opportunities and the FASTLANE program to address long-standing challenges will serve as an economic generator and help build protections for Louisiana, Texas, Arkansas and the surrounding states.

It is my understanding that many of these top priority infrastructure projects have been raised to the president as well as to our governor.

Thank you again for the ability to provide testimony on Louisiana's transportation and infrastructure priorities, many of which have a direct impact on our national security

infrastructure and overall economy. The infrastructure needs I have raised today are of great importance to the future stability of my district and the economic strength of not only Louisiana, but our nation as a whole.



Mr. DIAZ-BALART. Let me thank you, Congressman Johnson, for your testimony. You obviously know we are always here to continue to work with you. This subcommittee is anxious and willing to work with you on issues that are important to you, and we want to thank you for your testimony. And remember also if there is anything else you would like to put on the record, you are more than welcome to do so. We look forward to working with you.

Mr. JOHNSON. Thank you very much. Appreciate that very much.

Mr. DIAZ-BALART. Thank you, sir. I will now recognize Congressman Byrne from the great State of Alabama, somebody I have had the privilege of working with on a number of issues, so it is a privilege to have you here, sir. Thank you. You are recognized.

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THURSDAY, MARCH 9, 2017.

WITNESS

**HON. BRADLEY BYRNE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ALABAMA**

Mr. BYRNE. Thank you, Mr. Chairman. I might say I am from the other L-A, lower Alabama.

Mr. DIAZ-BALART. I always thought that was part of Florida, by the way, lower Alabama.

Mr. BYRNE. It used to be at one time. We were the independent nation of West Florida for about 10 months in the 1810s, and neither the British nor the Americans thought that was a good idea, so we are part of America now.

Mr. DIAZ-BALART. Well, it is a pleasure to have you here. Thank you, sir, and you are recognized.

Mr. BYRNE. Thank you very much. It is a pleasure for me to be here today. I want to applaud the efforts of this committee which have resulted in steady progress towards improving our Nation's infrastructure.

I was proud to support the Fixing America's Surface Transportation, or FAST, Act back in 2015, and I support the financing necessary to ensure the bill's implementation.

Despite our best efforts, there are many areas across the country that continue to have major transportation needs. For example, we continue to have a real transportation problem on I-10 along the Gulf Coast.

In my hometown of Mobile, I consistently and repeatedly experience delays at the George Wallace Tunnel. Due to the tunnel's height and odd design, traffic accidents and incidents often occur. These result in people traveling around I-10 sitting in traffic for hours, pushing toward 3- to 4-hour delays in the summer months as people are traveling to and from the beaches. Some of those are Florida beaches, Mr. Chairman.

This portion of I-10 is incredibly important to our area as well, given its close proximity to the Port of Mobile and the need to ensure the safe and expedient flow of commerce to and from the port.

Just as important, I-10 serves as an evacuation route during hurricane season, and I know I do not have to tell you the importance of that, Mr. Chairman. The current traffic situation could re-

sult in Americans being left in harm's way during a severe weather event.

We have made important progress over the last few years working together with local, State, and Federal officials to move forward with a new I-10 bridge across the Mobile River. Former Secretary of Transportation Foxx came to Mobile to see the project, and he saw the need firsthand.

So, I ask the committee to fully fund the various transportation programs in the FAST Act in order to allow projects like the I-10 bridge in Mobile to move forward. This project is a textbook definition of a nationally and regionally significant highway project.

I am encouraged by President Trump's commitment to improving infrastructure. I completely agree with the President. However, we must be smart about how we make these future investments to rebuilding and boosting our Nation's infrastructure to ensure precious resources are not wasted on unnecessary or wasteful projects, which brings me to my other reason for sitting before you today.

I want to urge the committee to avoid mistakes from the past, like funding for California high-speed rail. Looking back at 2009, the Obama administration spent \$8 billion for transportation. One-quarter of that funding, \$2 billion, went to California high-speed rail. This project was by no means "shovel ready." In fact, more than 8 years later, the land has not even been fully procured to complete the project. Today, California has not met any of the obligations to match the Federal funding. Even worse, almost another billion dollars was given to California in 2010, and the project remains embarrassingly behind schedule.

The Los Angeles Times reported that the project "will cost taxpayers 50 percent more than estimated, as much as \$3.6 billion more, and that is just for the first 118 miles through the Central Valley, which was supposed to be the easiest part of the route between Los Angeles and San Francisco."

This is the definition of a boondoggle, Mr. Chairman. We all heard about the "Bridge to Nowhere." It is safe to call this the "Train from Nowhere to Nowhere."

This is one of the largest wastes of taxpayer money ever. Given the many serious transportation needs around the country, it is a shame so much funding was wasted on California high-speed rail.

I hope the committee will use this disaster example of California high-speed rail to ensure funding is going, first and foremost, to nationally and regionally significant projects instead of boondoggles. We must make smart investments in our Nation's most serious infrastructure needs.

Thank you very much for your time today. I appreciate the opportunity to share my thoughts.

[The statement of Mr. Byrne follows:]

Appropriations Member Day Statement  
Transportation, Housing and Urban Development Subcommittee  
Representative Bradley Byrne  
Alabama's First District  
March 9, 2017

Chairman Diaz-Balart, Ranking Member Price, distinguished members of the committee; it is my pleasure to appear before you today to testify on funding for our nation's transportation and infrastructure priorities. There is clear bipartisan interest in boosting infrastructure funding, and this momentum is very encouraging. That said, we must also make sure we get it right and that the focus remains on our nation's most pressing transportation needs.

I applaud the efforts of this Committee, which have resulted in steady progress toward improving our nation's infrastructure, such as highways, bridges, airports and seaports. I was proud to support the Fixing America's Surface Transportation (FAST) Act back in 2015, and I support the continued funding necessary to ensure the bill's full implementation.

This includes funding for projects focused on easing congestion and facilitating the movement of freight on the Interstate System. Specifically, I'm talking about projects like the National Highway Freight Program, FASTLANE Grants for Nationally Significant Freight and Highway Projects, and TIGER Grants. I know

for a fact that programs such as these have had a significant impact in my district. I must also note the importance of striking a balance between projects in urban areas and the need to focus on rural projects that are sometimes overlooked.

Despite our best efforts, there are many areas across the country that continue to have major transportation needs. For example, we continue to have a real transportation problem on I-10 along the Gulf Coast. In my hometown of Mobile, I-10 consistently and repeatedly experiences delays at the George Wallace Tunnel. Due to the tunnel height and odd design, traffic accidents and incidents often occur. These result in people traveling along I-10 sitting in traffic for hours, pushing toward three to four hour delays in the summer months as people are traveling to and from the beaches.

This portion of I-10 is incredibly important area as well, given the close proximity of the Port of Mobile and the need to ensure the safe and expedient flow of commerce to and from the Port. Just as important, I-10 also serves as an evacuation route during hurricane season, and the current traffic situation could result in Americans being left in harm's way during a severe weather event.

We have made important progress over the last few years working together with local, state, and federal officials to move forward with a new I-10 bridge across the Mobile River. Former Secretary of Transportation Foxx has been to Mobile to see the project and the need for a bridge firsthand.

So, I ask the Committee to fully fund the various transportation programs in the FAST Act in order to allow projects like the I-10 Bridge in Mobile to move forward. This project is a textbook definition of a nationally and regionally significant highway project.

I am encouraged by President Trump's commitment to improving infrastructure. Just last week, during his address to the Joint Session of Congress, he was clear when he stated, "Crumbling infrastructure will be replaced with new roads, bridges, tunnels, airports and railways gleaming across our beautiful land."

I completely agree with the President that infrastructure must be a priority in the near future. However, we must be smart about how we make these future investments to rebuilding and boosting our nation's infrastructure to ensure precious resources are not wasted on unnecessary or wasteful projects.

This brings me to my other reason for sitting before you today. I want to urge the Committee to avoid mistakes from the past, like funding for California High Speed Rail.

Looking back at 2009, the Obama Administration spent \$8 billion for transportation. One quarter of that funding, \$2 billion dollars, went to California High Speed Rail. This project was by no means “shovel ready.” In fact, more than eight years later, the land is not even fully procured to complete the project.

To date, California has not met any of the obligations to match the federal funding. Even worse, almost another billion dollars was given to California in 2010 and the project remains embarrassingly behind schedule.

The Los Angeles Times reported last month that the project “will cost taxpayers 50% more than estimated — as much as \$3.6 billion more. And that’s just for the first 118 miles through the Central Valley, which was supposed to be the easiest part of the route between Los Angeles and San Francisco.”

This is the definition of a boondoggle. Mr. Chairman, we all heard about the bridge to nowhere. Well it is safe to call this the train from nowhere to nowhere. This is

undoubtedly one of the largest wastes of taxpayer money ever. Given the many serious and dire transportation needs around the country, it is a dire shame so much funding was wasted on California High Speed Rail.

I hope the Committee will use the disastrous example of California High Speed Rail to ensure funding is going first and foremost to nationally and regionally significant projects instead of boondoggles. We must have a concentrated effort to make smart investments in our nation's most serious infrastructure needs.

Thank you very much for your time today. I appreciate the opportunity to share my thoughts

Mr. DIAZ-BALART. Let me take this opportunity to thank you, sir. Again, you know, you have demonstrated always in my working with you that you are thorough, you are serious, and you do your homework. So, I just want to thank you, and just know that we appreciate your testimony and look forward to continuing to work with you, sir.

Mr. BYRNE. Thank you, Mr. Chairman. Good to be with you.

Mr. DIAZ-BALART. Thank you.

Mr. GRAVES. Mr. Chairman?

Mr. DIAZ-BALART. Yes?

Mr. GRAVES. If you are ever in California, I would love to take the opportunity to show you around on what they are doing out there in my part of the country. The Central Valley portion of it does touch my district, and it even comes to the point where we think it might even touch my own personal property. I would be happy to show you around and let you see from the perspective of those who are there what it is really like.

During your testimony, I would say you were pretty accurate in your description.

Mr. BYRNE. Thank you.

Mr. DIAZ-BALART. Thank you. Seeing no further questions, we will now recognize the distinguished gentleman from New Jersey, Mr. Albio Sires, I think one of the hardest working members of Congress.

Mr. SIRES. Wow.

Mr. DIAZ-BALART. Absolutely. Congressman Sires, it is a privilege to have you here, sir, and you have the floor. Make sure your microphone is on.

Mr. SIRES. Is it on? Can you hear me?

Mr. DIAZ-BALART. Yes. Thank you, sir.

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THURSDAY, MARCH 9, 2017.

#### WITNESS

#### HON. ALBIO SIRES, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. SIRES. Well, thank you for affording me the time to express my support for two critical programs that will be included in the fiscal year 2018 appropriations bill, the Community Development Block Grant Program and the HOME Investment Partnerships Program of the Department of Housing and Urban Development.

As a former mayor, I understand how critical these programs are to communities across the country, especially our low-income communities. As you may know, President Gerald Ford signed this legislation creating the CDBG Program in 1974 to provide annual formula grants to local governments and States.

Over 40 years later, the CDBG Program continues to provide funding for critical projects across our country that urban and rural communities would otherwise be unable to afford. These grants make investments in local and regional infrastructure, spur job creation, and fight poverty in communities that need it the most.

Communities utilize this funding to rebuild streets, rehabilitate community centers, improve parks, and replace water mains that



are badly in need of repair. These funds also support youth and homeless services, employment training, and projects to provide suitable living for the disabled.

Importantly, these funds are flexible enough that local officials can direct them in areas that need them the most. The CDBG Program has been incredibly successful throughout its 40-year history, and I know firsthand it has made a lasting impression on towns and cities across America.

Like the CDBG Program, the HOME Program supports projects that would not otherwise be feasible. Using HOME funds, communities partner with local nonprofits to fund projects renovating and building or purchasing affordable housing for lower income Americans. These projects provide shelters for veterans, senior citizens, and the working poor.

As our Nation's affordable housing infrastructure grows older, grants from the HOME Program become more and more critical to providing safe and affordable housing for those who need it most.

On behalf of 1,000 cities in New Jersey's congressional districts and the thousands of people impacted by these programs, I urge you to support both the CDBG Program and the HOME Program as you continue your appropriations process. Thank you very much for the time given to me today.

[The statement of Mr. Sires follows:]

**Rep. Albio Sires (NJ-08)**

**Statement Before the Subcommittee on Transportation, Housing and Urban Development,  
and Related Agencies**

**March 9, 2017**

Chairman Diaz-Balart, Ranking Member Price, and members of the Subcommittee:

Thank you for affording me the time to express my support for two critical programs that will be included in the fiscal year (FY) 2018 T-HUD appropriations bill: the Community Development Block Grant (CDBG) Program and the HOME Investment Partnerships (HOME) Program at the Department of Housing and Urban Development (HUD). As a former Mayor, I understand how critical these programs are to communities across the country, especially our low-income communities.

As you may know, President Gerald Ford signed legislation creating the CDBG Program in 1974 to provide annual formula grants to local governments and States. Over forty years later, the CDBG Program continues to provide funding for crucial projects across our country that urban and rural communities would otherwise be unable to afford. These grants make investments in local and regional infrastructure, spur job creation, and fight poverty in communities that need it most.

Communities utilize this funding to rebuild streets, rehabilitate community centers, improve parks, and replace water mains that are badly in need of repair. These funds also support youth and homeless services, employment training, and projects to provide suitable living for the disabled. Importantly, these funds are flexible enough that local officials can direct them in areas that need them the most. The CDBG Program has been incredibly successful throughout its

forty-three year history and I know first-hand that it has made a lasting impact on towns and cities across America.

Like the CDBG Program, the HOME Program supports projects that would not otherwise be feasible. Using HOME funds, communities partner with local nonprofits to fund projects renovating, building, or purchasing affordable housing for low-income Americans. These projects provide shelter for veterans, senior citizens, and the working poor. As our Nation's affordable housing infrastructure grows older, grants from the HOME Program become more and more crucial to providing safe and affordable housing for those who need it most. On behalf of the towns and cities in New Jersey's 8th Congressional District and the thousands of people impacted by these programs, I urge you to support both CDBG Program and the HOME Program as you continue the appropriations process.

Thank you for your time and I yield back.

Mr. DIAZ-BALART. Let me just thank you, Congressman. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. I want to join you in thanking our colleague for short but persuasive testimony about the two programs that I believe it is fair to say on the HUD side of our budget have had historically the broadest bipartisan support, and certainly support in our communities across the country. So, thank you for underscoring that. We appreciate you being here today.

Mr. SIRES. Thank you.

Mr. DIAZ-BALART. Thank you, Congressman. Thank you for your testimony. We will now recognize, again, also from the State of New York—

Mr. ESPAILLAT. It is hard to pronounce.

Mr. DIAZ-BALART. It should not be for me. If I can ask you first to make sure your microphone is on. It is Espailat?

Mr. ESPAILLAT. Espailat.

Mr. DIAZ-BALART. Okay. I will never get that wrong again. Thank you, sir, it is a privilege to have you here in front of our subcommittee.

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THURSDAY, MARCH 9, 2017.

**WITNESS**

**HON. ADRIANO ESPAILLAT, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK**

Mr. ESPAILLAT. Thank you, Chairman, Ranking Member Price. Let me just start by congratulating the chairman on the recent award he got at the dinner with his brother, Lincoln Diaz-Balart, for the contributions of him and his family to public service. I was delighted to be there, where I found out the handsome level of funding that he will be impacting on for HUD. So, I hope to work very closely with him as we move forward.

Mr. DIAZ-BALART. With his introduction, I think he is doing really well. I think it was brilliant and on point.

Mr. ESPAILLAT. I hope to do better.

Mr. DIAZ-BALART. Right, Mr. Price?

Mr. PRICE. Yes.

Mr. DIAZ-BALART. Thank you for your kind words, and again, you are recognized, and we thank you for being here.

Mr. ESPAILLAT. Thank you for allowing me to testify during today's subcommittee hearing to lay out my priorities as they relate to transportation, housing, and urban development.

It is my hope that Congress will enact regular full-year fiscal year 2018 appropriations for HUD programs prior to the end of fiscal year 2017. It is my understanding that none of the fiscal year 2017 regular appropriation bills were enacted before the end of fiscal year 2016, and Congress instead approved two continuing resolutions to provide temporary funding. This provides funding through April 28, 2017, which is just around the corner.

When it comes to housing, this kind of insecurity is hardly acceptable. Moreover, a recent news report has revealed that the administration is proposing cuts to operational funds by \$600 million,

so 13 percent of the budget, and these are serious cuts, and for big ticket repair items for public housing, cuts in the amount of \$1.3 billion, or 32 percent. This is also a very serious level of cuts for public housing.

Now, traditionally we think that infrastructure is just roads, bridges, and tunnels, but we as landlords, because public housing happens to be our housing—in fact, the President lives in public housing. The White House is public housing; we as members of Congress are the landlords, the owners of these housing units, and so is the President.

We should own up to our responsibility to provide a safe, healthy, and sustainable life setting in these units, in over 1.2 million units of public housing.

I am submitting testimony because I am concerned with reports stating that domestic discretionary funding may suffer at great cost. This is particularly concerning, as it relates to already poor and struggling communities, like Washington Heights, Harlem, Inwood, the Bronx, and East Harlem.

The Housing Choice Vouchers Program and the Section 8 Rental Program are on the chopping blocks. My district has the most number of housing units in the City of New York and, therefore, the Nation, and has the second most residents in terms of population.

Having been an organizer, I understand the effects of housing needs, the need to protect low-income renters from being displaced from their homes, and the importance and growing needs for increased funding for Section 8 housing. Now, the cuts that are being proposed also include cuts in Section 8 Housing Vouchers for people like homeless veterans at the tune of \$300 million, or from \$300 million to potentially \$19.3 billion. So, this is very concerning.

New York City Housing Preservation and Development, HPD, and the New York City Housing Authority, NYCHA, collectively administer over 123,000 vouchers that provide critical rental assistance to families across the city. These vouchers are a lifeline for more than 294,000 families in New York City. Since the 2009 sequestration, New York City families have lost nearly 13,000 vouchers.

New York City is home to the country's largest public housing authority, and its impact is monumental for low-income and working families in a high-cost city. Public housing is a valuable asset for more than 400,000 New Yorkers. That is bigger than many cities throughout the United States. This is an asset that needs to be fully funded to prevent the loss of even more public housing units in our Nation.

Public housing operations and capital have been underfunded for many, many years, putting long-term viability of the units at risk, and resulting in health impacts for residents, including asthma, respiratory illnesses, which are a major public health concern for public housing residents throughout the Nation.

New York City has a 5-year backlog of capital needs, nearing \$17 billion. This is the largest unmet need in the Nation, and a significant portion of HUD's total capital backlog assessed at \$26 billion in 2010.

An increase in funding will be invested in capital repairs which could tackle the public housing needs and health concerns. Many

of the public housing units in our country are in disarray, and with an added \$600 million, units could address more remediation, including roof repairs, brick repairs, piping, asbestos removal, and other issues that lead to increases in health concerns for low-income residents.

My time is about to expire, Mr. Chairman, but I do want to stress the importance of having funding channeled to public housing. In my opinion, infrastructure should include our public housing network, and we should provide adequate funding for families to have a safe and healthy environment in which they live. We as landlords have that responsibility.

Thank you so much.

[The statement of Mr. Espallat follows:]

Espallat (NY-13) Testimony

**TESTIMONY**

**CONGRESSMAN ADRIANO ESPALLAT (NY-13)**

**House Committee on Appropriations**

**Subcommittee on Transportation, Housing and Urban Development, and Related Agencies**

**March 9, 2017**

Thank you for allowing me to testify during today's subcommittee hearing to lay out my priorities as they relate to Transportation, Housing and Urban Development. It is my hope that Congress will enact regular full-year Fiscal Year 2018 appropriations for HUD programs prior to the end of Fiscal Year 2017. It is my understanding that none of the Fiscal Year 2017 regular appropriations bills were enacted before the end of Fiscal Year 2016 and Congress, instead, approved two continuing resolutions to provide temporary funding. This provides funding through April 28, 2017, which is just around the corner. When it comes to housing, this kind of insecurity is hardly acceptable.

I am submitting testimony because I am concerned with reports stating that domestic discretionary funding might suffer at a great cost. This is particularly concerning as it relates to already poor and struggling communities, like Washington Heights, Harlem, Inwood, and the Bronx.

**Housing Choice Voucher Program, Section 8 Rental Assistance**

My district has the most number of housing units in the city and therefore the nation; and has the second most residents in terms of population. Having been a tenant organizer, I understand the

Espaillet (NY-13) Testimony

effects of gentrification, the need to protect low-income renters from being displaced from their homes, and the importance of the growing needs for increased funding of Section 8 housing.

New York City's Housing Preservation and Development (HPD) and the New York Housing Authority (NYCHA) collectively administer over 123,000 vouchers that provide critical rental assistance to families across the City. These vouchers are a lifeline for more than 294,000 families in New York City. Since the 2009 sequestration, New York City families have lost nearly 13,000 vouchers.

**Therefore, I urge the Committee to increase funding for the Housing Choice Voucher Program, Section 8 Rental Assistance.**

#### **Public Housing Capital Fund**

New York City is home to the country's largest public housing authority (PHA) and its impact is monumental for low-income working families in a high cost city. Public housing is a valuable asset for more than 400,000 New Yorkers. This is an asset that needs to be fully funded to prevent the loss of even more public housing in our nation. Public housing operations and capital have been underfunded for many years, putting long-term viability of the units at risk and resulting in health impacts for residents, including asthma and respiratory illness, which are major public health concerns for public housing residents throughout the nation.

New York City has a five-year backlog of capital needs nearing \$17 billion. This is the largest unmet need in the nation and a significant portion of HUD's total capital backlog, assessed at \$26 billion in 2010. An increase in funding would be invested in capital repairs, which would tackle the intersectionality of public housing and health concerns.



Espaillet (NY-13) Testimony

Many of the public housing units in our country are in disarray, and with an added \$600 million, units could address mold remediation, including roof repairs, brick repairs, piping, and other issues that lead to increases in health concerns for low-income residents.

**Therefore, I would urge the Committee increase Public Housing Capital Funding.**

**Rental Assistance Demonstration (RAD) Program**

HUD's Rental Assistance Demonstration Program (RAD) has also been helpful in providing reliable funding sources to make much needed improvements to public housing units, such as repairs to elevators, heating systems, and façade. Put simply – it is a tool that public housing agencies are able to use to convert public housing units to project-based Section 8, and have since its first authorization in Fiscal Year 2012 imposed zero additional costs to taxpayers.

Conversion of these units, and having the Rental Assistance Demonstration Program as a tool, allows affordable housing units the ability to help keep homes affordable for tenants, and to fight against the creeping gentrification of nearby neighborhoods. This is especially important in one of the most expensive City's in the county.

Unfortunately, Congress has yet to allocate any funding to this program; therefore, limiting the program to projects that must be able to undergo a cost-neutral conversion. Congress has also capped the number of units that may go through a RAD conversion to 185,000. Unless and until Congress eliminates this cap and funds this program, housing agencies are put on a waiting list for new units. This is not an effective or smart implementation of a program that, even bare bones, has proven useful and effective.

Espallat (NY-13) Testimony

**Therefore, I would urge the Committee to fund the Rental Assistance Demonstration (RAD) Program and eliminate the RAD volume cap.**

**Capital Investment Grants**

Finally, I would be remiss if I did not mention Capital Investment Grants, which provide critical resources for cities, regions, and states to improve and increase the capacity for public transportation systems. New York City depends on these grants.

For example, in my District, we have been pushing for a new transit line – the city’s first in over 60 years – and without funding, the Second Avenue Subway will fail to live up to its full potential.

As I mentioned earlier, East Harlem is a neighborhood that has the highest concentration of low-income housing in New York City, and residents have to walk almost twenty minutes to get to the nearest train on 116th and Lexington. Bringing additional subway service into this underserved area is expected to spur economic development and job creation.

**Therefore, I would urge the Committee to increase funding for Capital Investment Grants.**

Thank you so much for the opportunity to offer my concerns and priorities to the Committee.

Mr. DIAZ-BALART. Let me just thank you for your testimony, and please do know that this committee is looking forward to working with you. You obviously represent a part of the country that is very dynamic. So, just know that we look forward to working very, very closely with you in the coming months.

Mr. ESPAILLAT. Thank you so much. I look forward to that opportunity.

Mr. DIAZ-BALART. Mr. Price.

Mr. PRICE. Let me reiterate we are happy to have you as part of the Congress. I welcome you and thank you for your testimony today. We will pay very close attention to it.

Mr. ESPAILLAT. Thank you so much.

Mr. DIAZ-BALART. Thank you, sir. We will now recognize Mr. Visclosky, who has been patiently waiting back there, if he is ready. Then we will have Mr. Suozzi right after that, if he is ready as well.

Again, sir, thank you for being here, and thank you for sharing your testimony.

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THURSDAY, MARCH 9, 2017.

**WITNESS**

**HON. PETER J. VISCLOSKY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF INDIANA**

Mr. VISCLOSKY. Mr. Chairman, Mr. Price, and members of the committee, I appreciate the opportunity to testify before you today. I feel like I have come home. My mentor in another century was chairman of this great subcommittee, so it is good to be back.

I am here today to emphasize my support and ask for your support for the Federal Transit Administration's Capital Investment Grant Program and the New Starts, and Core Capacity Grants Program. All of you understand the importance of transit and its economic and beneficial impact throughout the United States. I want to give you a real world example in northwest Indiana.

Lake County, Indiana, which is the most populous county I represent, is on Lake Michigan and it is contiguous to the City of Chicago. Lake County, Illinois, is on Lake Michigan and it is contiguous to the City of Chicago. Since 1970, the population of Lake County, Indiana, which I represent, has declined by 10 percent. The fact is, the population for Lake County, Illinois, has grown by 83 percent. The median household income in Lake County, Indiana, in the similar period of time has declined by 12.5 percent. The median household income in Lake County, Illinois, has increased by 17.7 percent.

I would propose to you one of the fundamental differences is that on the Illinois side of the State line between our two great States there are over 470 miles of mass transit line, many of which go to Lake County, Illinois. On the Indiana side, it is as though someone built a great wall. There are 38 miles of mass transit in Indiana going to Michigan City. The line then extends to South Bend. We have been working for a generation to connect ourselves to the economy of Chicago, which is larger than the economy of Sweden,

to not only access that economy, but to draw down its benefits to northwest Indiana.

Over the past several years, we have had 16 of the 20 communities in Lake County make a long-term, 30-year commitment to meet and match Federal funding. I would point out that in his capacity as governor, Vice President Pence in 2015 signed State legislation for a long-term, 30-year commitment to meet that Federal program. This year in his budget, Governor Holcomb in the State of Indiana has included money to meet those Federal grant programs. We will apply in August.

But all of this effort for a generation will be for naught if that capital investment grant program is not adequately funded. Currently in 2016, the appropriation was \$2.17 billion, which was sustained due to the enactment of the continuing resolution. I would point out in this committee's markup for the House you included \$2.5 billion, obviously understanding the value of this program.

It is not limited to the coast, it is not limited to northwest Indiana. You have projects in places like El Paso, Texas; Albuquerque, New Mexico; and Milwaukee, Wisconsin. I would strongly urge you, when we talk about infrastructure in this Congress and we talk about investing in the economy, to ensure that we preserve these programs, not just for the congressional district I represent, but recognizing that, since 2012, requests for these types of capital construction have increased from 37 to 63. Because communities throughout our great Nation understand the importance economically for good-paying job growth that this Federal investment of our taxes represent. And again, I appreciate the opportunity to be before you today.

[The statement of Mr. Visclosky follows:]

**Congressman Visclosky Testimony**  
**House Appropriations Subcommittee on Transportation, Housing, and Urban**  
**Development**  
**FY 2018**

Thank you Chairman Diaz-Balart, Ranking Member Price, and my Appropriations Committee colleagues on the Transportation, Housing and Urban Development, and Related Agencies Subcommittee. I appreciate this opportunity to advocate for programs under this Subcommittee's jurisdiction.

I am here today on behalf of my constituents in Northwest Indiana to express my strong support for the Federal Transit Administration's (FTA) Capital Investment Grant program, which includes New Starts and Core Capacity grants. The funding provided under this program supports transit projects across the country, including the expansion and recapitalization of the commuter train system in Northwest Indiana, known as the South Shore Rail Line. I urge you to support job creation and economic development by meeting the promise authorized under P.L. 114-94, the FAST Act, and fully funding this program at \$2.3 billion.

Americans have shown a growing preference for using and living near public transit opportunities, with 10.6 billion trips taken in 2015 alone. In fact, over the past 20 years, public transit ridership has risen 39 percent, far outpacing the 21 percent increase in population over the same period.

The perceived value of living in a walkable community that offers transportation choices is reflected in increased property values near transit stations. A study prepared in coordination with the National Association of Realtors concluded that home values performed 42 percent better on average if they were located near public transportation with high-frequency service.

And it is not just individuals that are demonstrating a preference for public transit. A report published by *Smart Growth America* examined more than 500 companies that moved between 2010 and 2015 to downtown locations, often due to the availability of public transit. Good transit is a legitimate draw for talent and is becoming a critical economic development tool in today's competitive climate.

Recognizing the job growth and economic development opportunities afforded by investments in public transit, my district has been adamantly supporting the expansion and recapitalization of the South Shore Rail Line.

I believe that Northwest Indiana is one of the best places in the world to live, work, visit, and raise a family, and I regret that my district has seen a significant decline in population and median income over the past half a century. Between 1970 and 2015, the number of school age children in Northwest Indiana dropped by over 74,000 children. Further, the population of Lake County, Indiana, has decreased by 10 percent, and the median income, adjusted for inflation, has decreased by 12.5 percent. Interestingly, the opposite is true in Lake County, Illinois, which has seen its population grow by 83.9 percent, and its median income increase by 17.7 percent.

Both counties are similarly located near the environs of Chicago and on Lake Michigan, the largest body of fresh water in the world. But Illinois' investment in the over 400 miles of commuter rail lines emanating from the Chicago Loop has allowed their residents to better access Chicago's economy, which is larger than the economy of Sweden. Northwest Indiana has only 35 miles of commuter rail.

My district has come together in recognition that regional connection, through a meaningful mass transportation system, will allow us to better access the good paying jobs in Chicago and diversify our economy through transit oriented development. Within the last few years, 16 communities have come together to dedicate a portion of their local economic development tax revenue towards the expansion of the South Shore Rail Line in Northwest Indiana. Vice President Pence, in his role as Governor of Indiana, signed legislation into law providing for dedicated state funding to support this endeavor.

I would add that as we speak, the Indiana General Assembly is actively engaged at the statehouse, in a bipartisan fashion and with the assistance of Governor Holcomb, to approve legislation that would increase the availability of state and local resources for transportation infrastructure projects. State and local government entities in Indiana know how invaluable it is to be able to partner with the federal government and pool resources to make transformational investments in our future. They know that their communities and communities across our nation need to start thinking and acting like regions so that we can collaborate and collectively draw young talent and thriving new businesses to our communities. I strongly support the initiative at the Indiana General Assembly, and I urge you to keep the intent of their initiative and the

transformational impact that they and you can have in Northwest Indiana in mind as you proceed with the crafting of your legislation this year.

Thank you for your time.



Mr. DIAZ-BALART. Well, let me thank you, sir, and obviously you are somebody who understands the appropriations process as well if not better than anybody in this building and this facility. So obviously we look forward to working with you. Mr. Price, any comments or questions?

Mr. PRICE. I want to thank our colleague and friend for being here and for taking note of the attention this committee paid in the current cycle to New Starts, and the importance of getting closer to that number, hopefully, with a 5-month omnibus bill for the remainder of 2017. In the meantime, you have given a very convincing rationale rooted in your own district's experience for the importance of this going forward, so we appreciate that.

Mr. VISCLOSKY. Appreciate your efforts very much. Thank you so much.

Mr. DIAZ-BALART. Thank you, sir. Now we will recognize Mr. Suozzi. And again, thank you for being here on time and, again, we look forward to working with you. The floor is yours, sir.

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THURSDAY, MARCH 9, 2017.

**WITNESS**

**HON. THOMAS R. SUOZZI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK**

Mr. SUOZZI. Thank you, Mr. Chairman, and thank you, Ranking Member Price, and the other members that are here today for the subcommittee. I want to thank you for the opportunity and the time to discuss my request for funding the health impacts of airplane noise at some of our busiest airports throughout the country.

Recently, I was elected as co-chair of the Quiet Skies Caucus along with Congresswoman Eleanor Holmes Norton, and we are fortunate to have Congressmen Quigley and Lynch serve as co-vice chairs of the caucus. All of us, along with dozens of other members from both sides of the aisle, have constituents who are deeply impacted by unacceptable levels of airplane and aircraft noise.

I am a new member of this distinguished body, but while exploring a run for this office, aircraft noise was one of the first issues I heard about from voters. At a town hall I had held last June, a constituent rose to ask about what I would do and could as a member of Congress to reduce aircraft noise over her home and in that neighborhood. In fact, she was interrupted twice during the conversation in less than 2 minutes by aircraft passing overhead. The noise was so loud, she had to pause and wait for planes to pass before she could continue asking her question.

I represent New York's Third Congressional District. The district stretches from northeastern Queens along Long Island's north shore through Nassau County and Suffolk County. My constituents have two of the world's busiest and biggest airport, LaGuardia airport and John F. Kennedy International Airport, that lie just beyond the district's boundaries. Although both airports are outside the district, both rely on flight paths that traverse numerous neighborhoods in and around my district. This is not a discrete problem affecting a limited number of people, but a major issue impacting people across the country.

Many of us rely on Reagan National Airport to return home each week. Congresswoman Holmes Norton's district's constituents, who call Washington, D.C., home, are impacted by travelers like ourselves, who come from our districts to engage in the people's business or visit our Nation's capital. Mr. Quigley's constituents live near O'Hare International Airport, one of the world's busiest airports, and suffer greatly under the volume of flights that land and depart every day. And Mr. Lynch's constituents in and around Boston's Logan Airport also suffer from unacceptable noise levels along with constituents of dozens of other members who are part of the Quiet Skies Caucus.

This is not a partisan issue. Mr. Coffman of Colorado is a member of the Quiet Skies Caucus and works with us on behalf of his constituents to alleviate and reduce unacceptable noise levels.

Our friends in the Senate also believe this is an important issue. Senators McCain and Flake of Arizona have championed this cause and have taken the lead in the Senate to help mitigate noise from aircraft in Arizona and across the country. I have tried to make the case that unacceptable noise levels is a bipartisan national issue of significance worthy of congressional attention.

Today my primary goal is to impart the significance of the issue to you and my colleagues. One of the key takeaways was a realization from a town hall meeting I had that there is an ongoing failure to understand the seriousness of this issue. In other words, we still need to persuade the Federal Aviation Administration and others that this is not a subjective complaint of a bunch of cranks, but an objective problem harming human health.

In order to legitimize concerns, I believe we need to federally fund health studies conducted by the leading universities of our country to demonstrate that this issue objectively raises health concerns. I have followed up with members of the Quiet Skies Caucus and found they agree with this conclusion and even relayed their own constituents' frustrations that their complaints are often dismissed without due consideration. We believe these health studies which will objectively determine the impact on individuals and their families' health will demonstrate the need for all stakeholders to address the issue.

In addition to health studies, and while they are conducted, I believe other steps should be taken in the interim. Many districts are experiencing unacceptable noise levels as a result of the NextGen route changes. While the FAA says the noise is within the acceptable 65 day/night level, that standard was developed more than a decade ago. I believe that the FAA needs to conduct an expedited review of the 65 DNL standard and incorporate actual noise sampling, not just rely on the modeling and simulation. Therefore, I ask the Committee to include report language urging the FAA to expedite DNL review and to provide the Committee with a report no later than 60 days after enactment of the act describing a pilot program for conducting actual noise sampling as part of the DNL review.

On its face, this issue may appear to be one of mere annoyance, but I can assure you that it is not a trivial issue. The members and Senators I have mentioned above, and many more, can echo and expand upon the thoughts and points I have raised today. Our con-

stituents raise legitimate concerns because they are subjected to unacceptable noise levels at a volume and frequency that have dramatically impacted their quality of life and their health. My hope is that the subcommittee will join with us to assist from across the country by raising the profile of this issue and working with us towards results and getting things done for the American people.

Thank you so much for your time. I cannot imagine what is like for you to listen to everybody's different requests that come in here, but I am very grateful for the opportunity to be here.

[The statement of Mr. Suozzi follows:]

Congressman Thomas R. Suozzi

Prepared Remarks:

House Appropriations Transportation, Housing and Urban Development and Related Agencies  
Subcommittee Member Day

Thursday, March 9<sup>th</sup> 2017

Good Afternoon Chairman Mario Diaz-Balart, Ranking Member David Price and fellow Members of the Subcommittee. Thank you for the opportunity, and the time, to discuss a critical issue to many of my constituents, some of your constituents and to many of our colleagues.

Recently, I was elected co-Chair of the Quiet Skies Caucus, along with Congresswoman Eleanor Holmes Norton. We're fortunate to have Congressmen Quigley and Lynch serve as co-Vice Chairs of the caucus. All of us, along with dozens of other Members, from both sides of the aisle, have constituents who are deeply impacted by unacceptable levels of aircraft noise.

I'm a new Member of this distinguished body, but, while exploring a run for this office, aircraft noise was one of the first issues I heard about from voters. At a town hall I held last June, a constituent rose to ask about what I would, and could do, as a Member of Congress, to reduce aircraft noise over her home and neighborhood. In fact, she was interrupted twice, in less than two minutes, by aircraft passing overhead. The noise was so loud she had to pause and wait for the planes to pass before she could continue asking her question.

I represent New York's third Congressional district. The district stretches from northeastern Queens, along Long Island's north shore, through Nassau County and into Suffolk County. My constituents have two of the world's busiest and biggest airports, LaGuardia Airport

and John F. Kennedy International Airport, that lie just beyond the district's bounds. Although both airports are outside the district, both rely on flight paths that traverse numerous neighborhoods in and around my district.

This is not a discrete problem affecting a limited number of people, but a major issue impacting people across the country. Many of us rely on Reagan National Airport to return home each week. Congresswoman Holmes Norton's constituents, who call Washington D.C. home, are impacted by travelers, like ourselves, who come from our districts to engage in the people's business or to visit our Nation's Capital. Mr. Quigley's constituents live near O'Hare International Airport, one of the busiest airport in the world, and suffer greatly under the volume of flights that land and depart every day. Mr. Lynch's constituents, in around Boston's Logan Airport, also suffer from unacceptable noise levels, along with the constituents of dozens of other Members who are part of the Quiet Skies Caucus.

This is not a partisan issue. Mr. Coffman, of Colorado, is member of the Quiet Skies Caucus, and works with us, on behalf of his constituents, to alleviate and reduce unacceptable noise levels. Our friends in the Senate also believe this is an important issue. Senators McCain and Flake of Arizona have championed this cause and taken the lead in the Senate to help mitigate noise from aircraft in Arizona and across the country.

I have repeatedly tried to make the case that unacceptable noise levels is a bipartisan, national issue of significance, worthy of Congressional attention. Today, my primary goal is to impart the significance of the issue on you and our colleagues.

I recently held a roundtable discussion with constituents who suffer from unacceptable noise levels. One of the key takeaways was a realization that there is an ongoing failure to understand the seriousness of the issue. In other words, persuasion remains an issue and, a continuing failure to inform has undermines the potential for serious action and policy changes. In order to legitimize concerns, I believe we need federally funded health studies, conducted by the leading universities in our country, to demonstrate that this issue objectively raises health concerns.

I've followed up with Members of the Quiet Skies Caucus and found they agree with this conclusion and, even, relayed their own constituent's frustrations that their complaints are often dismissed without due consideration. We believe these studies, which will objectively determine the impact on individual's and their family's health, will demonstrate the need for all stakeholders to address the issue.

In addition to health studies, and while they are conducted, I believe other steps should be taken in the interim. Many districts are experiencing unacceptable noise levels as a result of Next Gen route changes. While the FAA says the noise is within the acceptable 65 Day Night Level, that standard was developed more than a decade ago. I believe the FAA needs to conduct an expedited review of the 65 DNL standard and incorporate actual noise sampling, not just rely on modeling and simulation. Therefore, I ask the Committee to include report language urging the FAA to expedite the DNL review and to provide the Committee with a report no later than 60 days after enactment of the ACT, describing a pilot program for conducting actual noise sampling as part of the DNL review.

On its face, the issue may appear to be one of mere annoyance, but I can assure you this is not a trivial issue. The Members and Senators I have mentioned above, and many more, can echo and expand upon the thoughts and points I have raised today. Our constituents raise legitimate concerns because they are subjected to unacceptable noise levels, at a volume and frequency, that dramatically impact their quality of life, as well as their health. My hope is this subcommittee will join with us to assist from across the country, by raising the profile of this issue and working with use towards results and getting things done for the American people.

Mr. DIAZ-BALART. Well, let me first thank the gentleman. And I will tell you, obviously, on this subcommittee we have Mr. Quigley, who never lets us forget the issue that you have just brought up, and just know that we look forward to working with you.

Mr. SUOZZI. Thank you so much.

Mr. DIAZ-BALART. Thank you, sir. Mr. Price.

Mr. PRICE. Let me reiterate that receptivity. We have a history on this committee of trying our best to deal with what are often difficult situations, so we appreciate your testimony.

Mr. SUOZZI. Thank you, Mr. Price. Thank you.

Mr. DIAZ-BALART. Thank you, sir. We are not going to recognize, by the way, members of the subcommittee. Mr. Lawson will be our last colleague testifying in front of us today.

While he gets ready, let me just tell you that Mr. Lawson is a freshman, but he has been involved in Florida politics. He and I served in the Florida legislature and so it is, frankly, a real personal—just it is wonderful to recognize him here now as a colleague as we were for many years in the Florida legislature and now in the United States Congress. So on a personal level, it is great to see you here, sir, and obviously as chairman let me recognize you for your testimony.

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THURSDAY, MARCH 9, 2017.

**WITNESS**

**HON. AL LAWSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA**

Mr. LAWSON. Thank you, Mr. Chairman, and it is a real privilege for me to be here with you and I am real honored to be able to represent the Fifth Congressional District in Florida. I need to say that it runs all the way to Jacksonville, you know, from Gaston County to Jacksonville, to make sure to include it.

There are a number of critical programs that I would like to discuss given the importance of our district. First, I would like to see full funding for the Capital Investment Grants Investment Program. These projects not only generate economic development, but also help to reduce energy consumption. I know the subcommittee has been very supportive of these programs and your work should be applauded for providing over \$408 million in fiscal year 2017, the THUD bill more funding than the Senate bill.

I would like to highlight one project for my district that is currently in the small start pipeline for funding. The Jacksonville Transportation Authority had begun implementing a 57-mile bus rapid transit, the BRT, network system called the First Coast Flyer. It is made up of five district lines, two of which are already operating. The fiscal year 2017 bill, there is currently \$14.9 million pending for the First Coast Flyer East corridor and for fiscal year 2018 budget, \$37.9 million for the Southwest corridor. I would like to see both projects funded.

The BRT is an important investment in Jacksonville public transportation system. It has provided us with a variety of options to develop safe, reliable, premium service in a cost-effective man-



ner. I would like to see the subcommittee continue to provide funding for the TIGER Grants program and bus facilities.

Finally, I recently had the opportunity to visit Eureka Gardens Apartments, a privately owned, subsidized apartment community in Jacksonville. Like most Americans, the residents of Eureka Gardens want a clean, affordable, and safe place to raise their families and to call home.

The conditions I saw really kind of broke my heart. Sadly, under the previous management company, Eureka Garden has fallen into a horrible state of disrepair where residents have to combat black mold, infestation, gas leaks, the loss of heat and hot water, no air-conditioning, and persistent crime problems which is very prevalent. It is my firm belief that the people who pay rent, regardless of their income, neighborhood, or whether they live in privately owned or public housing, have the right to expect and get routine maintenance, and that no one should be forced to live in conditions that threaten health or safety.

It is my hope that as the committee begins to put together the 2018 budget that it would consider adding additional funding for oversight, renovation, and modernization of older public and private housing units. Not only that it was brought to my attention, it was also brought to the attention of Senator Rubio, who had the opportunity to visit that area.

It is my hope that a separate line of funding could be made available for small, medium, and large communities. I would also ask that the committee consider providing low-income loans to owners of subsidized housing until—units to make necessary repairs to their facility.

I want to thank you all for this opportunity to share with the subcommittee my thoughts on funding and thank you again for ongoing support of these programs. I really cannot say enough about the chairman's commitment that he had in the State of Florida. I had the opportunity to work with him and it is truly an honor to be reunited with the chairman here, and I am sure that he remembers all of the good things that we did in the State of Florida, even though he was, in my opinion, the southern part of Florida, and we always thought they were separated from America. We were up there around Georgia and Alabama, but it was a big difference.

So we were still able to work together and I am so honored to have the opportunity for the first time, to meet many of you all, and to realize that I have got 13 seconds, I want to thank you all for this great opportunity.

[The statement of Mr. Lawson follows:]

**Rep. Al Lawson (FL –5)**  
**House Committee on Appropriations**  
**Subcommittee on Transportation, Housing and Urban Development (THUD)**  
**THUD Appropriations FY18**  
**March 9, 2017 – Talking Points**

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- Thank you, Chairman Diaz-Balart and Ranking Member Price for the opportunity to testify before the subcommittee. I'm Congressman Al Lawson and I represent Florida's 5<sup>th</sup> District, which includes Jacksonville, Florida.
- There are a number of critical programs that I would like to discuss given their importance to my district.
- First, I would like to see full funding for the Capital Investment Grants program, particularly for those projects that fall into the Small Starts category.
- As you know, this program is essential to building vital transit capital investment projects. These projects not only generate economic development but also help to reduce energy consumption.
- I know the subcommittee has been very supportive of this program and your work should be applauded for providing \$408 million in the FY 2017 THUD bill – more funding than the Senate provided.
- I would like to highlight one project from my district that is currently in the Small Starts pipeline for funding:

- The Jacksonville Transportation Authority has begun implementing a 57-mile Bus Rapid Transit (BRT) network system, called the First Coast Flyer.
- It is made up of five distinct lines, two of which are already operating.
- In the FY17 bill, there is currently \$16.9 million pending for the *First Coast Flyer* East Corridor.
- I would like to see both projects funded - BRT is an important investment in Jacksonville's public transportation system.
- It has provided us with a viable option to develop safe, reliable premium service in a cost-effective manner.
- I would to like to see the Subcommittee continue to provide funding for the TIGER grant program and Bus Facilities.
- **Finally, I recently had the opportunity to visit the Eureka Gardens Apartments**, a privately owned HUD-subsided apartment community in Jacksonville.
- Like most Americans, the residents of Eureka Gardens want a clean, affordable, and safe place to raise their families and to call home. The conditions I saw there broke my heart. Sadly, under the previous management company, Eureka Gardens had fallen into a horrible state of disrepair where

residents had to combat black mold infestation, gas leaks, the loss of heat and hot water, no air conditioning, and a persistent crime problem.

- It is my firm belief that people who pay rent, regardless of their income, neighborhood, or whether they live in privately owned or public housing have the right to expect and get routine maintenance. And, that no one should be forced to live under conditions that threaten their health or safety.
- It is my hope that as the committee begins putting together its 2018 budget that it would consider adding additional funding for oversight, renovation and modernization of older public or private housing units. It is my hope that separate lines of funding could be made available for small, medium, and large communities.
- I would also ask the committee to consider providing low-interest loans for owners of subsidized housing units to make necessary repairs to their facilities.
- Thank you again for the opportunity to share with the subcommittee my thoughts on funding and thank you again for your ongoing support of these programs.

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Mr. DIAZ-BALART. Well, let me just again, for those of you, Mr. Price and others, as he said, he and I worked together, we conspired together on a lot of difficult issues. And just be forewarned, he will not let us forget the issues that are important to him.

So thank you, sir, and, again, an honor. And you are right, for me, it is a personal moment of personal satisfaction to be able to be reunited with you, sir. Mr. Price.

Mr. PRICE. Mr. Lawson, we are very happy to have you here. We can benefit, I think, from your years of experience and your political savvy as well as your attention to the needs of your part of Florida. So we look forward to working with you.

Mr. LAWSON. Thank you so much, I look forward to it.

Mr. DIAZ-BALART. Let me now just thank each and every member of the subcommittee, also those members who came to testify on their THUD priorities today. We appreciate the opportunity to hear their testimony and we are pleased to share this process with all of us. As I said earlier, everyone's written testimony will be included in the record.

And again, lastly, as a reminder, the member database to submit your appropriations requests for fiscal year 2014 bill is open and the deadline to submit THUD requests is April 4. So please be sure to submit your request by the deadline, again, so we may include them in the fiscal year 2018 process. And, Mr. Price, any closing remarks?

Mr. PRICE. No, thank you, Mr. Chairman.

Mr. DIAZ-BALART. Members, any closing remarks? Great.

Well, again, our next hearing is next Thursday, March 16, where we will hear from the Inspector General at the Department of Transportation and of HUD.

And with that, this hearing is adjourned. Thank you.



THURSDAY, MARCH 16, 2017.

**OVERSIGHT HEARING—DEPARTMENT OF TRANSPORTATION AND DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**WITNESSES**

**CALVIN L. SCOVEL III, INSPECTOR GENERAL, DEPARTMENT OF TRANSPORTATION**

**DAVID A. MONTOYA, INSPECTOR GENERAL, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Chairman DIAZ-BALART. I am going to call the meeting to order. But before we start, I do want to announce that, obviously, since we have two inspectors general today, I just want to announce that there is another inspector general here, and that is my personal inspector general, and that is my wife, Tia, who is here along with my son, Cristian. They do not get the opportunity to come up to Washington a lot, so it is great to have them here today.

With that, today, we welcome Inspectors General, The Honorable Calvin Scovel from the Department of Transportation, and The Honorable David Montoya from the Department of Housing and Urban Development. So the oversight work, gentlemen, that you do for our committee, and for our country, frankly, is vital. Please know that we cherish what you do. You ensure that tax dollars are being well-spent and that those dollars are stretched as far as possible, whether it is for our Nation's transportation or housing needs. We rely on your good work, on your judgment, on your dedication to find waste and fraud and abuse in agencies, and, obviously, that is something that you do not tolerate and we do not tolerate. So when we have concerns regarding the management and effectiveness within both departments, you know that we look to you for much-needed oversight and guidance, and the guidance that you provide through, again, your various audits and the investigations that you all do. So you help us get there, you help us get these agencies back on track as much as humanly possible and ensure that they are working as efficiently and as effectively as possible. We look forward to your testimony.

With that, let me recognize the Ranking Member of this committee, a person who we work very closely together, the gentleman from the great State of North Carolina, Mr. Price, for any opening remarks that he might have. You are recognized, sir.

Mr. PRICE. Thank you, Mr. Chairman. I join you in welcoming Mr. Scovel and Mr. Montoya here today. I will keep this statement relatively brief, because we will need to get to the questions, but I want to just underscore a few concerns.

The oversight hearing is an important opportunity for us to examine the key management challenges facing the Departments of Transportation and HUD. Many of these issues are not new. For

example, HUD has struggled to modernize its IT infrastructure, facing ongoing challenges associated with human capital management, and over the years, failed to establish sufficiently strong internal controls over how it obligates and controls funds.

Meanwhile, the DOT Inspector General has highlighted ongoing challenges associated with the safe integration of new transportation technology, namely, unmanned drones and autonomous vehicles, as well as the department's management of certain high-risk contracts. I look forward to exploring these topics in more detail this morning.

I am also concerned with the Trump administration's painfully slow pace when it comes to the appointments of deputy and assistant secretaries and other high-ranking officials. You simply cannot run a complex department without a strong leadership team in place beneath the Secretary.

Compounding the problem is the recently announced Federal hiring freeze imposed by the Trump administration, which, I believe, could threaten core government functions if it is left in place. The GAO has noted that across-the-board hiring freezes are almost always counterproductive.

Finally, the Trump administration to-date has shown a blatant disregard for addressing possible conflicts of interest, starting with, but limited to, the man at the top. Oversight is a key function of Congress, but it is especially integral to the work of the Appropriations Committee. Independent inspectors general enable this subcommittee to conduct effective oversight, make informed funding decisions to ensure our limited Federal dollars are spent wisely, and that most certainly includes exploring conflicts of interest. I will address that in our question period.

So I look forward to learning more about how HUD and DOT are meeting their management challenges and where they stand to improve. Thank you, both, for being here today. Thank you, Mr. Chairman.

Chairman DIAZ-BALART. Thank you very much, Mr. Price. Today, we will begin with the Department of Transportation's Inspector General, Mr. Scovel. Your full written testimony, sir, will be included in the record, and we look forward to listening to your testimony. You are recognized for five minutes.

Mr. SCOVEL. Chairman Diaz-Balart, Ranking Member Price, members of the subcommittee, thank you for inviting me to testify today on the Department of Transportation's (DOT) top management challenges. Every year, DOT invests more than \$70 billion to operate and modernize our transportation infrastructure. My office supports these efforts through audits and criminal investigations that identify and help protect against fraud, waste, and abuse of taxpayer dollars. I greatly appreciate the subcommittee's support and continued focus on the important work of government oversight performed by offices like mine and that of Inspector General Montoya.

My testimony today focuses on three critical challenge areas that we have identified for DOT for 2017: safety, stewardship, and completion of mandates and recommendations. As Secretary Chao has noted, safety remains at the forefront of DOT's mission. The United States continues to have one of the safest transportation systems



in the world. However, new technologies and industries bring new challenges.

For example, FAA recently issued a rule to help safely integrate small unmanned aircraft systems, known as UAS, into our airspace. However, the number of UAS sightings by pilots and others continues to go up, over 1,400 this past year, as compared to just over 200 in 2014. Many of these occurred at altitudes where other aircraft operate. Maintaining safety will require a strong risk-based oversight system by FAA and coordination with other agencies.

Similarly, the emerging technology of driverless cars poses new safety challenges for DOT and NHTSA. Several companies are already developing, testing, and selling various iterations, and the number is expected to grow quickly. DOT and policymakers must clearly define the tools and standards necessary to oversee and regulate this industry and the technology underlying it.

At the same time, NHTSA must continue to improve its processes for investigating vehicle safety defects. Most recently, a Takata air bag defect resulted in 11 fatalities and 180 injuries. Due in part to our investigative work, automobile makers recalled tens of millions of vehicles, and Takata Corporation was sentenced last month to pay \$1 billion in criminal penalties. NHTSA is making progress towards addressing our recommendations to collect and analyze more comprehensive vehicle safety data, but must continue to improve internal controls within its Office of Defects Investigations.

With regard to stewardship, we have identified areas where DOT can improve how it manages and oversees the billions of dollars invested each year in our transportation infrastructure, from highways and bridges to air traffic control.

For example, FAA faces ongoing challenges to deliver six programs that are essential to implement NextGen and modernize our outdated air traffic control systems. Expenditures since 2003 for these six programs now total over \$5.7 billion, and their completion has been pushed to well beyond 2020. As a watch item, many requirements remain undefined, and FAA has yet to fully quantify how these programs will achieve expected benefits for the aviation industry.

Protecting our infrastructure also requires addressing increasingly sophisticated cybersecurity threats. However, DOT has not effectively implemented programs to actively monitor and mitigate security breaches immediately, during, or after an attack. Recent trends in mobile, cloud, and workplace technology also present new challenges to monitoring and securing DOT's network.

Finally, as it carries out its mission, DOT must develop strategies to efficiently carry out mandated and recommended improvements. These include provisions in the 2015 FAST Act, to improve investments in highway and transit projects, as well as key aviation safety mandates from the 2016 FAA Extension Act. Those mandates include, for example, requiring better records on a pilot's training and background. DOT has also faced delays in addressing recommendations to improve pipeline and hazardous material safety from both our office and NTSB.

In conclusion, my office will continue to assist DOT and Congress as we work to meet these and other challenges, including helping

the department leverage its resources to promote safety and efficiency and prevent fraud in any forthcoming infrastructure investment plans.

Mr. Chairman, that concludes my prepared statement. I am happy to answer any questions you or other subcommittee members may have.

[The information follows:]

**Before the Committee on Appropriations  
Subcommittee on Transportation, Housing and Urban Development,  
and Related Agencies  
United States House of Representatives**

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# **Top Management Challenges Facing the Department of Transportation**

**Statement of  
The Honorable Calvin L. Scovel III  
Inspector General  
U.S. Department of Transportation**



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Chairman Diaz-Balart, Ranking Member Price, and Members of the Subcommittee:

Thank you for inviting me here today to discuss the Department of Transportation's (DOT) top management challenges. Every year, the Department invests more than \$70 billion in a wide range of programs to operate and modernize our transportation infrastructure. Our office supports these efforts through our audits<sup>1</sup> and criminal investigations, which identify and help protect against fraud, waste, and abuse of Federal funds.<sup>2</sup> We look forward to working with the Secretary and this Subcommittee as we continue to assist DOT in improving its management of programs and resources.

My statement today will focus on the challenges<sup>3</sup> our work has identified along three cross-cutting areas: (1) addressing new and ongoing safety challenges, (2) enhancing stewardship of DOT's financial and growing infrastructure investments, and (3) effectively addressing existing mandates and recommendations. Regardless of whether the Administration and Congress commit to new investments in infrastructure, sustained oversight in these areas is vital to promote safety, efficiency, and effectiveness within DOT's programs and investments.

## **SUMMARY**

As Secretary of Transportation Elaine L. Chao has affirmed, DOT's primary objective is safety. Meeting this objective requires addressing a number of new and ongoing challenges—from ensuring the safe integration of emerging technologies such as Unmanned Aircraft Systems (UAS) and driverless cars to promptly investigating passenger vehicle defects and pipeline safety violations. At the same time, DOT must protect its investments in its multibillion-dollar infrastructure and systems with careful financial scrutiny and sustained management attention. This includes stronger efforts to enhance the capacity and resilience of the National Airspace System (NAS), manage high-risk contracts and evolving public-private financing arrangements, and safeguard our information technology (IT) systems from increasingly complex cybersecurity threats. Finally, as it carries out its mission, DOT must develop strategies to more effectively address safety recommendations and congressional mandates.

## **ADDRESSING NEW AND ONGOING SAFETY CHALLENGES**

Safety remains the Department's highest priority, and DOT is committed to improving how it oversees our Nation's airspace, roads, pipelines, and other critical

<sup>1</sup> For a list of our ongoing audits, see the exhibit.

<sup>2</sup> As a result of our work, we returned \$54 to the Government for every dollar invested in our office last fiscal year. For the past 5 fiscal years, our return on investment has averaged \$35 to \$1.

<sup>3</sup> *Top Management Challenges for Fiscal Year 2017, Department of Transportation* (OIG Report Number PT2017007), November 15, 2016. OIG reports and testimonies are available on our Web site: <https://www.oig.dot.gov>.

systems. Yet, emerging technologies, industry safety concerns, and enforcement issues pose challenges to DOT's safety mission. Key focus areas we have identified for DOT include ensuring its oversight keeps pace with the rapid rise of UAS and driverless cars, improving how it collects and uses vehicle safety recall data, and effectively addressing pipeline safety violations.

### **Overseeing an Expanding and Dynamic Unmanned Aircraft Systems Industry**

Through a sustained focus, DOT, the Federal Aviation Administration (FAA), and industry have maintained a safe aviation system, with no fatal passenger accidents involving domestic commercial carriers in over 7 years. However, the growing demand for commercial UAS operations—for purposes ranging from pipeline monitoring and precision agriculture to package delivery and filmmaking—presents one of the most significant safety challenges for FAA in decades. FAA forecast 1.9 million units in potential annual sales of UAS in 2016, which could increase to 4.3 million units sold annually by 2020. While this represents substantial opportunities for U.S. businesses, it also raises safety concerns, since FAA has not yet established a comprehensive oversight framework to ensure this evolving industry can operate safely in the same airspace with other private, commercial, and military aircraft.

FAA took an important step forward to advance UAS integration in June 2016 with a new rule regulating the use of small UAS<sup>4</sup> (i.e., systems weighing less than 55 pounds). However, the rule does not yet permit several high-profile aspects of potential UAS use, such as delivering packages beyond the line of sight of the pilot, underscoring the need for further regulatory efforts. Until then, FAA will continue to accommodate some UAS operations through regulatory waivers and exemptions.

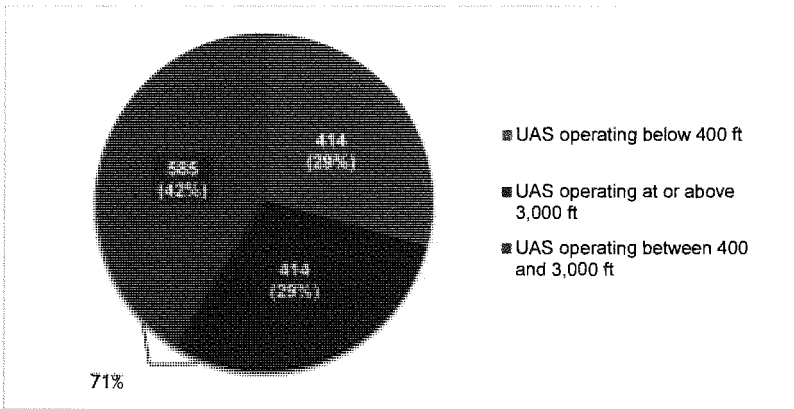
Moreover, as the number of UAS operations has grown, so has the number of UAS sightings by pilots and other sources.<sup>5</sup> In 2015, there were over 1,100 UAS events reported compared to just 238 in 2014, according to FAA's UAS event data. As shown in the figure below, 71 percent of sightings occurred at altitudes either at or above the 400-foot maximum FAA-authorized altitude for civil UAS—with 29 percent of sightings reported at altitudes at or above 3,000 feet, approaching areas where other aircraft operate.<sup>6</sup>

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<sup>4</sup> 14 CFR Part 107 (June 2016).

<sup>5</sup> While sightings are primarily reported by pilots, reports also come from air traffic controllers, law enforcement officers, and the general public.

<sup>6</sup> It is important to note that FAA has not verified the validity of the reports received by air traffic, but the data indicate that a number of UAS operators may be flying their aircraft outside of FAA guidelines.

**Figure. UAS Event Reports Above and Below 400 Feet**

Source: OIG analysis of FAA data reported between November 2014 and January 2016.

Note: The 400-foot maximum altitude was a requirement of FAA-issued exemptions as well as the special rule for model aircraft prior to FAA's issuance of the Small UAS rule in June 2016.

These events highlight the importance of establishing a risk-based system for UAS oversight, especially since the number of UAS sightings has continued to increase—with over 1,400 reported for the 9-month period ending in September 2016, according to FAA. However, FAA's efforts in this area are incomplete. For example, the Agency lacks a robust data reporting and tracking system for UAS activity. It also has provided only limited UAS-related training and guidance to safety inspectors. As a result, FAA is currently restricted to a reactive approach for addressing UAS incidents and issues as they arise, rather than proactively identifying and mitigating potential risks.

As we recently reported,<sup>7</sup> to make progress FAA will need to establish the capacity for integrated UAS data and analysis and implement a process to verify UAS operators' compliance with regulations. Further, FAA must continue coordinating with other Government agencies to advance UAS detection technology. These steps are critical to ensure that FAA can meet UAS demand while maintaining the safety of the NAS.

### Preparing To Oversee Driverless Cars

The emergence of driverless cars is another developing technology that will present significant regulatory and oversight challenges for DOT. While this is still in the early stages, several companies are already developing and testing driverless cars, and the

<sup>7</sup> *FAA Lacks a Risk-Based Oversight Process for Civil Unmanned Aircraft Systems*, (OIG Report Number AV2017018) December 1, 2016.

number is expected to grow quickly over the next decade. In September 2016, DOT issued a Federal Automated Vehicles Policy, which sets the framework for the next 50 years with guidance for the safe and rapid development of advanced automated vehicle safety technologies. Along with developing the tools and standards to oversee and regulate this new technology, DOT will need to consider the impact on several of its agencies and work to ensure they can adapt as needed to maintain DOT's commitment to both safety and innovation. For example, the National Highway Traffic Safety Administration (NHTSA) will have to consider whether new authority is needed to ensure that these new vehicles are as safe as standard motor vehicles. Similarly, for commercial motor vehicles, the Federal Motor Carrier Safety Administration (FMCSA) needs to identify any impact to its safety regulations and update operational procedures as required. However, further efforts in these areas will rely on the results of the Secretary's ongoing evaluation of the 2016 policy and any related updates.

### **Enhancing Processes for Collecting and Analyzing Vehicle Safety Recall Data**

Recent large-scale recalls from auto manufacturers highlight a number of safety challenges for the Department. Since 2014, General Motors (GM) has recalled nearly 9 million U.S. vehicles for a defect involving a faulty ignition switch that resulted in GM receiving more than 100 death claims and more than 200 injury claims. In addition, NHTSA is overseeing a recall of Takata airbags installed in tens of millions of U.S. vehicles due to a safety defect that led to 11 fatalities and approximately 180 injuries in the United States. Due in part to our investigative work, Takata Corporation was sentenced last month to pay a total of \$1 billion in criminal penalties.<sup>8</sup>

NHTSA's Office of Defects Investigation (ODI) is responsible for overseeing safety recalls and monitoring recall completion rates. The GM and Takata recalls and others have prompted congressional concerns over NHTSA's safety processes. We have issued numerous audit recommendations over the years to the Agency to strengthen its internal controls and use of safety data. NHTSA is working to address those concerns, but more work remains. For example, NHTSA recently completed work on 14 of the 17 recommendations from our 2015 audit, which found ODI had insufficient processes for verifying that manufacturers submit complete and accurate early warning reporting data.<sup>9</sup> However, NHTSA has not completed three recommendations to enhance collection and analysis of early warning reporting data and the process for reviewing complaints. We also reported in February 2016<sup>10</sup> that ODI needed better

<sup>8</sup> *Takata Corporation Pleads Guilty and Is Sentenced To Pay \$1 Billion in Criminal Penalties for Airbag Scheme*, February 27, 2017. <https://www.oig.dot.gov/library-item/35545>

<sup>9</sup> *Inadequate Data and Analysis Undermine NHTSA's Efforts To Identify and Investigate Vehicle Safety Concerns* (OIG Report Number ST2015063), June 18, 2015.

<sup>10</sup> *Additional Efforts Are Needed To Ensure NHTSA's Full Implementation of OIG's 2011 Recommendations* (OIG Report Number ST2016021), February 24, 2016.

quality control mechanisms to comply with policies that NHTSA established in response to our 2011 recommendations involving documentation and testing weaknesses.<sup>11</sup> Two recommendations from our 2016 report remain open.

Last month, we announced<sup>12</sup> an audit of ODI's recall processes as mandated by Congress in the Fixing America's Surface Transportation Act (FAST Act).<sup>13</sup> Consistent with this mandate, and as agreed to with congressional staff, our audit is examining NHTSA's processes for monitoring manufacturers' proposed recall remedies and scope and overseeing safety recall implementation. We will keep Congress apprised of our progress in this area.

### **Addressing Violations of Pipeline Safety Regulations**

A key DOT mission is mitigating the safety risks posed by the Nation's 2.5 million-mile pipeline transportation system. The Pipeline and Hazardous Materials Safety Administration (PHMSA) develops and enforces regulations for the safe and reliable operation of pipelines. However, PHMSA has faced challenges enforcing some key regulatory safeguards. There have been a number of serious pipeline-related incidents over the past several years. From 2012 to 2016, there were 144 serious pipeline incidents resulting in 63 fatalities. Many of these were due to violations of safety regulations required by the Natural Gas Pipeline Safety Act (PSA).<sup>14</sup>

Historically, however, it has been difficult to prosecute such violations due to language in Title 49 U.S.C. Section 60123(a), the criminal statute for pipeline safety violations. This section requires that the violation be committed "knowingly and willfully." Instead, the Department of Justice has had more success prosecuting cases under Section 5124 (the criminal statute for *hazardous materials* violations), which allows prosecutions for "reckless" violations (i.e., display of deliberate indifference or conscious disregard to the consequences of their conduct). In the past 10 years, Federal charges under Section 60123(a) were brought against only four individuals and companies, and in only one case did a prosecution result in a guilty verdict of a utility company for violations of Section 60123(a)—the case against the Pacific Gas and Electric Company (PG&E).

The case against PG&E arose after a natural gas pipeline ruptured in San Bruno, CA, in 2010, killing 8 people. It was investigated by the Department of Justice, our office, the Federal Bureau of Investigation, and local law enforcement. On August 9, 2016, a Federal jury found PG&E guilty of multiple knowing and willful violations of the PSA and of obstructing the National Transportation Safety Board's (NTSB) investigation. On January 26, 2017, the maximum sentence was imposed—5 years of

<sup>11</sup> *Process Improvements Are Needed for Identifying and Addressing Vehicle Safety Defects* (OIG Report Number MH2012001), October 6, 2011.

<sup>12</sup> *Audit Initiated of NHTSA's Vehicle Safety Recall Process* (OIG Project ID 17S3002S000), February 8, 2017.

<sup>13</sup> Pub. L. No. 114-94 (2015).

<sup>14</sup> Pub. L. No. 90-481 (1968).



probation and a \$3 million fine. The court also ordered the company to announce in local and national media that it was found guilty of violating the PSA and obstructing a Federal investigation. While this sentence sends a message to the industry, as a policy matter, DOT and Congress may wish to consider whether the deterrent effect of prosecuting violations of the PSA might be enhanced by amending Section 60123(a) to include reckless violations.

## **ENHANCING STEWARDSHIP OF DOT'S FINANCIAL AND INFRASTRUCTURE INVESTMENTS**

DOT receives billions of Federal dollars annually to fund projects to build, repair, and maintain our Nation's vast transportation infrastructure, ranging from air traffic control tools to roads and bridges and IT systems. Safeguarding these and future investments requires sound financial management and strong upfront risk mitigation strategies for increasing threats. Key challenges for the Department include enhancing the capacity and resiliency of the NAS; increasing oversight of high-risk contracts, highway and bridge infrastructure spending, and Departmentwide financial programs; and effectively addressing rapidly evolving cybersecurity risks.

### **Enhancing the Capacity, Efficiency, and Resiliency of the NAS**

FAA operates the safest aviation system in the world and continues to work with stakeholders to implement new technologies that are providing near-term benefits to airspace users, such as fuel savings and increased airspace capacity and efficiency. However, FAA faces ongoing challenges with its investments to deliver specific capabilities and programs required to implement the Next Generation Air Transportation System (NextGen), which aims to modernize and replace 1950s-era ground radar and equipment.

For example, FAA has worked with industry to identify and begin implementing the four highest priority NextGen capabilities: (1) advancing performance-based navigation (PBN), (2) improving access to closely spaced parallel runways, (3) enhancing airport surface operations, and (4) developing data communications for controllers and pilots. However, FAA is behind schedule in key areas and faces challenges achieving the full range of benefits, particularly with its top priority to develop new PBN procedures. These have faced delays due in part to community concerns over aircraft noise and the lack of automated tools to help controllers sequence and space aircraft.

We also recently reported<sup>15</sup> that FAA has not fully identified the total costs, capabilities, or completion schedules for any of the six NextGen transformational

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<sup>15</sup> *Total Costs, Schedules, and Benefits of FAA's NextGen Transformational Programs Remain Uncertain* (OIG Report Number AV2017009), November 10, 2016.

programs<sup>16</sup> that are required to implement NextGen and introduce key capabilities. Cost estimates for these six programs now total over \$5.7 billion (increasing from a \$2.1 billion estimate in 2012), and their completion has been pushed beyond 2020. Many of these programs' benefits remain unquantified as to how they will improve the flow of air traffic or controller workforce productivity. For example, FAA has mandated that all airspace users must purchase and install the Automatic Dependent Surveillance-Broadcast System (ADS-B) *Out*<sup>17</sup> equipment by 2020. However, the majority of benefits are expected from ADS-B *In*, which will enable display of information in the cockpit. Yet, ADS-B *In*'s requirements and associated schedule and costs continue to evolve, making it uncertain when benefits from enhancing NAS capacity will be achieved.

While working to increase capacity and efficiency through NextGen, FAA must also take steps to ensure that the NAS can quickly recover from catastrophic—sometimes intentional—events. For example, in September 2014, an FAA contract employee deliberately started a fire at FAA's Chicago Air Route Traffic Control Center that disrupted air traffic for more than 2 weeks and led to reported industry losses of over \$350 million. The event highlighted weaknesses in FAA's current air traffic control infrastructure, which has limited flexibility to respond to system failures and quickly return to normal operations. We recently reported<sup>18</sup> that while FAA has begun to develop new contingency plans to better respond to such failures, the plans are still incomplete, and many of the key technologies, such as the new NAS Voice System,<sup>19</sup> are years away from implementation.

Enhancing NAS capacity and efficiency depends on ensuring adequate controller staffing levels at its critical air traffic facilities. In our 2016 report,<sup>20</sup> we found that when excluding controllers-in-training, six of eight large Terminal Radar and Approach Control (TRACON)<sup>21</sup> facilities (e.g., New York, Chicago, and Atlanta) had staffing levels below FAA's staffing range (as listed in its Controller Workforce Plan), while some en route facilities had more controllers than the Plan required. For example, New York TRACON had 137 fully certified controllers in December 2016, while FAA's staffing range was 174 to 213 controllers. Without better models, FAA will continue to face challenges in ensuring its critical facilities are well staffed. We recommended that FAA implement a methodology for determining en route staffing ranges. According to FAA officials, its staffing model has been updated and new

<sup>16</sup> The six transformational programs are Automatic Dependent Surveillance–Broadcast (ADS-B), System Wide Information Management (SWIM), Data Communications (DataComm), NAS Voice System (NVS), Common Support Services–Weather (CSS-Wx), and Collaborative Air Traffic Management–Technologies (CATM-T).

<sup>17</sup> ADS-B *Out* involves the broadcast of information to FAA ground systems.

<sup>18</sup> *Although FAA Has Taken Steps To Improve its Operational Contingency Plans, Significant Work Remains To Mitigate Effects of Major System Disruptions* (OIG Report Number AV2017020), January 11, 2017.

<sup>19</sup> NAS Voice System (NVS) is expected to standardize the voice communication infrastructure among FAA air traffic facilities by replacing 11 aging analog voice communication systems with a single digital technology.

<sup>20</sup> *FAA Continues To Face Challenges in Ensuring Enough Fully Trained Controllers at Critical Facilities* (OIG Report Number AV2016014), January 11, 2016.

<sup>21</sup> TRACONs guide aircraft as they approach or leave airspace near a primary airport.

staffing targets will be available in the revised Controller Workforce Plan scheduled for issuance this month.

### **Increasing Oversight of High-Risk Contracts**

DOT relies on billions of dollars in contracts each year to fund programs across all modes of transportation. In fiscal years 2015 and 2016, DOT spent over \$6 billion in contracts annually. Our work has identified areas where the Department can improve its internal controls and accountability in managing its sizable investments, including strengthening oversight and planning for contracts and minimizing the use of contract types that present the greatest financial risks to the Government.

For example, cost-reimbursable contracts are considered high risk because of the potential for cost escalation and the fact that the Government pays a contractor's costs of performance regardless of whether the work is completed. Our review<sup>22</sup> of six Operating Administrations found that they did not (1) perform adequate acquisition planning and document their justifications<sup>23</sup> for using this contract type or (2) consistently assess oversight risks, properly designate oversight personnel, or verify that contractors' accounting systems are adequate to provide reliable cost data.

Similarly, we found that FAA—which awards more contract dollars annually than any other Operating Administration—lacked basic internal controls and contracting practices for its sole-source and multiple-award contracts. Sole-source contracts are negotiated without the benefit of competition and carry the risk of overspending. Our work<sup>24</sup> found that FAA did not do enough to reduce its use of sole-source contracts, as directed by OMB in 2009. Between fiscal years 2008 and 2014, FAA awarded 624 sole-source contracts with a total value of about \$2.2 billion. For most of the sole-source contracts we reviewed, FAA had not conducted an adequate market analysis or developed independent cost estimates to ensure reasonable prices. We also found issues with FAA multiple-award service contracts. While multiple award service contracts are not by nature high-risk, the various task orders issued under them frequently lack sufficient oversight and competition.

For example, for FAA's \$1.1 billion Systems Engineering 2020 (SE-2020) contracts,<sup>25</sup> FAA did not ensure full competition or documentation for task orders or

<sup>22</sup> *DOT Does Not Fully Comply With Revised Federal Acquisition Regulations on the Use and Management of Cost-Reimbursement Awards* (OIG Report Number ZA2013118), August 5, 2013.

<sup>23</sup> The Federal Acquisition Regulation states that a cost-reimbursement award may only be used when (1) circumstances do not allow the agency to define its requirements sufficiently to allow for a fixed-price award or (2) uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price award.

<sup>24</sup> *FAA Lacks Adequate Controls To Accurately Track and Award Its Sole Source Contracts* (OIG Report Number ZA2016065), May 9, 2016.

<sup>25</sup> SE-2020 is a portfolio of contracts that FAA uses to obtain professional and technical services to support its development and implementation of NextGen—the Agency's effort to modernize and maintain the NAS. During our 2012 review of FAA's SE-2020 contracts, the Agency's cumulative maximum value was \$7.3 billion. When we initiated our 2016 follow-up review, FAA reported its current award baseline was \$1.1 billion.

ensure contract oversight staff had the needed skills for their jobs.<sup>26</sup> This can increase the risk of cost overruns or payment for services that do not meet DOT's needs.

### **Improving Stewardship of Credit Programs, Highway and Bridge Infrastructure Projects, and Delinquent Debt**

To be an effective steward of taxpayer dollars while financing large infrastructure projects, DOT must carefully manage the consolidation of credit programs that leverage private investment, such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Railroad Rehabilitation and Improvement Financing (RRIF). In 2014, DOT established the Build America Transportation Investment Center (BATIC) to streamline public-private coordination when planning and implementing infrastructure projects. Since BATIC's inception, DOT credit programs have issued credit instruments totaling roughly \$10 billion to 21 projects that support up to \$26 billion in transportation infrastructure. Recognizing BATIC's impact on funding for infrastructure projects, Congress mandated the restructuring of DOT credit programs to consolidate the TIFIA and RRIF programs with BATIC in 2015. This restructuring is ongoing; sustained management attention will be critical to complete and oversee these significant financial arrangements.

Our work has also identified areas where DOT can enhance its stewardship of about \$40 billion in annual Federal funding for highway and bridge infrastructure projects and better deter fraud, waste, and abuse. As DOT has previously reported to Congress, there is a significant funding gap between the amount needed to maintain and improve the conditions and performance of roads and bridges and the amount that Government agencies actually provide—making strong oversight especially vital to maintaining and expanding this infrastructure. For example, we recently found that FHWA is not enforcing a law<sup>27</sup> requiring that States fully repay preliminary engineering (PE) funds to the Highway Trust Fund when a project does not acquire right-of-way<sup>28</sup> or start construction within 10 years after the PE funds were made available. As a result, FHWA could not ensure that States repaid billions in PE funds or requested extensions when required.

Managing DOT's financial commitments also includes establishing and maintaining internal controls to more effectively identify and collect delinquent debt.<sup>29</sup> Our audit work found<sup>30</sup> that weak internal controls at DOT contributed to an increase in

<sup>26</sup> *FAA's Contracting Practices Are Insufficient To Effectively Manage Its Systems Engineering 2020 Contracts* (OIG Report Number Z A2012082), March 28, 2012.

<sup>27</sup> 23 U.S.C. § 102(b).

<sup>28</sup> Right-of-way is new real property that must be acquired in order to construct or complete a transportation project.

<sup>29</sup> A debt is an amount owed by an individual and/or a non-Federal entity. This includes direct and guaranteed loans, such as those provided to States for financing transportation projects. Administrative debts include civil fines and penalties and payroll overpayments. A debt becomes delinquent when payment is not made by the due date or end of the grace period established in an agreement or specified in the billing notice.

<sup>30</sup> *Weak Internal Controls for Collecting Delinquent Debt Put Millions of DOT Dollars at Risk* (OIG Report Number FI2015065), July 9, 2015.

outstanding debt owed the Federal Government by individuals and non-Federal entities and an increased risk that these debts would not be collected and returned to DOT. From fiscal years 1999 to 2013, DOT's reported delinquent debt increased by over 300 percent, from approximately \$170 million to \$737 million. DOT-wide policies and procedures are needed to accurately identify and report delinquent debt and recoveries, collect debts in a timely manner, and ensure DOT has the requisite skills and internal controls for carrying out these programs.

### **Coordinating Technological Initiatives and Extending Security Boundaries To Address Cybersecurity Risks**

As cybersecurity threats become increasingly sophisticated and more numerous, DOT faces the challenge of reevaluating and expanding traditional approaches to secure IT systems. DOT must work to fulfill existing requirements while also implementing new strategies to meet the additional security demands of mobile technology, cloud-based computing, and other technological developments. However, cybersecurity remains a significant challenge for DOT and its Operating Administrations.

To its credit, DOT has supplied personal identification verification (PIV) cards to all its employees. However, DOT has not fully implemented the use of these cards Departmentwide for access to its facilities and information systems. In fact, only 140 of its 460 systems (30 percent) can use PIV cards for access. In addition, 530 FAA facilities do not use PIV cards for physical access. DOT also has not effectively implemented other cybersecurity initiatives, such as programs to actively monitor and mitigate security weaknesses immediately during or after an attack. For example, we recently reported<sup>31</sup> that DOT's continuous monitoring program lacks sufficient maturity to be effective, leaving the Department's systems vulnerable to exploitable hardware and software.

Furthermore, recent trends in mobile, cloud, and workplace technology—such as the proliferation of smartphones and tablets and an increasing number of remote employees—present new challenges to monitoring and securing DOT's network. As the industry moves towards extending virtual desktop infrastructure<sup>32</sup> and cloud computing,<sup>33</sup> DOT will need to change how it stores and manages data in order to effectively respond to cybersecurity incidents. As we recently reported, DOT's current incident monitoring is incomplete due to lack of access to FAA's and cloud service providers' systems.

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<sup>31</sup> *FISMA 2016: DOT Continues To Make Progress, but the Department's Information Security Posture Is Still Not Effective* (OIG Report Number F12017008), November 9, 2016.

<sup>32</sup> Virtual desktop infrastructure enables a user to have a DOT server replicate his or her desktop on devices in addition to his or her Government-issued computer.

<sup>33</sup> Cloud computing is a model for enabling ubiquitous, convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction.

## EFFECTIVELY ADDRESSING EXISTING MANDATES AND RECOMMENDATIONS

In recent years, DOT has faced a significant challenge to implement mandated and recommended improvements to its safety oversight and program management. These include highway and transit requirements from the 2012 MAP-21 and 2015 FAST acts, as well as reevaluating hours-of-service requirements as mandated in the 2015 Appropriations Act.<sup>34</sup> In 2016, the FAA Extension, Safety, and Security Act (Extension Act)<sup>35</sup> also set out new requirements for DOT regarding pilot safety issues and oversight of foreign repair stations. At the same time, DOT has struggled to meet deadlines for mandates and recommendations regarding pipeline and hazardous materials safety. Going forward, it will be important for DOT to prioritize actions to meet statutory requirements, weigh which rulemakings will have the greatest safety merit and which existing regulations may require additional scrutiny, and assess steps needed to meet these or any future congressional directives. For example, DOT will need to improve its compliance with the Federal Information Technology Acquisition Reform Act (FITARA),<sup>36</sup> which is intended to improve agencies' IT acquisitions and enhance congressional monitoring. DOT recently received a failing grade on the House Committee on Oversight and Government Reform's FITARA Scorecard.

### Implementing Legislative Requirements for Highway and Transit Projects

MAP-21 established requirements for States to employ performance-based management of DOT's highway and transit programs, including linking State transportation performance plans to Federal-aid highway funds through an asset management plan. As DOT finalizes rulemakings<sup>37</sup> to meet these requirements, it will need to adjust its risk-based oversight to ensure that States consistently comply with the new rules and that the rules achieve desired outcomes. Additionally, MAP-21 called for DOT to accelerate highway, bridge, and transit project delivery. These actions include rulemakings to streamline the environmental review process and required reports to Congress on environmental actions. DOT has implemented half of the actions it initially identified. However, DOT recognizes that it needs to revise a large number of its planned actions to comply with more recent FAST Act requirements that will affect these areas. This includes, for example, a rulemaking that allows States to assume FHWA responsibilities under the National Environmental

<sup>34</sup> *Consolidated and Further Continuing Appropriations Act of 2015*, Pub. L. No. 113-235 (2014).

<sup>35</sup> Pub. L. No. 114-190 (2016).

<sup>36</sup> Federal Information Technology Acquisition Reform provisions of the *Carl Levin and Howard P. "Buck" McKeon National Defense Authorization Act for Fiscal Year 2015*, Pub. L. No. 113-291, div. A, title VIII, subtitle D, 128 Stat. 3292, 3438-3450 (Dec. 19, 2014).

<sup>37</sup> For example, the Federal Highway Administration (FHWA) has established a process for development of a State risk-based asset management plan, including defining minimum standards for developing and operating bridge and pavement management systems, and a rulemaking for setting performance targets and measures covering bridges and pavement.

Policy Act<sup>38</sup> for environmental reviews, consultation, and compliance for Federal highway projects.

Furthermore, FHWA has not implemented key MAP-21 requirements to improve bridge safety programs or addressed several of our related recommendations. These include implementing a mandated final rule on improving bridge inspection and inventory standards and enforcing funding restrictions on States that do not meet requirements. Additionally, in 2015, we made five recommendations to improve FHWA's risk-based oversight of State bridge inspection programs, such as addressing gaps in program guidance and implementing a comprehensive national bridge safety risk management process. FHWA is working to address our recommendations. These actions, once completed, will help ensure the safety and integrity of the Nation's more than 600,000 bridges, of which approximately one-fourth are deficient.

### **Leveraging Recent Efforts To Inform Research on Hours-of-Service Issues**

FMCSA issued hours-of-service regulations, which came into effect in 2013, to establish daily and weekly driving limits and required rest periods for commercial vehicle drivers. The regulations included two additional restart provisions. These provisions required that commercial drivers include at least two nighttime periods in restart breaks and limited use of the restart provision to once every 168 hours. Congress raised concerns about the rule's unintended consequences, such as increased congestion during certain traffic hours, and suspended FMCSA's enforcement of the two provisions in the 2015 Appropriations Act. The act also required DOT to conduct a study of the operational, safety, health, and fatigue impacts of these regulations and mandated that we review the study. As we recently reported to this Subcommittee, we found that DOT's study, provided to us for review in January 2017, met the act's requirements, and we concurred with the Department's conclusion that the study did not explicitly identify a net benefit from the use of the two suspended provisions on driver operations, safety, fatigue, and health.<sup>39</sup> Going forward, the challenge for DOT and FMCSA will be determining how best to use the study results to inform future research opportunities on driver schedules and fatigue.

### **Managing New Safety Requirements From the FAA Extension Act**

FAA has several ongoing initiatives to enhance aviation safety but faces challenges to implement new requirements of the 2016 Extension Act. Several of the act's provisions also mirror recommendations from our office. For example, in line with our recent report,<sup>40</sup> the act includes requirements for new pilot training on monitoring

<sup>38</sup> Pub. L. No. 91-190 (1969).

<sup>39</sup> *Letter to the House and Senate Committees on Appropriations and the Secretary Regarding OIG's Audit of FMCSA's Hours of Service Restart Study*, (OIG Correspondence Number CC2017007), March 2, 2017.

<sup>40</sup> *Enhanced FAA Oversight Could Reduce Hazards Associated With Increased Use of Flight Deck Automation*, (OIG Report Number AV2016013), January 7, 2016.

flight automation systems and new inspector guidance for tracking and assessing pilot proficiency in manual flight. FAA will need to ensure that air carrier training programs address these provisions so that pilots maintain the skills needed to fly safely and recover from a failure with cockpit automated systems or an unexpected event, particularly in the critical phases of flight.

A critical safety component reflected in the Extension Act is ensuring air carriers have the information they need on a pilot's training and background to make informed hiring decisions. To meet this goal, the act requires FAA to establish a pilot records database by April 30, 2017. We have monitored FAA's efforts to develop and implement the database since it was first mandated,<sup>41</sup> and we reported in 2015<sup>42</sup> that FAA did not expect full implementation until 2023. In response to our recommendations, FAA accelerated efforts to launch its portion of the database and now expects it to be available to air carriers this spring. However, FAA has yet to decide how best to obtain and input air carrier records as far back as 2005 given the differences among carriers' data and recordkeeping systems. FAA is working on a rulemaking to address this problem and expects to issue it in 2018 at the earliest.

Another aviation safety priority that we have reported on since 2003 is foreign repair stations. Currently there are approximately 840 repair stations located outside the United States. Under the Extension Act, FAA must ensure that its safety assessment system prioritizes inspections at foreign repair stations performing heavy maintenance for U.S. carriers, using risk-based oversight and data to track corrective actions. However, we continue to find weaknesses in FAA's ability to get the data it needs to assess risk and effectively monitor foreign repair stations covered under the United States and European Union (EU) Aviation Safety Agreement, which went into effect in 2011 and covers more than 400 FAA-certificated repair stations in Europe.<sup>43</sup> Under this agreement, foreign authorities are only required to provide FAA with repair station inspection results pertaining to those FAA regulations that differ from the EU's—not complete facility inspection reports. In response to our recommendation in 2015, FAA recently issued guidance to its inspectors to obtain these facility inspection reports, but it is too early to tell whether these procedures will actually help the Agency to better assess risk.

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<sup>41</sup> The database was first mandated in the 2010 Airline Safety and Federal Aviation Administration Safety Act (Pub. L. No. 111-216 (2010)) in response to the 2009 Colgan Air accident. On February 12, 2009, Colgan Air Flight 3407 crashed in New York, leading to 50 fatalities. The accident highlighted the need for improvements to pilot hiring programs.

<sup>42</sup> *FAA Delays in Establishing a Pilot Records Database Limit Air Carriers' Access to Background Information*, (OIG Report Number AV2015079), August 20, 2015.

<sup>43</sup> With this agreement, the United States expanded its aviation safety partnership from 3 countries in 1999 (France, Germany, and Ireland) to 18 countries today (the original 3 plus Austria, Belgium, Czech Republic, Denmark, Finland, Italy, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Spain, Sweden, and the United Kingdom). While this agreement minimizes duplicative oversight and relieves FAA inspectors from performing mandatory, annual inspections overseas, FAA still retains its responsibility to ensure its foreign repair stations comply with U.S. regulations.



## Addressing Pipeline and Hazardous Materials Safety Recommendations and Mandates

Given the number of pipeline and hazardous materials incidents over the last several years—more than 86,000 incidents between 2012 and 2016—PHMSA has received many mandates and recommendations to improve how it mitigates these safety risks. Specifically, since 2005, PHMSA has received 263 mandates and recommendations. To its credit, PHMSA completed nearly two-thirds of them but in doing so, missed about 75 percent of its mandated deadlines. Our work shows that PHMSA must focus on improving its processes, oversight, and project management to address the remaining or any future recommendations or mandates in a timelier manner. As we reported in October 2016,<sup>44</sup> 20 of PHMSA's 81 mandates (25 percent) remain unimplemented, as well as about half of NTSB's 118 safety recommendations and 7 recommendations from the Government Accountability Office.

In addition, PHMSA is working to address our five recommendations to improve how the Agency implements mandates and recommendations and coordinates with other Operating Administrations involved with the transportation of hazardous materials—FAA, FMCSA, and the Federal Railroad Administration. For example, our work found that PHMSA has not adequately coordinated, as required by a DOT Order,<sup>45</sup> on rulemaking and international standards development with these agencies, limiting its ability to resolve disputes in a timely manner. PHMSA is working to address these issues through organizational changes. It is too soon to determine whether these plans, once finalized, will aid the Agency's ability to meet mandates and recommendations in full and on time.

## CONCLUSION

The safe and efficient movement of people and goods is vital to our Nation's economic growth, global partnerships, and quality of life. We remain committed to assisting DOT and the Secretary as they work to improve DOT's management of programs and resources. Our office has a strong record of identifying weaknesses and recommending enhancements to DOT's internal controls to better oversee its programs and grants, particularly in large-scale infrastructure investments such as the American Recovery and Reinvestment Act of 2009 and Hurricane Sandy relief funds. We appreciate this Subcommittee's sustained support, which has allowed us to maximize our efforts to oversee such investments while maintaining our focus on other high-priority areas. We will continue to strive to find innovative ways to ensure the Department fully leverages the fraud detection and prevention resources at hand—such as mining and analyzing data to better predict high-risk areas for fraud, waste,

<sup>44</sup> *Insufficient Guidance, Oversight, and Coordination Hinder PHMSA's Full Implementation of Mandates and Recommendations* (OIG Report Number ST2017002), October 14, 2016.

<sup>45</sup> DOT Order 1100.74A, Department of Transportation Organization Manual: Pipeline and Hazardous Materials Safety Administration, September 2010.

and abuse. We look forward to providing you with any information you may require and pledge our support in promoting safety and efficiency and preventing fraud in any forthcoming infrastructure plans.

This concludes my prepared statement. I will be happy to answer any questions you or other Members of the Subcommittee may have.

**EXHIBIT. DOT OIG'S ONGOING AUDITS AS OF MARCH 16, 2017**

<b>Project Title</b>	<b>Objectives</b>	<b>Source/Requester</b>
<b>DEPARTMENTWIDE</b>		
DOT's Information Security Continuous Monitoring (ISCM) Program Audit	Our audit objectives are to assess (1) how DOT's ISCM program conforms to OMB and National Institute of Standards and Technology requirements and (2) the status and progress of DOT's implementation of its ISCM program.	Self-Initiated
DOT's Use of Other Transaction Agreements	Our audit objective is to evaluate DOT's use and management of Other Transaction Agreements.	Self-Initiated
DOT's Implementation of the Improper Payments Elimination and Recovery Act of 2010 During Fiscal Year 2016	Our audit objective is to determine whether the Department complied with IPERA's requirements as implemented by the Office of Management and Budget.	Required by the Improper Payments Elimination and Recovery Act of 2010
DOT OCIO Cybersecurity Funding	Our audit objectives are to determine whether DOT (1) adequately planned for its cybersecurity funding needs and (2) expended cybersecurity funds in accordance with congressional direction.	Self-Initiated
OST's Benefit-Cost Analysis of the TIGER Grant Applications	Our audit objective is to assess the Office of the Secretary of Transportation's (OST) policies and procedures for evaluating benefit-cost analyses in determining which TIGER grant applications are forwarded for further review.	Self-Initiated
DOT's Implementation of Earned Value Management System	Our audit objectives are to assess DOT's (1) implementation of EVM policies, procedures, and practices for its IT investments and (2) use of EVM data to plan, monitor, and report the status of its IT investments and related security spending. We have contracted with KPMG LLP, an independent public accounting firm, to conduct this review, subject to OIG's oversight.	Self-Initiated

Project Title	Objectives	Source/Requester
DOT's Implementation of Enterprise Architecture	Our audit objectives are to (1) determine whether DOT has an effective enterprise architecture program and (2) to assess its progress in developing its department-wide EA and an EA performance measurement system. We have contracted with KPMG LLP, an independent public accounting firm, to conduct this review subject to our oversight.	Self-Initiated
DOT's Protection of Privacy Information	Our audit objectives are to determine whether (1) DOT has established adequate procedures for the collection, use, and security of PII; (2) DOT ensures compliance with its own privacy and data protection policies and applicable laws and regulations to prevent unauthorized access to or unintended use of PII; and (3) DOT's Operating Administrations properly evaluate the necessity of using PII to process system data. OIG has contracted with KPMG LLP, an independent public accounting firm, to conduct this review, subject to OIG's oversight.	Required by FY 2005 consolidated appropriations Act for Transportation, Treasury, Independent Agencies and General Government
DOT's Information Security Program and Practices for Fiscal Year 2017	Our audit objective is to determine the effectiveness of DOT's information security program and practices.	Required by the Federal Information Security Modernization Act of 2014
DOT's Fiscal Years 2017 and 2016 Consolidated Financial Statements	OIG has engaged an independent accounting firm, KPMG, to conduct an audit of the DOT's consolidated financial statements for fiscal years 2017 and 2016, subject to OIG oversight.	Required by Chief Financial Officers Act of 1990
DOT's Compliance with the Requirements of the DATA Act for Fiscal Year 2017	Our audit objectives are to assess (1) the completeness, timeliness, quality, and accuracy of fiscal year 2017 second quarter financial and award data submitted for publication on USASpending.gov and (2) the Department's implementation and use of the government-wide financial data standards established by the Office of Management and Budget (OMB) and the Department of Treasury.	Required by the Digital Accountability and Transparency Act of 2014

Project Title	Objectives	Source/Requester
DOT's SSAE-16 Review of the Enterprise Services Center	OIG contracted with KPMG, LLC, an independent public accounting firm, to conduct the review of ESC subject to OIG's oversight. The audit objectives are to determine whether (1) management's descriptions of ESC's systems are fairly presented; (2) ESC's controls are suitably designed; and (3) ESC's controls are operating effectively throughout the period of October 1, 2016, through June 30, 2017. KPMG will do additional testing and issue a follow-up letter to our office for the period July 1, 2017, through September 30, 2017.	Required by the American Institute of Certified Public Accountant' Statement on Standards for Attestation Engagements No. 16
<b>FEDERAL AVIATION ADMINISTRATION</b>		
FAA's Fiscal Years 2017 and 2016 Consolidated Financial Statements	OIG has engaged an independent accounting firm, KPMG, to conduct an audit of the FAA's consolidated financial statements for fiscal years 2017 and 2016, subject to OIG oversight.	Required by Chief Financial Officers Act of 1990
FAA's Runway Safety Initiatives	Our audit objective is to evaluate FAA's progress in implementing initiatives to improve runway safety.	Self-Initiated
FAA's Oversight of Suspected Unapproved Parts	Our audit objectives are to assess the effectiveness of FAA's (1) process for monitoring and investigating suspected unapproved parts and (2) oversight of industry actions to remove unapproved parts from the aviation supply chain.	Requested by the Ranking Members of the House Transportation and Infrastructure Committee and the Subcommittee on Aviation
FAA's Oversight of the Safety of Commercial Airline Flight Decks	Our audit objectives are to assess the effectiveness of FAA's actions to (1) identify vulnerabilities to flight deck security and (2) mitigate identified flight deck vulnerabilities.	Requested by Senator Dianne Feinstein
FAA's Progress With Implementing High-Priority NextGen Capabilities	Our audit objectives in this follow-up audit are to evaluate FAA's (1) process for identifying risks to implementing the four prioritized NextGen capabilities and (2) actions to mitigate any identified risks.	Requested by the Chairmen and Ranking Members of the House Committee on Transportation and Infrastructure and its Subcommittee on Aviation
FAA's Oversight of ADS-B Contract	Our audit objectives are to (1) determine whether the ADS-B contract provides FAA the ability to monitor whether the contractor is providing required ADS-B products and services and (2) evaluate FAA's procedures for determining payments to the contractor.	Required by the FAA Modernization and Reform Act of 2012

<b>Project Title</b>	<b>Objectives</b>	<b>Source/Requester</b>
FAA Terminal Modernization at Large TRACONS	Our audit objective is to assess FAA's progress in ensuring STARS meets FAA requirements at the 11 large TRACONS and supports NextGen capabilities.	Directed by the House Committee on Appropriations
FAA's Oversight of Regional Airlines	Our audit objectives are to evaluate FAA's process for (1) identifying periods of transition and growth at regional carriers and (2) adjusting its oversight to respond to changes in regional air carrier operations.	Requested by the Ranking Members of the House Committee on Transportation and Infrastructure and its Subcommittee on Aviation
FAA's Actions To Address ERAM Outages	Our objectives are to (1) assess the causes of the recent ERAM outages and assess FAA's actions to address them and (2) determine whether tradeoffs were made to ERAM's design requirements to meet revised implementation schedules, and assess the delivery of new NextGen capabilities called for in FAA plans.	Requested by the Chairmen and Ranking Members of the House Transportation and Infrastructure Committee, Aviation Subcommittee, and the Chairman of the Senate Committee on Commerce, Science, and Transportation
FAA's En Route Automation Modernization Program Information Security Controls	Our audit objectives are to determine (1) whether FAA has effectively implemented security controls to address weaknesses identified during our prior review of ERAM and (2) what other security weaknesses, if any, have developed.	Requested by the Senate Committee on Commerce, Science, and Transportation
FAA's Controller Scheduling Policies	Our audit objectives are to (1) determine FAA's progress in adopting and implementing a scheduling tool and (2) identify any challenges that will need to be addressed to realize potential benefits.	House Appropriations Committee
FAA's Process for Staffing and Placing Maintenance Technicians	Our audit objectives are to evaluate FAA's (1) methodology for determining maintenance technician staffing levels and (2) process for placing maintenance technicians.	House Appropriations Committee
FAA's Management of NextGen Pre-Implementation Funding	Our audit objectives are to assess FAA's procedures for (1) selecting, justifying, and measuring the outcomes of projects that received developmental funding and (2) overseeing the execution of these projects.	House Appropriations Committee
FAA's Oversight of the Passenger Facility Charge Program	Our audit objectives are to review FAA's oversight of (1) air carrier compliance with collection and remittance of PFC funds and (2) airport operator compliance with the use of PFC funds.	Self-Initiated

<b>Project Title</b>	<b>Objectives</b>	<b>Source/Requester</b>
FAA's Oversight of Air Carrier Check Pilots	Our audit objective is to assess the effectiveness of FAA's processes for approving and overseeing air carrier check pilots.	Self-Initiated
FAA's Award and Oversight of eFAST Procurements	Our audit objectives are to evaluate FAA's processes for (1) awarding and (2) overseeing eFAST procurements.	Self-Initiated
FAA's SE2020 Program Task Order Award and Oversight	Our audit objective is to assess whether FAA's actions for awarding task orders and overseeing the SE2020 acquisition program were sufficient to meet its program mission.	Self-Initiated
FAA's Oversight of Revenue Use at "Grandfathered" Airports	Our audit objective is to assess FAA's oversight of grandfathered airports' compliance with Federal law related to airport revenue payments.	Self-Initiated
FAA Controls Over Overflight Fees	Our audit objectives are to assess FAA's policies and procedures for (1) accurately computing overflight fees, (2) granting exceptions appropriately, and (3) collecting or referring fees to Treasury for collection in accordance with Federal laws and regulations.	Self-Initiated
<b>FEDERAL HIGHWAY ADMINISTRATION</b>		
FHWA's Use of the Emergency Relief Program To Improve Resilience	Our audit objective is to assess FHWA's processes and guidance for incorporating resilience improvements into emergency relief projects to rebuild damaged highway infrastructure.	Self-Initiated
FHWA Construction Force Account Oversight	Our audit objectives are to (1) determine the scope and magnitude of force-account projects funded through the Federal-aid Highway Program and (2) assess FHWA's processes for overseeing compliance with Federal force-account requirements.	Self-Initiated
<b>FEDERAL MOTOR CARRIER SAFETY ADMINISTRATION</b>		
Commercial Motor Vehicle Loading and Unloading Delays	Our objectives are to (1) assess available data on motor carrier loading and unloading delays and (2) provide information on measuring the potential effects of loading and unloading delays.	Mandated by the Fixing America's Surface Transportation Act of 2015

Project Title	Objectives	Source/Requester
FMCSA's Investigative Practices for High Risk Carriers	Our audit objective is to assess FMCSA's processes for ensuring that reviews of motor carriers flagged for investigation are timely and adequate.	Required by the Consolidated and Further Continuing Appropriations Act of 2015. Also requested by Senator Dick Durbin
<b>FEDERAL RAILROAD ADMINISTRATION</b>		
FRA's Acquisition and Use of Monitoring and Technical Assistance Contractors for High Speed Intercity Passenger Rail Grant Oversight	Our audit objectives are to assess (1) FRA's acquisition of MTACs through the Volpe National Transportation Center and (2) FRA's management and use of oversight services provided by MTACs for HSIPR projects.	Self-Initiated
FRA's Collection and Management of Railroad Safety Data	Our audit objective is to assess FRA's collection and management of railroad safety data.	Self-Initiated
<b>FEDERAL TRANSIT ADMINISTRATION</b>		
FTA's Oversight of Major Capital Projects in the Western Regions	Our audit objectives are to evaluate FTA's (1) processes for identifying and assessing major capital projects' financial risks, and reviewing and approving grantee financial plans and reports and (2) oversight of grantees' mitigation of financial risks.	Self-Initiated
FTA Grantee: the Metropolitan Transit Authority of Harris County, Texas	Our audit objective is to evaluate METRO's financial condition and capacity, including its ability to fund new services while maintaining current operations.	Mandated by House Appropriations Committee Report 114-129
FTA's Oversight of Integrity Monitors for Recipients of Hurricane Sandy Disaster Relief Funds	Our audit objective is to assess FTA's policies for the use of integrity monitors and evaluate the Agency's oversight of integrity monitors.	Self-Initiated
<b>NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION</b>		
NHTSA's Vehicle Safety Recall Process	Our audit objectives are to assess NHTSA's processes for (1) monitoring manufacturers' proposed recall remedies and scope and (2) overseeing safety recall implementation, including the sufficiency of recall completion rates.	Required by the Fixing America's Surface Transportation Act of 2015



Project Title	Objectives	Source/Requester
<b>OFFICE OF THE SECRETARY OF TRANSPORTATION</b>		
Office of Small and Disadvantaged Business Utilization Oversight of Small Business Transportation Resource Centers	Our audit objectives are to assess OSDBU's (1) processes for establishing the Centers and (2) oversight of the Centers' compliance with cooperative agreements and achievement of program objectives.	Self-Initiated
<b>PIPELINE AND HAZARDOUS MATERIALS SAFETY ADMINISTRATION</b>		
PHMSA's Technical Assistance Grant Program	Our audit objective is to evaluate PHMSA's award and oversight of TAG funds.	Required by the Protecting Our Infrastructure of Pipelines and Enhancing Safety Act of 2016
PHMSA's Workforce Management	Our audit objectives are to determine (1) whether PHMSA has developed geographic allocation plans, identified expected retirement rates, and developed recruitment, retention, and training strategies for OPS to address gaps and challenges, such as hiring and time-to-hire challenges, and (2) whether previous periods of macroeconomic and pipeline industry conditions impacted the ability to fill OPS vacancies and the degree to which special hiring authorities, including direct hiring authority authorized by the Office of Personnel Management, could have alleviated such difficulty.	Required by the Protecting Our Infrastructure of Pipelines and Enhancing Safety Act of 2016

Chairman DIAZ-BALART. Thank you very much, sir. We will now recognize HUD's Inspector General, Mr. Montoya. Mr. Montoya, your full testimony also will be included in the record, and so, again, you are now recognized for five minutes, and thank you for being here, sir.

Mr. MONTOYA. Thank you, sir. Chairman Diaz-Balart and Ranking Member Price and members of the subcommittee, thank you for the opportunity to discuss the Department of Housing and Urban Development's top management and performance challenges for fiscal year 2017 and beyond and the oversight my office conducts.

Just this past year my office's contribution realized financial benefits to the government of nearly \$8.5 billion, which represents a leading return on investment of \$67 for every dollar spent on our work. We have a talented staff, and together through the years we have developed a culture of focusing on stewardship, accountability, and impactful oversight work. I want to share how proud I am of our team at HUD OIG and I am proud to serve them as their Inspector General.

HUD's key management and performance challenges are so interrelated and interconnected that our reviews indicate one impacts another to such a degree that in many cases HUD will not be able to remedy one without first correcting another. This becomes a taxing challenge to determine which needs to come first or whether several need to be accomplished simultaneously.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given its diverse programs, the thousands of entities carrying them out, and the millions of citizens who receive benefits from them. HUD's most significant challenge is reflected in its struggle to establish and implement effective and required financial management governance.

In our fiscal years 2016 and 2015 (restated) financial statement audit report we expressed a disclaimer of opinion due to HUD's inability to deliver principal financial statements in a timely manner and other unresolved audit matters. This marks 3 years in a row now that HUD has been unable to receive a clean opinion.

The absence of having key financial staff with appropriate skills, background, and knowledge to oversee the preparation of Federal financial statements was best illustrated when we found several instances where rounding was performed to the nearest billion and hundred billion while OMB requires the highest level of rounding only to the nearest million.

The result was that HUD had to withdraw its published agency financial report in December of 2016 in order to correct material errors. The Office of the Chief Financial Officer did not inform my office of changes it made after it submitted final financial statements for our review, and left the impression that certain sections of its published financial statements had been audited by my office when they had not been.

HUD and the Office of Chief Financial Officer had failed to design and implement an adequate system of internal controls over financial reporting necessary to mitigate the challenges and risks in its complex financial reporting process, which will continue to contribute to the persistence of disclaimers in the Department's annual financial statements for the foreseeable future.

These challenges and risks were exacerbated by the Department's New Core project that was to have transitioned HUD's legacy general ledger application to an enterprise resource management application housed in a Federal shared service provider. Our audits have determined that HUD's transition to a shared service provider did not improve the handling of its financial management transactions.

A year after the transition, HUD had inaccurate data resulting from the conversions and continued to execute 97 percent of its programmatic transactions using legacy applications. HUD also continues to face challenges and funding constraints in addressing outdated information technology systems, its ability to integrate updated application systems, and replace the legacy systems.

The use of aging systems has resulted in poor performance and high operation and maintenance costs, and have also inhibited HUD's ability to produce reliable, useful, and timely financial information. They also leave the Department's financial systems and information at increased risk of unauthorized access and modification.

Ginnie Mae also continues to face challenges in its financial management accountability, managing counterparty risk, and monitoring nonbank issuers, which has grown by approximately 62 percent since 2010, and now represent a majority of issuances annually. By the end of fiscal year 2016, Ginnie Mae had made guarantees on loans with the remaining principal balance of approximately \$1.7 trillion.

In conclusion, HUD will continue to face challenges until it puts controls and adequate resources in place to address them. We remain committed, though, to working collaboratively with HUD and strive to provide best practices and reasonable recommendations that support HUD's mission and responsibilities.

We also are strongly committed to working with the Department and the 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.

Mr. Chairman, this concludes my testimony and I would be pleased to answer any questions you or the committee may have. Thank you.

[The information follows:]

Testimony before the U.S. House of Representatives  
Committee on Appropriations  
Subcommittee on Transportation, Housing and Urban Development,  
and Related Agencies

“HUD Oversight and  
Management Issues”



Testimony of  
The Honorable David A. Montoya  
Inspector General  
Office of Inspector General  
U.S. Department of Housing and Urban Development

March 16, 2017, 9:00 a.m.  
Room 2358A, Rayburn House Office Building

Chairman Diaz-Balart, Ranking Member Price, 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 Department's top management and performance challenges and my office's oversight of its programs and operations. As part of this written testimony we ask that the attached report entitled, "Inspector General's Statement Summarizing the Major Management and Performance Challenges Facing the U.S. Department of Housing and Urban Development for Fiscal Year 2017 and Beyond," dated October 17, 2016, be made part of the record.

#### The Department's Primary Mission

The Department's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. It accomplishes this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties. It also oversees HUD-approved lenders that originate and service FHA-insured loans and Government National Mortgage Association (Ginnie Mae) mortgage-backed security issuers that provide mortgage capital. HUD relies on many partners for the performance and integrity of a large number of diverse programs. Among these partners are financial institutions that have delegated authority to issue FHA-insured mortgages, cities that manage HUD's Community Development Block Grant funds, public housing agencies (PHA) that manage assisted housing funds, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs.

#### The Office of Inspector General's Primary Mission

The Office of Inspector General's (OIG) mission is to prevent and detect fraud, waste, abuse, and mismanagement in more than 300 programs and operations of the Department, but it also helps to promote economy, efficiency and effectiveness as well. We accomplish this by conducting independent, objective, and impactful audits, evaluations, and investigations. HUD OIG also plays a critical role in its information security, cybersecurity and program oversight for two HUD programs that contain sensitive private information relating to the multi-trillion dollar portfolios of the FHA and Ginnie Mae. Both programs have played imperative roles in supporting the national economy particularly during and after the economic downturn in 2008.

*Just this last year, HUD OIG's contribution realized financial benefits to the government of nearly \$8.5 billion, which represents a leading return on investment of 67 to 1 for every dollar spent on our work.* The work performed by our staff provides the means to keep the Secretary and the Congress fully and currently informed about the Department's problems and deficiencies while also highlighting best practices. We also make recommendations to improve operations and follow up with departmental officials on corrective actions.

We are committed to reducing fraud at the outset or at least halting it at the earliest opportunity. Protecting taxpayer dollars is one of the Inspector General's highest priorities in order to account for money going to the right place, doing what it was supposed to do, and having the results it was intended to have. We actively pursue financial and other fraud schemes in all of HUD's programs that can have a significant economic impact often at the expense of the American taxpayer.

#### Key Management and Performance Challenges Facing the Department

In October 2016, OIG reported on ten key management and performance challenges facing the Department for fiscal year 2017 and beyond. The Department's management challenges are so interrelated that, in many cases, the Department will not be able to remedy one without first correcting another. This becomes a taxing challenge to determine which corrective action needs to come first or whether several need to be addressed simultaneously. Achieving HUD's mission continues to be an arduous task for its limited staff, given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing programs. The report discusses our assessment of ten key management and performance challenges facing HUD, which are:

1. Human capital management and financial management governance,
2. Financial management systems,
3. Digital Accountability and Transparency Act compliance,
4. Weaknesses in information technology security control,
5. Single-family programs,
6. Community planning and development programs,
7. Public and assisted housing program administration,
8. Administering programs directed toward victims of natural disasters,
9. Departmental enforcement, and
10. Operational and financial reporting challenges affecting Ginnie Mae.

For purposes of this testimony, however, I would like to highlight the most critical challenges which need to be corrected as soon as possible as they impact HUD's ability to address the remaining management challenges and ensure that the Department is operating effectively.

#### Human Capital Management and Financial Management Governance

For many years, one of HUD's major challenges has been to effectively manage its limited staff to accomplish its primary mission. HUD continues to lack a valid basis for assessing its human resource needs and allocating staff within program offices. Several studies have been completed on HUD's use of human capital by the U.S. Government Accountability Office (GAO) that point to a lack of human capital accountability and to insufficient strategic management as pervasive problems at HUD. To some extent, these human capital challenges have contributed to HUD's inability to maintain an effective financial management governance structure, which we have reported on for the last 3 years and which contributed to our issuing disclaimers of opinion as part of our annual audits of HUD's financial statements.

HUD continues to struggle with issues such as (1) the General Schedule classification system, (2) mission-critical skills gaps, (3) performance management, and (4) employee engagement. More than 43 percent of HUD career permanent employees onboard as of September 30, 2014, will be eligible to retire by 2019. Given this statistic, HUD will need to ensure that it has steps in place to fill the critical skills gap needed to ensure continuity of business and mission fulfillment.

#### Financial Management Governance of HUD

HUD continues to struggle to establish and implement effective financial management governance as required by the Federal Managers' Financial Integrity Act of 1982 and the Chief Financial Officers Act of 1990. In our latest financial statement audit report, we expressed a disclaimer of opinion due to HUD's inability to deliver its financial statements in a timely manner and other unresolved audit matters. In addition, in our report on internal control, we reported eleven material weaknesses, seven significant deficiencies in internal controls, and five instances of noncompliance with applicable laws and regulations.<sup>1</sup> Several of the other material weaknesses and significant deficiencies had causes that were attributed in part to weaknesses in HUD's financial management governance structure. HUD has been unable to receive an opinion on its financial statements for the past three years.

#### Weak Internal Controls Over Financial Reporting Led to Errors and Delays in the Preparation of Financial Statements and Notes

The absence of key financial staff with appropriate skills, background and knowledge to oversee the preparation of HUD's financial statements continues to contribute to the persistence of disclaimers in the Department's annual financial statement audits and will do so for the foreseeable future until the skillset is

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<sup>1</sup> Audit Report 2017-FO-0004, Fiscal Years 2016 and 2015 (Restated) U.S. Department of Housing and Urban Development Consolidated Financial Statements Audit, November 18, 2016.

onboard. As a further consequence, this year the Department had to reissue its fiscal year 2016 and 2015 consolidated financial statements due to material errors and other discrepancies.

On November 15, 2016, we reported that HUD was unable to provide final financial statements and accompanying notes in time for OIG to obtain sufficient, appropriate evidence that they were free from material misstatement. The delays were due to insufficiently designed and implemented financial reporting processes and internal controls relating to HUD's transition of its core financial system to a shared service provider. Additionally, late restatements performed by HUD's component entities, FHA and Ginnie Mae, contributed to the delay in providing final consolidated financial statements. For these and other reasons, we were unable to provide an opinion on HUD's fiscal year 2016 and 2015 financial statements.

Despite having to disclaim on HUD's fiscal year 2016 and 2015 financial statements and notes, OIG continued its review of the financial statements and notes and identified additional material errors and misstatements. The results of that review are contained in a recently released report and provide updates to the material weakness reported previously. The financial statements and accompanying notes contained material errors totaling \$557 million and \$278.5 billion, respectively. We identified significant differences in amounts presented between what was submitted to us on November 10, 2016 and certified by HUD as its "final" consolidated financial statements and what was published in HUD's 2016 Agency Financial Report (AFR) just five days later.

We also identified differences of \$19.5 billion in amounts presented in three note disclosures between what was submitted to us for audit and what was published in HUD's AFR. The errors occurred due to weaknesses in HUD's internal controls over financial reporting. OIG notified HUD management in early December 2016 and requested that they perform their own review. HUD concluded their review and agreed with OIG that the errors contained in the financial statements warranted the need to reissue the statements in order to correct the errors. HUD withdrew its AFR and reissued its final AFR "as of March 1, 2017." While HUD attributed the reissuance to the need "...to address presentation issues," in reality, the revisions to the financial statements were the result of the need to correct material and pervasive errors.

We found that well over half of the financial statement notes contained errors with an approximate absolute value totaling \$278.5 billion. Of the \$278.5 billion in errors, \$159.4 billion was due primarily to (1) incorrect data entry, (2) omission of restated balances, or (3) incorrect data provided by HUD's component entities (FHA and Ginnie Mae). The remaining \$119.1 billion were due to inappropriate rounding adjustments. We found several instances in which rounding was performed to the nearest billion and hundred billion instead of the nearest million as required. This practice caused amounts to not agree with supporting files or underlying FHA and Ginnie Mae information. Some of the errors identified flowed through to other note line items or note columns and caused errors in the totals presented. The absolute value of these additional errors was not included in our total.

#### **Transition to a Federal Shared Services Provider for Financial Management Services and a Policy and Procedure Framework**

The errors with financial audit reports described above occurred because of an inability to design and implement an adequate system of internal controls over financial reporting necessary to mitigate the challenges and risks in its complex financial reporting process. These challenges and risks were exacerbated with the transition of HUD's legacy general ledger application to a shared service provider. As discussed below in my testimony, this move replaced known processes with undefined or untested processes. The transition also increased the workload on HUD's financial reporting division, and in an attempt to remedy the issue, HUD's management outsourced some of its roles to staff and contractors who were unfamiliar with HUD's financial reporting processes and did not receive adequate training. Rushed implementation in order to meet transition deadlines set by management and inadequate monitoring contributed to the problems despite warnings that processes were not proceeding well.

During 2016, GAO and OIG reported on a number of issues related to this transition and have attributed the cause of many of these issues to weaknesses in governance including outdated or incomplete policies and procedures and a lack of adequate information and communication among key groups. Program office accounting policies and procedures had at times been developed without adequate input from the Office of the Chief Financial Officer (OCFO) due to broad delegation to program office personnel. HUD also lacked documented policies to ensure the quality and consistency of program evaluations. To improve the continuity of accounting policies and procedures in a changing environment, policies and procedures should be centrally located and easily accessible to staff. The lack of a policy framework has hindered, and will continue to hinder, efforts to adapt to changes in a timely manner.

#### **Financial Management Systems**

Annually since 1991, OIG has reported on the 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. HUD has been working to replace its current core financial management system since fiscal year 2003. The previous project, the HUD Integrated Financial Management Improvement Project (HIFMIP), was based on plans to implement a solution that replaced two of the applications currently used for core processing. In March 2012, work on HIFMIP was stopped, and the project was later canceled. This attempt to use a commercial shared service provider to start a new financial management system failed after more than \$35 million was spent on the project. Our review determined that OCFO did not properly plan and manage its implementation of the project.

#### **New Core Project**

In the fall of 2012, HUD started the widely publicized "New Core" Project to move its core financial system to a shared service provider at another Federal agency, the first cabinet-level agency to do so. We have completed four audits of this project. The most recent, published in February 2017,<sup>2</sup> found that HUD's transition to the federal shared service provider did not significantly improve the handling of its financial management transactions. Weaknesses identified with the controls over the New Core Interface Solution and the conversion to the federal shared service provider's procurement application contributed to this issue. A year after the transition, HUD had inaccurate data resulting from the conversions and continued to execute 97 percent of its programmatic transactions using legacy applications. The transition increased the number of batch processes required to record programmatic financial transactions and introduced manual processes and delays for budget and procurement transactions. In addition, the interface program that allowed for and translated the financial transactions between HUD and the federal shared service provider was not covered under HUD's disaster recovery plan.

These conditions occurred because of funding shortfalls (due to delays because of a non-submission by HUD of an expenditure plan and to cuts in modernization and enhancement funding) as well as HUD's decisions to (1) separate phase I of the project into smaller releases, (2) move forward with the implementation despite unresolved issues, and (3) terminate the project before its completion. These system issues and limitations inhibited HUD's ability to produce reliable, useful, and timely financial information. While HUD management considered its New Core Project implementation successful, we differ in our assessment. HUD acknowledged that all of the originally planned capabilities were not deployed. Moreover, HUD will need to pursue new projects to address the functionalities that were not achieved, requiring additional time and funding. In April 2016, HUD ended the New Core Project after spending \$96.3 million; however, the transition did not allow HUD to decommission all of the applications it wanted to or achieve the planned cost savings.

Since 2003, HUD has spent more than \$131 million on two separate projects to replace its core financial system. HUD encountered significant challenges with its transition to the shared service provider. Funding shortfalls as well as the impact of HUD's decisions regarding the project ultimately impaired the

<sup>2</sup> Audit Report 2017-DP-0001, HUD's Transition to a Federal Shared Service Provider Failed to Meet Expectations, February 1, 2017



effectiveness of HUD's internal controls and the efficiency and effectiveness of its operations. Despite evidence that HUD was not prepared to transition key functions without putting departmental operations in possibility of disruption, financial management and information technology governance weaknesses led management to disregard or underestimate the risks at hand. As HUD assesses future financial management improvements, it needs to ensure that each project is properly planned and managed, its objectives are sequentially met during implementation, and additional funding spent is appropriate. Our findings were consistent with conclusions reached in two GAO reports, one issued in July 2016<sup>3</sup> and the other in February 2017.<sup>4</sup>

### **Outdated Information Technology Systems**

Overall, funding constraints diminished HUD's ability to integrate updated application systems and replace and deactivate legacy systems. Limited progress has been made in modernizing applications and enhancing capabilities to replace manual processes. As a result, many legacy systems remain in use. As workloads continue to gain complexity, it becomes challenging to maintain these legacy systems, which are 15 to 30 years old, and ensure that they can support the current market conditions and volume of activity. The use of aging systems has resulted in poor performance, high operation and maintenance costs, and increased susceptibility to security breaches. As part of our annual review of information systems controls in support of the financial statements audit, we continue to report weaknesses in internal controls and security regarding HUD's general data processing operations and specific applications. The effect of these weaknesses is that the completeness, accuracy, and security of HUD information is at risk of unauthorized access and modification. As a result, HUD's financial systems continue to be at risk of compromise.

HUD's voucher and project-based Section 8 and public housing programs accounted for 78 percent of HUD's 2016 enacted discretionary budget authority of \$47.2 billion. Also, HUD's FHA program has insured more than 33.5 million mortgages valued at more than \$3.8 trillion since 1980. HUD has 20 major information systems supporting the management of those programs, and those systems contain in excess of 300 million records on program recipients – with data fields that include Social Security numbers; birth dates; address history; income; financial; dependent; and in those cases in which disability and medical status is considered, health-related data. In short, the management information systems supporting these four critically important HUD programs contain personally identifiable information for all American citizens who received HUD-sponsored housing assistance, lived in public housing, and obtained an FHA-insured mortgage, including such information on all dependents within those households.

We are also concerned about the current state of FHA's information technology (IT) systems and the lack of systems capabilities and automation to respond to changes in business processes and the IT operating environment. In August 2009, FHA completed the Information Technology Strategy and Improvement Plan to address these challenges, 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 relating to FHA's single-family program. The FHA transformation initiative was intended to improve the Department's management of its mortgage insurance programs through the development and implementation of a modern financial services IT environment. The modern environment was expected to improve loan endorsement processes, collateral risk capabilities, and fraud prevention. However, to date, few initiatives have been completed because of a lack of funding. The transformation team is in operations and maintenance mode for the few initiatives that have been implemented and has limited capability to advance with the project due to the continued lack of funding.

<sup>3</sup> Report GAO-16-656, Financial Management Systems – HUD Needs to Address Management and Governance Weaknesses That Jeopardize Its Modernization Efforts, July 2016

<sup>4</sup> Report GAO-17-281, Information Technology – HUD Needs to Address Significant Weaknesses in Cost Estimating Practices, February 2017

### **Digital Accountability and Transparency Act Compliance**

One of the Department's major emerging management challenges is compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act). In our August 2016 DATA Act readiness review, we found that HUD was not on track to meet the DATA Act's requirements.<sup>5</sup> The DATA Act builds on agency transparency reporting requirements established by the Federal Funding Accountability and Transparency Act of 2006 (FFATA) and has an implementation date of May 2017. HUD's efforts to comply with the DATA Act have been hindered by management turnover and indecision, resource limitations, and disparate IT systems that reside on different platforms with dissimilar data elements.

### **Compliance Milestones and Human Resource Limitations**

Key HUD milestones have been delayed. Specifically, HUD had not completed its inventory of data elements or the mapping of agency data to the DATA Act schema as of December 16, 2016. To assist agencies with implementation, OMB and Treasury issued a playbook with eight key steps to help agencies fulfill the requirements of the DATA Act, and OMB issued a memorandum detailing key guidance. HUD's project plan dates for milestones, including completing an agency data element inventory or mapping agency data to DATA Act schema, significantly exceeded previous Treasury and OMB guidance, and according to GAO, HUD's project plan dates may not have been sufficiently reviewed and approved by OMB and Treasury.<sup>6</sup> HUD submitted updated implementation plans to OMB and Treasury in August 2016.

Competing departmental priorities such as HUD's transition to a shared service provider for financial management services have worsened existing resource limitations. Human capital resources are limited compared to the level of effort required to modify systems and perform the required data inventory and mapping. While Treasury may provide resources to supplement HUD's resources and support HUD's compliance efforts, substantial challenges remain.

### **Information System Weaknesses and Data Quality Issues**

HUD has experienced challenges with DATA Act (and FFATA) implementation due to the Department's reliance on many financial systems with differing technologies and data elements. To provide quality spending data, agencies will be required to make available financial obligation and outlay data and award-level data based on agency financial systems. As we have previously reported in our annual financial statement audit, HUD's legacy systems have hindered efficient and effective financial reporting. As the DATA Act requires the use of agency financial systems, many of the issues reported in the financial systems management challenge also apply.

In addition, HUD has been unable to resolve data quality issues that have impeded the complete and accurate reporting of departmental contract, grant, loan, and other financial assistance awards in [USAspending.gov](http://USAspending.gov). We concluded that data quality issues limited HUD's ability to map agency data to the established DATA Act schema, including assigning the Federal Award Identification Number.

### **Weaknesses in Information Technology Security Controls**

As touched on briefly earlier in discussions of IT systems, HUD conducts hundreds of thousands of transactions with the American public daily and is responsible for safeguarding hundreds of millions of records containing the personal information of private individuals. However, HUD continues to face both long- and short-term challenges as it strives to modernize its legacy systems, adequately secure its IT infrastructure, and properly protect sensitive data. HUD has not adequately planned for its future IT and IT security needs. One of two primary HUD infrastructure services contracts was recently re-awarded using a long-term sole-source contract, while the second has been in a period of transition since fiscal year 2014, creating risk for HUD. Further, a significant number of critical HUD applications are legacy systems that

<sup>5</sup> 2016-FO-0802, Independent Attestation Review: U.S. Department of Housing and Urban Development, DATA Act Implementation Efforts, dated August 26, 2015

<sup>6</sup> GAO-16-698, DATA Act – Improvements Needed in Reviewing Agency Implementation Plans and Monitoring Progress, July 29, 2016

are increasingly difficult to maintain and present security risks that HUD will be challenged to mitigate without modernization. More than 400 HUD IT products are running on unsupported platforms, increasing the risk of unknown and unpatchable vulnerabilities. Legacy systems are difficult or unable to migrate to cloud technology, further complicating HUD's long-term efforts to modernize and secure its systems and data while creating efficiencies and cost savings.

HUD has taken some initial steps to address these long-term challenges. HUD realigned the functions of the Office of the Chief Information Officer (OCIO) to better support the business of the Department and filled several key positions. However, we are concerned that turnover in IT leadership roles, including that of the enterprise architect, the vacancy of the IT Chief Operations Officer position since December of 2014, the retirement of the Chief Information Security Officer in March 2017, and the conclusion of the CIO's tenure in January 2017, will impinge HUD's momentum. Major HUD initiatives have been negatively impacted by recent turnover in key positions and loss of technical expertise.

HUD has begun key initiatives, such as the development of several long-term plans, including an enterprise architecture roadmap aimed in part to guide modernization efforts; a Cybersecurity Framework to address IT security program deficiencies; and a recently implemented enterprise incident handling program to improve security incident detection capabilities. However, notable change and implementation of these initiatives are not anticipated to be fully realized until fiscal year 2017 and beyond with parts of the enterprise architecture roadmap being halted and re-planned. Successful implementation of these plans will be directly dependent upon HUD's ability to instill accountability, implement performance measures, and obtain adequate technical expertise and resources. In the process of outsourcing infrastructure and application maintenance and support, HUD has divested itself of much of its own technical expertise and continues to face significant staffing challenges. For example, an organizational chart provided to OIG during its fiscal year 2016 Federal Information Security Modernization Act (FISMA) evaluation showed that 16 of the 36 key IT managerial and supervisory positions stationed at HUD headquarters were either vacant (11) or filled by temporary "acting" personnel (5) during fiscal year 2016 and continues to be the case in the first quarter of fiscal year 2017. This condition significantly challenges HUD's ability to manage and perform vendor oversight of its technology infrastructure and conduct technical assessments. It has also resulted in HUD's extensive dependence on decentralized IT contracts throughout the HUD IT environment.

Our annual evaluation of HUD's IT security program for fiscal year 2016, as mandated by FISMA, revealed continual IT security improvements, but extensive noncompliance with Federal IT guidance continues. As shown in OIG's fiscal year 2016 FISMA report, HUD was 60 percent compliant with the FISMA metrics on which OIG reports to OMB, compared to 46 percent compliant in fiscal year 2015. HUD showed progress in several of the eight FISMA reportable domains, however, HUD continues to have an extensive lack of effectiveness (less than 50 percent) in the risk management and contractor systems oversight programs. HUD is showing some progress in remediating these deficiencies, however, it has 59 open FISMA evaluation recommendations spanning several FISMA evaluations from 2013 through 2016. These recommendations need to be addressed to rectify longstanding security weaknesses. Further, the privacy program has an additional 21 open recommendations for the fiscal years 2013 through 2016 evaluation period, with no progress made on those recommendations within the last fiscal year.

To ensure improvement in the above areas and reduce vulnerabilities to the IT security environment, all HUD program offices will need to collaborate effectively and establish ownership and oversight of IT security controls. HUD's fiscal year 2016 IT funding decreased 16.3 percent from fiscal year 2015 and again decreased another 16 percent for fiscal year 2017, which continues to impact agency modernization and IT security efforts. With the constrained budgets and the hiring freeze, HUD will be challenged to fund the operation of current systems while also initiating projects to upgrade legacy applications and improve security.

Further, our evaluations have revealed a lack of enterprise risk management, which directly affects HUD's ability to manage all IT risks using a holistic framework and hinders HUD's IT modernization efforts.

HUD's OCIO had begun addressing this weakness by developing an IT Risk Management Office, but unless HUD develops an enterprise-wide risk management program with one management approach, it will not be able to appropriately prioritize all IT risks.

#### **Single-Family Programs**

FHA's single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, and other underserved households to benefit from home ownership. HUD manages a growing portfolio of single-family insured mortgages exceeding \$1.2 trillion. Effective management of this portfolio represents a continuing challenge for the Department.

#### **Preserving the FHA Fund**

Before fiscal year 2015, FHA's insurance fund had been below its legislatively mandated 2 percent capital ratio for the previous 6 years. However, beginning in fiscal year 2015, the fund met its threshold target capital ratio once again.<sup>7</sup> According to the 2016 actuarial study, the fund had an estimated economic value of \$35.27 billion. Based on the 2016 projections, the fund is expected to maintain a capital ratio above the threshold limit and will gradually build reserves over time if the forecasted trend continues. Restoring the fund's reserves and finances has been a priority for HUD, and it has increased premiums, reduced the amount of equity that may be withdrawn on reverse mortgages, and taken other steps to restore the financial health of the fund.

The Department must make every effort to prevent or mitigate fraud, waste, and abuse in FHA loan programs. OIG continues to take steps to help preserve the FHA insurance fund and improve FHA loan underwriting by partnering with HUD, the U.S. Department of Justice, and multiple U.S. Attorney's offices nationwide in a number of FHA lender civil investigations. In some instances, these investigations involve, not only the underwriting of FHA loans, but also the underwriting of conventional loans and government-insured loans related to Federal programs other than FHA. For those investigations that involved OIG's assistance on the FHA-related part of the cases, the Government has reached civil settlements yielding more than \$14.6 billion in damages and penalties in the last 5 fiscal years.

For the FHA-insured loans, results in the last 5 fiscal years have shown that a high percentage of loans reviewed should not have been insured because of significant deficiencies in the underwriting. As a result, the Government has reached civil settlements regarding FHA loan underwriting totaling \$4.9 billion for alleged violations of the False Claims Act; the Financial Institutions Reform, Recovery, and Enforcement Act; and the Program Fraud Civil Remedies Act. Nearly \$3.2 billion of the \$4.9 billion is of direct benefit to the FHA insurance fund. Ongoing investigations are expected to lead to additional settlements that will significantly help recover losses to the FHA insurance fund.

#### **Monitoring Lenders and FHA Claims**

In spite of some positive steps, we remain concerned about HUD's resolve to take the necessary actions going forward to protect the FHA insurance fund. HUD is often hesitant to take strong enforcement actions against lenders because of its competing mandate to continue FHA's role in restoring the housing market and to ensure the availability of mortgage credit and continued lender participation in the FHA program.

#### **Downpayment Assistance and Premium Pricing**

As a result of a referral from the Department and through the course of four audits,<sup>8</sup> we learned about, and continue to be concerned with, a funding arrangement for downpayment assistance to FHA borrowers,

<sup>7</sup> Our calculation of the capital ratio was based the information we obtained from FHA's final actuarial report, published in November 2015, and using the amortized insurance-in-force as the denominator.

<sup>8</sup> Audit Report 2015-LA-1010, LoanDepot's FHA-Insured Loans With Golden State Finance Authority Downpayment Assistance Gifts Did Not Always Meet HUD Requirements, September 30, 2015; Audit Report 2015-LA-1009, LoanDepot's FHA-Insured Loans With Downpayment Assistance Funds Did Not Always Meet HUD Requirements, September 30, 2015; Audit Report 2015-LA-1005, NOVA Financial & Investment Corporation's FHA-Insured Loans

which we believe violates the National Housing Act regarding prohibited sources for downpayment assistance. Specifically, we learned that NOVA and loanDepot had entered into triparty agreements among the FHA lender, a housing finance agency (HFA), and U.S. Bank, a Ginnie Mae issuer. These agreements were part of a scheme in which the HFA would provide downpayment assistance in a grant or loan to the borrower. The FHA lender would provide the primary financing to the borrower in the form of an FHA-insured loan, which included the downpayment assistance at closing. Upon origination, the FHA loan would be sold to U.S. Bank, which would reimburse the FHA lender for the downpayment, securitize the mortgage loan through Ginnie Mae security, and service the mortgage. Although not a party to the FHA loan, the HFA required the FHA lender to inflate the interest rate on the loan.

The HFA providing the downpayment assistance had previously determined what interest rate above the market interest rate would be necessary on the FHA loan to net a premium payment from the investor when the loan was securitized. The HFA uses funds generated from the sale of the security to reimburse U.S. Bank for the downpayment and pay other program-related fees. The HFA, U.S. Bank, and the FHA lender agreed to charge the borrower additional securitization, administration, and tax fees as part of the origination totaling \$300-\$600, which would not have otherwise been paid on the lower interest rate mortgage. We determined that U.S. Bank had similar agreements with FHA lenders and HFAs around the country.

Since the issuance of the first and later similar audits, we have attempted to resolve the findings and recommendations with the Department to no avail. HUD has failed to recognize disturbing parallels to the seller-funded downpayment assistance arrangements practiced from the late 1990s to 2008, which caused wide-scale problems for FHA that continue to be felt today (see earlier discussion relating to the FHA fund's capital ratio going below statutorily mandated levels and it's multi-year effort to recover). On May 25, 2016, the Department issued its decision regarding our disagreement over the HFA's downpayment assistance and premium pricing in the NOVA audit. The decision relied heavily on a HUD, Office of General Counsel, legal opinion released publicly by HUD in the middle of our audit work that did not review the specific details or funding structure of borrower-financed downpayment assistance arrangements. Instead, the legal opinion was meant to opine on HFAs as permissible sources of downpayment assistance since they are government entities. The opinion also failed to provide what would give HUD the legal authority through rulemaking and policy interpretation to ignore specific congressionally enacted statutory requirements. While HFAs are permissible sources, we continue to strongly disagree with HUD's opinion because it ignored the main issue that downpayment assistance provided or reimbursed directly or indirectly by a party that benefits financially from the transaction is expressly prohibited under statute and negatively affects the borrower.

HUD's requirements, guidelines, and interpretations on downpayment assistance from government entities allow for increased risk to the FHA Single Family Mortgage Insurance program and have enabled the creation and growth of questionable borrower-financed downpayment assistance schemes. Current requirements and guidelines provide little oversight and give HFAs broad access to the FHA program that other entities do not have. For example, a comparison of Handbook 4155.1 provisions in effect at the time of the OIG audits to the provisions in Handbook 4000.1, which were modified during the pendency of the OIG audit work, reveals major changes in policy. Handbook 4000.1 was modified to strictly define premium pricing and eliminated the prohibition on premium pricing as a source of funds for the borrower's minimum required investment that was previously in Handbook 4155.1.

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With Downpayment Assistance Gifts Did Not Always Meet HUD Requirements, July 9, 2015; and Audit Report 2017-LA-0003, HUD Failed To Adequately Oversee FHA-Insured Loans With Borrower-Financed Downpayment Assistance, March 3, 2017

## Public and Assisted Housing Program Administration

### Environmental Review Requirements

HUD has a duty to ensure that its projects are free of environmental hazards. As a result of recent OIG reports,<sup>9</sup> HUD began providing more training to staff and grantees and implemented processes to improve its training program and curriculum to better support all program areas. Also, HUD was piloting a recently developed electronic data system, HUD's Environmental Review Online System (HEROS), which is part of HUD's transformation of IT systems. HEROS will convert HUD's paper-based environmental review process to a comprehensive online system that shows the user the entire environmental process, including compliance with related laws and authorities. It will allow HUD to collect data on environmental reviews performed by all program areas for compliance. HUD's Office of Environment and Energy has also implemented an internal process within HEROS to track findings, which will allow the program areas to focus training on recurring issues. Risk-based compliance monitoring by HUD's field staff will target the highest risk PHAs and responsible entities based on identified factors and will result in improved compliance with environmental review requirements as well as align Public and Indian Housing with previously OIG-endorsed models within HUD.

While HUD has made improvements, it faces several challenges, including a lack of resources, unclear guidance, and a perceived lack of authority to impose corrective actions or sanctions on responsible entities. Until HUD fully addresses these needed improvements, inadequate environmental reviews may contribute to an increased risk in the health and safety of the public and possible damage to the environment. For the five Office of Public Housing field offices we visited, PHAs spent almost \$405 million for activities that either did not have required environmental reviews or had reviews that were not adequately supported.

We are auditing HUD's oversight of safe water requirements for FHA-insured loans nationwide. We're conducting the audit because recent news reports have identified elevated levels of lead contamination in water across the country and our recent audit of HUD's oversight of FHA-insured loans on properties in Flint, MI determined that HUD did not ensure that lenders verified that properties in Flint that were approved for FHA mortgage insurance had a continuing and sufficient supply of safe and potable water. Our audit objective is to determine whether HUD provided sufficient guidance and oversight to ensure that properties approved for mortgage insurance had a continuing and sufficient supply of safe and potable water. As part of the audit, we are reviewing Federal guidance regarding water quality issues and the requirements for public notifications, relevant news reports, relevant reports from GAO and Environmental Protection Agency, and publicly available information about water systems that have found elevated levels of lead in tap water. We also plan to review a sample of loan files for properties that are served by seven water systems for which we identified publicly available notifications of water contamination. Our review will determine whether the files contain evidence of water testing or other discussion related to the water quality.

### Operational and Financial Reporting Challenges Affecting Ginnie Mae

Managing counterparty risks and strengthening Ginnie Mae's financial management accountability have been and continue to be the major challenges affecting Ginnie Mae in fiscal year 2016 and in the coming

<sup>9</sup> Audit Report 2015-FW-0001, HUD Did Not Adequately Implement or Provide Oversight To Ensure Compliance With Environmental Requirements, June 16, 2015; Audit Report 2014-FW-0005, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Detroit Office, September 24, 2014; Audit Report 2014-FW-0004, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Greensboro Office, July 14, 2014; Audit Report 2014-FW-0003, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Columbia Office, June 19, 2014; Audit Report 2014-FW-0002, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Kansas City Office, May 12, 2014; and Audit Report 2014-FW-0001, The Boston Office of Public Housing Did Not Provide Adequate Oversight of Environmental Reviews of Three Housing Agencies, Including Reviews Involving Recovery Act Funds, February 7, 2014

years. Key factors that contributed to these challenges include the rise of nonbanks, lack of resources, inadequate financial systems, and lack of a fully functioning financial management governance framework.

### **Managing Counterparty Risks**

Ginnie Mae mortgage-backed securities (MBS) are the only such securities to carry the full faith and credit guaranty of the United States Government. If an issuer fails to make the required pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility to do so.

### **Monitoring of Nonbank Issuers Presents Challenges for Ginnie Mae**

By the end of fiscal year 2016, Ginnie Mae had made guaranties on loans with a remaining principal balance (RPB) of approximately \$1.73 trillion. Through these guaranties, Ginnie Mae facilitates capital inflows to the U.S. housing market. Since 2010, Ginnie Mae's RPB has grown by approximately 62 percent. During this time, Ginnie Mae's business has increasingly relied on nonbanks, which now represent a majority of issuances annually.<sup>10</sup> As OIG and Ginnie Mae have previously noted, the increase in the number of nonbank issuers and their complexity present a challenge for monitoring efforts. We are highlighting monitoring challenges in a recently issued Topic Brief so HUD leadership is aware of, and can be better prepared, to address them. It is imperative that Ginnie Mae has the appropriate staffing with the skills, knowledge, and abilities to monitor nonbanks. OIG is focusing on Ginnie Mae's capacity to monitor nonbanks with an ongoing audit.

### **Financial Reporting Challenges**

Although Ginnie Mae has made progress in financial management governance issues in fiscal year 2016, there remain significant issues. For the third year in a row, our annual financial statement audit resulted in a disclaimer of opinion due to Ginnie Mae's nonpooled loans assets being unauditale. In 2016, Ginnie Mae acknowledged that these asset balances are not supportable and not in accordance with generally accepted accounting principles. Ginnie Mae has reengaged its financial reporting and audit readiness contractor to assist in the development of its loan-level accounting system and related infrastructure.

With the approval of OMB and Congress, Ginnie Mae has significantly increased its management capacity. The total number of Ginnie Mae full-time employees increased from 89 in fiscal year 2012 to 140 at the end of fiscal year 2016. However, Ginnie Mae continues to have issues with staffing. Ginnie Mae continues to rely heavily on third-party contractors to perform almost all key operating loan servicing, pool processing, and other functions. It is vital to the country's larger financial health that Ginnie Mae be able to significantly increase staffing and benefit from a pay structure that will allow it to attract and hire individuals with the needed skills, knowledge, and abilities to manage a multi-trillion-dollar program.

The underlying accounting problems that are preventing Ginnie Mae from obtaining an unqualified audit opinion will continue until accounting policies and procedures have been finalized and fully implemented and Ginnie Mae is appropriately staffed with the needed skills to manage its accounting requirements. Ginnie Mae will continue to face challenges in this dynamic environment due to the shift in its business model. Ginnie Mae and HUD have yet to adequately respond to this new concept and properly mitigate these risks by implementing a sound infrastructure and control environment. Ginnie Mae has stated that it would require a significant investment in technology, infrastructure, and people spanning multiple years to make its significant financial assets auditale. HUD and Ginnie Mae need to engage with Congress to lay out priorities, accelerate needed human capital and infrastructure improvements, and mitigate risks faced by Ginnie Mae.

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<sup>10</sup> GAO has defined banks as "bank holding companies, financial holding companies, savings and loan holding companies, insured depository institutions, and credit unions, including any subsidiaries or affiliates of these types of institutions." Nonbanks are any other entities.

## **Work Where the Department and the OIG Collaborate to Ensure Oversight and Compliance with Rules and Regulations**

### **OIG – Public and Indian Housing (PIH) Collaboration: Monitoring Small and Very Small Housing Agencies**

HUD faces challenges in monitoring PHAs when more than 2,000 of its 3,000 PHAs are small or very small. Since these PHAs receive approximately 12 percent (or an estimated \$732 million) of HUD's \$6.1 billion in low-rent authorized funding, it creates oversight burdens and costs for both HUD and PHAs that are disproportionate to the number of families these PHAs serve. In a recent report,<sup>11</sup> we found that a significant cause of the deficiencies identified in small and very small PHAs was that executive directors and boards of commissioners either chose to ignore requirements or lacked sufficient knowledge to properly administer their programs. In 2015, HUD launched an online training course, *Lead the Way*, which is designed to help PHAs' boards and staff fulfill their responsibilities in providing effective governance and oversight. However, we remain concerned that the administrators, board members, and local officials do not have the resources or information available to them to properly administer their programs. Further, we are concerned that without additional oversight or outreach, there is increased risk of fraud, waste, and abuse going undetected at these entities.

In an effort to promote awareness and enhance our collaborative work with Ms. Lourdes Castro-Ramirez, then Principal Assistant Secretary, PIH, HUD OIG has issued several industry advisories that highlight areas of risky and illegal activities that jeopardize the integrity of otherwise legitimate housing programs. The advisories are posted on our Web site at [www.hudoig.gov/fraud-prevention](http://www.hudoig.gov/fraud-prevention). Several advisories were directly related to PHAs and were emailed to executive directors. A letter also introduced *Lead the Way*, as a training module for board members and executive staff.

### **OIG-Community Planning and Development (CPD) Collaboration: Monitoring Grantees and Sub-Grantees**

Recently, OIG and CPD began a joint collaboration to assist grantees and subgrantees in the areas in which OIG reported that grantees and subgrantees were most vulnerable. The work group determined that assistance should be provided in the following areas: procurement and contracting; subrecipient oversight; conflicts of interest; internal controls; documentation and reporting, and financial management.

In addition, the Inspector General coauthored a joint letter with Ms. Harriet Tregoning, then Principal Assistant Secretary, CPD, to State and local governments communicating our collaborative effort to encourage efficient operations and effective accountability for the best use of limited resources. We developed a series of "integrity bulletins" aimed at providing the grantees and subgrantees with information to help safeguard program funds and ensure that communities get the full benefit of awarded funding. The bulletins on procurement and contracting, conflicts of interest, and subrecipient monitoring and oversight were sent to grantees and subgrantees during fiscal year 2016, and we continue to draft remaining bulletins. In addition, the published bulletins are posted on our Web site at [www.hudoig.gov/fraud-prevention](http://www.hudoig.gov/fraud-prevention).

### **Audit Disagreements and the Former Deputy Secretary**

Another area of concern that we hope can be resolved with the Department relates to the sharp increase in disagreements with our audit recommendations that were referred to former Deputy Secretary, Nani Coloretti for resolution (under departmental rules the Deputy Secretary is designated to resolve audit disagreements). This occurs when OIG and the responsible HUD assistant secretary or program cannot agree on the actions needed to address our audit recommendations. For a three-year period, from approximately 2012 to 2014, prior to the arrival of former Deputy Secretary Coloretti, the OIG recorded nine audit disagreements. Of those, two were resolved consistent with the OIG's recommendations and

<sup>11</sup> Audit Report 2015-FW-0802, *Very Small and Small Public Housing Agencies Reviewed Had Common Violations of Requirements*, September 16, 2015



seven were ultimately resolved at the lower assistant secretary level, which never required the Deputy Secretary to make a final decision.

In contrast, for a two-year period, from approximately 2015 to 2016, after the arrival of former Deputy Secretary Coloretti until her departure, the number of disagreements sky rocketed to sixteen. Only one was resolved consistent with the OIG's recommendations. In seven cases, the former Deputy Secretary rejected our recommendations and we continue to disagree with the decisions. Only two were resolved at the assistant secretary level and six, which were before the former Deputy Secretary for decision before her departure, remain unresolved. It's noted that two of the disagreements were resolved by the former Deputy Secretary in HUD's favor on the evening before inauguration day of the new administration. I have asked the new administration to revisit the decisions where we continue to disagree. The troubling part is that many of these recommendations are at the heart of addressing HUD's top management and performance challenges.

It is my opinion that the spike in disagreements resulted from a negative culture created by former Deputy Secretary Coloretti and some of her staff that appeared to produce a distrust of the OIG and an atmosphere where career staff were not allowed to work with OIG, as we had always done, to resolve disagreements. These actions took on the appearance of impeding OIG activities by the former Deputy Secretary including denying or delaying us access to needed information. Former Deputy Secretary Coloretti did not honor former Secretary Julian Castro's commitment to the OIG, as reflected in a joint letter signed by both the IG and former Secretary Castro, to work with the OIG and to provide timely records. On at least two occasions, I was forced to advise the former Deputy Secretary that her decisions would require me to issue the former Secretary a seven-day letter<sup>12</sup> for her failing to provide requested documents and records. If not for the intervention of former Secretary Castro and his team, the OIG would have had to issue them. I would like to acknowledge former Secretary Castro for honoring his commitment to good governance, working with the OIG and for seeing to it that records the OIG requested, that were not timely produced, were received for us to complete our oversight responsibilities.

### Conclusion

The Department will continue to face the challenges we have described until it puts controls and resources in place to address these issues. We remain committed to working collaboratively with HUD and will continue to strive to provide best practices and reasonable recommendations that support HUD's mission and responsibilities. My office is also strongly committed to working with the Department and the 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. In closing, I want to share how proud I am of our professional team at the HUD-OIG. We have highly-talented staff covering many varied disciplines that have produced enormous results. Together through the years, we have developed a culture of focusing on impactful and meaningful oversight that has made significant contributions to the American taxpayer and the nation's fiscal interests. It has been an honor for me to serve as HUD's Inspector General.

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<sup>12</sup> The Inspector General Act authorizes an inspector general to report "immediately" to the agency head when the inspector general becomes aware of "particularly serious or flagrant problems, abuses, or deficiencies relating to the administration of programs and operations." In turn, the agency head must transmit the report, along with any comments, to the appropriate committees or subcommittees of Congress within seven calendar days. In practice, this so-called "seven-day letter" is a powerful tool available in compelling circumstances requiring immediate congressional attention.



Inspector General's Statement  
Summarizing the Major Management  
and Performance Challenges Facing  
the U.S. Department of Housing and  
Urban Development for Fiscal Year  
2017 and Beyond

October 17, 2016

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U.S. DEPARTMENT OF  
HOUSING AND URBAN DEVELOPMENT  
OFFICE OF INSPECTOR GENERAL

October 17, 2016

*Memorandum*

TO: Julian Castro  
Secretary, S

FROM:   
David A. Montoya  
Inspector General, G

SUBJECT: Management and Performance Challenges for Fiscal Year 2017 and Beyond

In accordance with Section 3 of the Reports Consolidation Act of 2000, the Office of Inspector General is submitting its annual statement to summarize its current assessment of the most serious management and performance challenges facing the U.S. Department of Housing and Urban Development (HUD or Department) in fiscal year 2017 and beyond. Through our audits, evaluations, and investigations, we work with departmental managers to recommend best practices and actions that help address these challenges. More details of these efforts are included in our Semiannual Reports to Congress.

The Department's primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD accomplishes this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties, oversight of HUD-approved lenders that originate and service FHA-insured loans, and Government National Mortgage Association (Ginnie Mae) mortgage-backed security issuers that provide mortgage capital. HUD relies on many partners for the performance and integrity of a large number of diverse programs. Among these partners are financial institutions that have delegated authority to issue FHA-insured mortgages, cities that manage HUD's Community Development Block Grant funds, public housing agencies that manage assisted housing funds, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs.

Achieving HUD's mission continues to be an ambitious challenge for its limited staff, given the agency's diverse programs, the thousands of intermediaries assisting the Department, and the millions of beneficiaries of its housing programs. The attachment discusses our assessment of ten key management and performance challenges facing HUD:

1. Human capital management and financial management governance,
2. Financial management systems,
3. Digital Accountability and Transparency Act compliance,
4. Weaknesses in information technology security control,
5. Single-family programs,
6. Community planning and development programs,
7. Public and assisted housing program administration,
8. Administering programs directed toward victims of natural disasters,
9. Departmental enforcement, and
10. Operational and financial reporting challenges affecting Ginnie Mae.

Attachment

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## Introduction and Approach

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### Introduction

The U.S. Department of Housing and Urban Development's (HUD or Department) primary mission is to create strong, sustainable, inclusive communities and quality, affordable homes for all. HUD accomplishes this mission through a wide variety of housing and community development grant, subsidy, and loan programs. Additionally, HUD assists families in obtaining housing by providing Federal Housing Administration (FHA) mortgage insurance for single-family and multifamily properties, oversight of HUD-approved lenders that originate and service FHA-insured loans, and Government National Mortgage Association (Ginnie Mae) mortgage-backed security issuers that provide mortgage capital. HUD relies on many partners for the performance and integrity of a large number of diverse programs. Among these partners are financial institutions that have delegated authority to issue FHA-insured mortgages, cities that manage HUD's Community Development Block Grant (CDBG) funds, public housing agencies that manage assisted housing funds, and other Federal agencies with which HUD coordinates to accomplish its goals. HUD also has a substantial responsibility for administering disaster assistance programs, which has evolved substantially over the years.

### Approach

HUD's Office of Inspector General (OIG) is one of the original 12 Offices of Inspector General established by the Inspector General Act of 1978. While part of HUD, OIG provides independent oversight of HUD's programs and operations. Planning OIG's audits, evaluations, and investigations is a continuing process to focus resources on areas of greatest priority and benefit to the taxpayer and HUD. The broad goal for OIG is to help HUD resolve its major management challenges while maximizing results and providing responsive work.

The process is dynamic in order to address requests and other changes throughout the year. OIG identifies audits, evaluations, and investigations through discussions with program officials, the public, and Congress; assessments of previous audits, evaluations, and investigations; and reviewing proposed legislation, regulations, and other HUD issuances. It also conducts audits, evaluations, and investigations that HUD and Congress request, as well as those identified from OIG's hotline. We work with departmental managers to recommend best practices and actions that help address the management and performance challenges through our audits, evaluations, and investigations.

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## **Human Capital Management and Financial Management Governance**

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For many years, one of HUD's major challenges has been to effectively manage its limited staff to accomplish its primary mission. HUD continues to lack a valid basis for assessing its human resource needs and allocating staff within program offices. Several studies have been completed on HUD's use of human capital by the U.S. Government Accountability Office (GAO) that point to a lack of human capital accountability and insufficient strategic management as pervasive problems at HUD. To some extent, these human capital challenges have contributed to HUD's inability to maintain an effective financial management governance structure, which we have reported on for the last 3 years and which contributed to our issuing disclaimers of opinion as part of our annual financial statement audits of HUD's financial statements.

### **Human Capital Studies**

In May 2015, GAO issued a report based on testimony of GAO work issued from January 2014 through February 2015 and ongoing work related to employee engagement. The testimony focused on key human capital areas in which some actions had been taken but attention was still needed by the Office of Personnel Management (OPM) and Federal agencies on issues such as (1) the General Schedule classification system, (2) mission-critical skills gaps, (3) performance management, and (4) employee engagement. The report provides the retirement rate of Federal civilian employees. In HUD, more than 43 percent of career permanent employees onboard as of September 30, 2014, will be eligible to retire by 2019. Given this statistic, HUD will need to ensure that it has steps in place to fill the critical skills gap to ensure the continuity of business and that it fulfills its missions.

In August 2016, GAO issued a report examining HUD's efforts to (1) meet requirements and implement key practices for management functions, including financial, human capital, acquisition, and information technology (IT) management, and (2) oversee and evaluate programs. GAO found that HUD had made progress in developing new human capital plans and mostly followed key principles and practices for strategic workforce planning, succession planning, and training planning. However, HUD has struggled to maintain current plans as required by OPM regulations. For example, HUD's previous strategic workforce plan expired in 2009, and HUD did not complete the next plan until 2015. HUD has been unable to maintain current plans in part because it lacks a process to help ensure that it reviews and updates the plans before existing plans expire. Regularly assessing and updating these plans would help ensure that HUD has a strategic vision for managing its workforce and addressing human capital challenges.

### **Financial Management Governance of HUD**

HUD's significant management challenge continued in fiscal year 2016 as it struggled to establish and implement effective financial management governance as required by the Federal Managers' Financial Integrity Act of 1982 and the Chief Financial Officers Act of 1990. In our fiscal years 2015 and 2014 financial statement audit report, we issued a disclaimer of opinion

due to unresolved audit matters. In addition, in our report on internal control, we reported nine material weaknesses, eight significant deficiencies in internal controls, and six instances of noncompliance with applicable laws and regulations. One of the material weaknesses directly addressed the shortcomings in HUD's financial management governance, and several of the other material weaknesses and significant deficiencies had causes that were attributed in part to weaknesses in HUD's financial management governance structure.

#### **Senior Management Council**

A National Academy of Public Administration (NAPA) study<sup>1</sup> supported the longstanding OIG recommendation that HUD establish a Chief Financial Officer (CFO) council to enhance its financial governance structure. While HUD had historically resisted recommendations to create a senior management council, the updated Office of Management and Budget (OMB) Circular No. A-123 has changed the establishment of a senior management council from a best practice to a requirement. HUD has indicated that plans for the structure of an enterprisewide oversight group are nearing completion. This is an important step toward addressing HUD's significant financial management governance weaknesses.

#### **Transition to a Federal Shared Services Provider for Financial Management Services and a Policy and Procedure Framework**

The NAPA study team also identified challenges in a number of areas and recommended that HUD take action to address concerns related to HUD's impending transition to a Federal shared services provider (FSSP) for financial management services. OIG followed up with HUD management to follow HUD's progress in addressing study recommendations and found that HUD had not formally evaluated NAPA recommendations and did not have an adequate tracking mechanism in place for recommendations or planned actions. During 2016, GAO and OIG reported on a number of issues related to HUD's transition to an FSSP for financial management services. Both GAO and OIG have attributed the cause of many of these issues to weaknesses in governance.

The governance weaknesses that HUD experienced during its transition to an FSSP for financial management services were due in part to persistent financial management challenges that included outdated or incomplete policies and procedures and a lack of adequate information and communication among key groups. Program office accounting policies and procedures have at times been developed without adequate Office of the Chief Financial Officer (OCFO) input due to broad delegation to program office personnel. HUD also lacks documented policies to ensure the quality and consistency of program evaluations. To improve the continuity of accounting policies and procedures in a changing environment, policies and procedures should be centrally located and easily accessible to staff. The lack of a policy framework has hindered and will continue to hinder efforts to adapt to changes in a timely manner.

#### **Information and Communication**

HUD's information and communication among departments and offices has been a consistent challenge. For example, HUD's current financial management structure relies on the delegation of several key financial management functions to HUD's program offices, including review and

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<sup>1</sup> Department of Housing and Urban Development, Office of Chief Financial Officer, Organizational Assessment, March 19, 2015. [http://napawash.org/images/reports/2015/HUD\\_OCFO\\_Study\\_Final\\_Report.pdf](http://napawash.org/images/reports/2015/HUD_OCFO_Study_Final_Report.pdf)



approval of vouchers, reviews of unliquidated obligations, and various budgetary accounting functions. However, we have found that program-related issues, concerns, and decisions cannot be made without adequate consultation with subject-matter experts, including OCFO, and appropriate consideration of accounting standards. We have attributed the root cause of significant deficiencies and material weaknesses identified in our audits to inadequate consideration of key accounting and financial rules and regulations. For example, we have attributed the material weaknesses cited in our financial statement audit reports related to the Office of Community Planning and Development's (CPD) budgetary accounting for grants and the Office of Public and Indian Housing's (PIH) net restricted asset process to inadequate collaboration with OCFO.

While HUD has taken initial steps to address these issues, substantial work remains. HUD's initial remediation efforts have included memorandums of understanding between OCFO and program offices to improve collaboration and a quarterly management review process chaired by the Deputy Secretary. As noted above, to comply with the updated OMB Circular No. A-123, HUD will also need to establish a senior management council and undertake additional governance efforts.

### **Enterprise Risk Management**

HUD needs to implement processes and procedures to ensure an effective system of internal control, not only for financial management governance, but across the Department within all programs. Effective for fiscal year 2016, HUD will be responsible for implementing OMB's updated Circular No. A-123 and GAO's Standards for Internal Control in the Federal Government<sup>2</sup> (The Green Book). These standards provide the criteria for designing, implementing, and operating an effective internal control system and define specific principles that are integral to an entity's internal control system with a greater focus on operational risks and controls. To effectively implement an enterprise risk management framework, HUD will need to identify operational risks and controls and address the financial management governance challenges identified above.

### **HUD's Use of Intergovernmental Personnel**

Since 2009, HUD has entered into 21 temporary assignments of non-Federal personnel to positions within the Department under the Intergovernmental Personnel Act (IPA). HUD faces challenges in executing and managing the assignment agreements because its processes and responsibilities are divided among program areas of the Department and there is no central point of authority over these agreements. We have already reported on an inherent conflict-of-interest situation and overpayments<sup>3</sup> and a potential Antideficiency Act (ADA) violation involving two IPA assignees.<sup>4</sup> In February 2015, Inspector General Montoya testified at the hearing on "Exploring Alleged Ethical and Legal Violations at the U.S. Department of Housing and Urban Development" before the House Oversight and Investigations Subcommittee regarding one of our IPA assignments. The Inspector General's testimony provided examples of serious

<sup>2</sup> Audit Report GAO-14-704G, Standards for Internal Control in the Federal Government, September 2014

<sup>3</sup> Memorandum number 2015-FW-0801, Intergovernmental Personnel Act Appointment Created an Inherent Conflict of Interest in the Office of Public and Indian Housing, May 30, 2014

<sup>4</sup> Memorandum number 2014-FW-0801, Potential Antideficiency Act Violations Intergovernmental Personnel Act Agreements, May 30, 2014

violations of ethical, lobbying, and hiring violations at HUD in which senior HUD officials had been involved in an effort to mask these embarrassing and questionable activities. Further, investigations revealed the hiring of convicted criminals into key housing positions.

Due to deficiencies identified in the two prior IPA assignments, OIG initiated an audit of HUD's implementation and oversight of the IPA mobility program.<sup>5</sup> We found that HUD failed to ensure that its IPA agreements met the purpose of the Act and were complete and properly reviewed and executed. Also, HUD did not properly manage IPA assignees once they began working at HUD or properly outprocess them when they departed. We are continuing to work with the Department to reach management decisions to resolve all of the recommendations from report 2016-FW-0001. As of July 2016, HUD had issued Handbook 750.1 on its revised policy regarding assignment agreements under the IPA. The policy had been in draft form since 2014.

HUD is making sweeping changes to the way it operates. While new process and technology changes always increase operational risk, HUD's restructuring and reorganization of management and employee roles and responsibilities will further increase that risk. Since a high percentage of employees are nearing retirement eligibility, HUD needs to continue to effectively implement and maintain ongoing and planned human capital management improvements.

#### *Summary of OIG Work*

We continue to monitor the status of progress made in establishing an effective human capital management program at HUD. In addition, we continue to report on the need for improved financial governance. We also reported on an inherent conflict-of-interest situation and overpayments<sup>6</sup> and a potential ADA violation involving two IPA assignees.<sup>7</sup> Inspector General Montoya testified before the House Oversight and Investigations Subcommittee regarding one of our IPA assignments. Our investigative activities revealed the hiring of convicted criminals into key housing positions.

#### **Looking Ahead**

We will continue monitoring the status of progress made in establishing an effective human capital management program, evaluating HUD's progress in improving financial management governance, and monitoring the resolution of our work regarding IPA agreements. In 2016, the number of material weaknesses, significant deficiencies, and instances of noncompliance is likely to remain elevated, and the 2016 financial statement audit opinion is unlikely to change due to the continuing impact of these issues. There remains room for significant improvement in financial management governance.

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<sup>5</sup> Audit Report 2016-FW-0001, HUD Did Not Effectively Negotiate, Execute, or Manage Its Agreements Under the Intergovernmental Personnel Act, March 30, 2016

<sup>6</sup> Memorandum number 2015-FW-0801, Intergovernmental Personnel Act Appointment Created an Inherent Conflict of Interest in the Office of Public and Indian Housing, January 20, 2015

<sup>7</sup> Memorandum number 2014-FW-0801, Potential Antideficiency Act Violations Intergovernmental Personnel Act Agreements, May 30, 2014

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## Financial Management Systems

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Annually since 1991, OIG has reported on the 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. HUD has been working to replace its current core financial management system since fiscal year 2003. The previous project, the HUD Integrated Financial Management Improvement Project (HIFMIP), was based on plans to implement a solution that replaced two of the applications currently used for core processing. In March 2012, work on HIFMIP was stopped, and the project was later canceled. This attempt to use a commercial shared service provider to start a new financial management system failed after more than \$35 million was spent on the project. Our review determined that OCFO did not properly plan and manage its implementation of the project.

### New Core Project

In the fall of 2012, the New Core Project was created to move HUD to a new core financial system that would be maintained by a shared service provider, the U.S. Department of the Treasury's Bureau of Fiscal Services (BFS). Through its New Core Project, HUD was the first cabinet-level agency to transition some of its core accounting functions to an FSSP. The transfer of its financial management to an FSSP was widely publicized.

We have completed three audits of HUD's implementation of the New Core Project. In the first audit, published in June 2015,<sup>8</sup> we found that weaknesses in the planned implementation of release 3 of phase 1 in the New Core Project were not adequately addressed. We determined that HUD did not follow its own agency policies and procedures, the policies established for the New Core Project, or best practices. If HUD was not successful in this implementation, it could reflect negatively on OMB's mandate to use FSSPs. The weaknesses identified in this report related to requirements and schedule and risk management areas that are significant to the project plan. We concluded that the effectiveness with which HUD manages them was critical to the project's success.

Our second audit, published in September 2015,<sup>9</sup> found that HUD's implementation of phase 1, release 1, was not completely successful. Due to missed requirements and ineffective controls, interface processing of travel and relocation transactions resulted in inaccurate financial data in HUD's general ledger and BFS' financial system. As a result, processing continued for more than 6 months with unresolved errors, leaving HUD's general ledger and BFS' financial system with inaccurate financial data and discrepancies in the balances between HUD's general ledger and Treasury's Government Wide Accounting System. We concluded that the implementation of release 1 confirmed the concerns we cited in our initial review of the phase 1, release 3,

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<sup>8</sup> Audit Report 2015-DP-0006, Weaknesses in the New Core Project Were Not Adequately Addressed, June 12, 2015

<sup>9</sup> Audit Report 2015-DP-0007, New Core Release 1 of Phase 1 Implementation Was Not Completely Successful, September 3, 2015

implementation. Although HUD had taken action to mitigate some of the problems that occurred with release 1 and address some of the issues we highlighted, we were concerned that HUD was moving too fast with its implementation plans and would repeat these weaknesses.

Our third audit, published in September 2016,<sup>10</sup> found that HUD had unresolved data conversion errors and inaccurate funds management reports and lacked a fully functional data reconciliation process following the implementation of phase 1, release 3, of the New Core Project on October 1, 2015. In addition, the New Core Interface Solution's performance was not monitored, tracked, or measured, and controls over processing errors within Oracle Financials were routinely bypassed. These conditions occurred because HUD rushed the implementation of the release. Specifically, HUD did not move the implementation date when issues were identified during system testing to allow time to resolve the issues, development of the custom reports was not far enough along to allow full system testing, development of the reconciliation tool could not be completed before the scheduled implementation date, and time did not permit the establishment of performance metrics. As a result, in June 2016, unresolved data conversion errors were estimated at an absolute value of more than \$9 billion, HUD's funds management reports contained inaccurate data, and the newly completed status of funds reconciliation report indicated that there was an absolute value of \$4.5 billion in differences between the HUD Centralized Accounting and Processing System and Oracle Financials.

The New Core Project program charter identified 14 financial management systems capabilities that would have to be delivered with the program to meet its financial management needs, replace the Department's legacy systems, and achieve the expected benefits. HUD accomplished 4 of the 14 items with releases 1, 2, and 3 of the New Core Project. This included transitioning the following functions: travel and relocation, time and attendance, core accounting, and procurement. Since 1991, OIG has reported on system limitations and deficiencies within HUD's legacy financial management systems and the Department's lack of an integrated financial management system. In fiscal year 2015, the issue was a material weakness. Program offices have compensated for the system limitations by using manual processes to meet financial management needs.

These system issues and limitations have inhibited HUD's ability to produce reliable, useful, and timely financial information. Complete and reliable financial information is critical to HUD's ability to accurately report on the results of its operations to both internal and external stakeholders. The implementation of release 3 did not alleviate these issues, as confirmed by GAO in a report issued in July 2016.<sup>11</sup> For fiscal year 2015, 97 percent of the Department's budget was allocated to HUD's program areas (that is, public and Indian housing and community planning and development). Following the implementation of release 3, HUD's core program functions were still being controlled and processed through HUD's legacy applications. In April of 2016, after spending \$96.3 million, HUD ended the New Core Project with the closeout of the release 3 implementation. HUD decided that it would continue to use BFS's systems and services for the capabilities that had already been delivered but would not transition to shared services as a

<sup>10</sup> Audit Report 2016-DP-0004, HUD Rushed the Implementation of Phase 1, Release 3, of the New Core Project, September 20, 2016

<sup>11</sup> Report GAO-16-656, Financial Management Systems – HUD Needs to Address Management and Governance Weaknesses That Jeopardize Its Modernization Efforts, July 2016

means of achieving the remaining New Core Project capabilities. HUD did not transfer all of the functionality that was originally planned and in some cases, simply shifted the uncompleted segments of the New Core Project to new projects. Additional time and funding will be needed to complete these projects. HUD has not fulfilled its plan to move to an FSSP in order to implement financial management systems capabilities that would have been delivered with the New Core Project to meet its financial management needs, replace the Department's legacy systems, and achieve the expected benefits.

### **Outdated Information Technology Systems**

Overall, funding constraints diminished HUD's ability to integrate updated application systems and replace and deactivate legacy systems. Limited progress has been made in modernizing applications and enhancing capabilities to replace manual processes. However, many legacy systems remain in use. Another concern is the ability to maintain the antiquated infrastructure on which some of the HUD and FHA applications reside. As workloads continue to gain complexity, it becomes challenging to maintain these legacy systems, which are 15 to 30 years old, and ensure that they can support the current market conditions and volume of activity. The use of aging systems has resulted in poor performance, high operation and maintenance costs, and increased susceptibility to security breaches. As part of our annual review of information systems controls in support of the financial statements audit, we continue to report weaknesses in internal controls and security regarding HUD's general data processing operations and specific applications. The effect of these weaknesses is that the completeness, accuracy, and security of HUD information is at risk of unauthorized access and modification. As a result, HUD's financial systems continue to be at risk of compromise.

HUD's voucher and project-based Section 8 and public housing programs accounted for 78 percent of HUD's 2016 enacted discretionary budget authority of \$47.2 billion. Also, HUD's FHA program has insured more than 33.5 million mortgages valued at more than \$3.8 trillion since 1980. These four program areas alone have 20 major information systems supporting the management of those programs, and those systems contain in excess of 300 million records on program recipients – with data fields that include Social Security numbers; birth dates; address history; income; financial; dependent; and in those cases in which disability and medical status is considered, health-related data. In short, the management information systems supporting these four critically important HUD programs contain personally identifiable information for all American citizens who received HUD-sponsored housing assistance, lived in public housing, and obtained an FHA-insured mortgage, including such information on all dependents within those households.

We are also concerned about the current state of FHA's IT systems and the lack of systems capabilities and automation to respond to changes in business processes and the IT operating environment. In August 2009, FHA completed the Information Technology Strategy and Improvement Plan to address these challenges, 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 relating to FHA's single-family program. The FHA transformation initiative was intended to improve the Department's management of its mortgage insurance programs through the development and implementation of a modern financial services IT environment. The modern environment was expected to improve loan

endorsement processes, collateral risk capabilities, and fraud prevention. However, to date, few initiatives have been completed because of a lack of funding. The transformation team is in operations and maintenance mode for the few initiatives that have been implemented and has limited capability to advance with the project due to the continued lack of funding.

#### ***Summary of OIG Work***

Annually since 1991, OIG has reported on the 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 have completed three audits on HUD's implementation of the New Core Project. In the first audit, published in June 2015, we found that weaknesses in the planned implementation of release 3 of phase 1 of the New Core Project were not adequately addressed. Our second review, published in September 2015, found that HUD's implementation of release 1 of phase 1 was not completely successful. Due to missed requirements and ineffective controls, interface processing of travel and relocation transactions resulted in inaccurate financial data in HUD's general ledger and BFS. Our third review, published in September 2016, found that HUD had unresolved data conversion errors and inaccurate funds management reports and lacked a fully functional data reconciliation process following the implementation of phase 1, release 3, of the New Core Project on October 1, 2015. In addition, the New Core Interface Solution's performance was not monitored, tracked, or measured, and controls over processing errors in Oracle Financials were routinely bypassed.

#### **Looking Ahead**

OIG will continue evaluating HUD's activities related to the implementation of the New Core Project and integrating its financial management systems.

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## **Digital Accountability and Transparency Act Compliance**

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One of the Department's major emerging management challenges is compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act).<sup>12</sup> In our August 2016 DATA Act readiness review, we found that HUD was not on track to meet the DATA Act's requirements.<sup>13</sup> The DATA Act builds on agency transparency reporting requirements established by the Federal Funding Accountability and Transparency Act of 2006 (FFATA) and has an implementation date of May 2017. HUD's efforts to comply with the DATA Act have been hindered by management turnover and indecision, resource limitations, and disparate IT systems that reside on different platforms with dissimilar data elements.

#### **DATA Act Leadership Turnover and Delayed Decisions**

HUD's DATA Act team has been hindered by management turnover and indecision. HUD has had three different senior accountable officials in a 6-month span, and the conclusion that the DATA Act applied to FHA and Ginnie Mae was not made until approximately May 2016. These

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<sup>12</sup> Digital Accountability and Transparency Act of 2014, Pub. L. No. 113-101

<sup>13</sup> 2016-FO-0802, Independent Attestation Review: U.S. Department of Housing and Urban Development, DATA Act Implementation Efforts, dated August 26, 2015

conditions have delayed implementation efforts and precluded the reasonable expectation that the deadline would be met. While HUD has taken steps to implement the DATA Act, the lack of a constant senior accountable official prevents adequate oversight of the project and workgroups, which would ensure implementation by the statutory date.

#### **Compliance Milestones and Human Resource Limitations**

In addition to management turnover and the delays related to the FHA and Ginnie Mae components, key HUD milestones have been delayed. Specifically, HUD had not completed its inventory of data elements or the mapping of agency data to the DATA Act schema as of July 15, 2016. To assist agencies with implementation, OMB and Treasury issued a playbook with eight key steps to help agencies fulfill the requirements of the DATA Act, and OMB issued a memorandum detailing key guidance.<sup>14</sup> HUD's project plan dates for milestones, including completing an agency data element inventory or mapping agency data to DATA Act schema, significantly exceeded previous Treasury and OMB guidance, and HUD's project plan dates may not have been sufficiently reviewed and approved by OMB and Treasury.<sup>15</sup> HUD submitted updated implementation plans to OMB and Treasury in August 2016.

Competing departmental priorities like HUD's transition to a shared service provider for financial management services have worsened existing resource limitations. Human capital resources are limited compared to the level of effort required to modify systems and perform the required data inventory and mapping. While Treasury may provide resources to supplement HUD's resources and support HUD's compliance efforts, substantial challenges remain.

#### **Information System Weaknesses and Data Quality Issues**

HUD has experienced challenges with DATA Act (and FFATA) implementation due to the Department's reliance on many financial systems with differing technologies and data elements. To provide quality spending data, agencies will be required to make available financial obligation and outlay data and award-level data based on agency financial systems. As we have previously reported in our annual financial statement audit, HUD's legacy systems have hindered efficient and effective financial reporting. As the DATA Act requires the use of agency financial systems, many of the issues reported in the financial systems management challenge (see page 6) also apply.

In addition, HUD has been unable to resolve data quality issues that have impeded the complete and accurate reporting of departmental contract, grant, loan, and other financial assistance awards in USAspending.gov.

#### **Summary of OIG Work**

While the statutory date for final implementation of the DATA Act is May 2017, we have issued one of two planned preimplementation attestation reports that are designed to determine whether HUD is on track to meet the implementation deadline. In August 2016, we issued a review attestation report on HUD's efforts to comply with OMB and Treasury DATA Act Playbook steps 1-4. While HUD's assertions reasonably represented the status of departmentwide compliance efforts, we reported that HUD was not on track to provide complete, departmentwide

<sup>14</sup> <https://www.whitehouse.gov/sites/default/files/omb/memoranda/2015/m-15-12.pdf>

<sup>15</sup> GAO-16-698, DATA Act Implementation Plans, <http://gao.gov/assets/680/678765.pdf>

reporting by the May 2017 deadline. Additionally, we provided recommendations to the Department to address compliance impediments.

#### **Looking Ahead**

We will continue to perform preimplementation work as HUD works to implement the DATA Act, and we plan to issue our first statutorily required report during fiscal year 2017.

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## **Weaknesses in Information Technology Security Controls**

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HUD conducts hundreds of thousands of transactions with the American public daily and is responsible for safeguarding hundreds of millions of records containing the personal information of private individuals. However, HUD continues to face both long- and short-term challenges as it strives to modernize its legacy systems, adequately secure its IT infrastructure, and properly protect sensitive data. HUD has not adequately planned for its future IT and IT security needs. One of two primary HUD infrastructure services contracts was recently reawarded using a long-term sole-source contract, while the second has been in a period of transition since fiscal year 2014, creating risk for HUD. Further, a significant number of critical HUD applications are legacy systems that are increasingly difficult to maintain and present security risks that HUD will be challenged to mitigate without modernization. More than 400 HUD IT products are running on unsupported platforms, increasing the risk of unknown and unpatchable vulnerabilities. Legacy systems are difficult or unable to migrate to cloud technology, further complicating HUD's long-term efforts to modernize and secure its systems and data while creating efficiencies and cost savings.

HUD has taken some initial steps to address these long-term challenges. HUD filled several key positions, including the CIO, chief information security officer, and chief technology officer. However, we are concerned that turnover in IT leadership roles, including that of the enterprise architect and the conclusion of the CIO's tenure at the end of calendar year 2016, will deflate HUD's momentum. Major HUD initiatives have been negatively impacted by recent turnover in key positions and loss of technical expertise.

HUD has begun key initiatives, such as the development of several long-term plans, including an enterprise architecture roadmap, aimed in part to guide modernization efforts; a Cybersecurity Framework to address IT security program deficiencies; and a recently implemented enterprise incident handling program to improve security incident detection capabilities. However, notable change and implementation of these initiatives are not anticipated to be fully realized until fiscal year 2017 and beyond. Successful implementation of these plans will be directly dependent upon HUD's ability to instill accountability, implement performance measures, and obtain adequate technical expertise and resources. In the process of outsourcing infrastructure and application maintenance and support, HUD has divested itself of much of its own technical expertise and continues to face significant staffing challenges. For example, an organizational chart provided to OIG during its fiscal year 2016 Federal Information Security Modernization Act (FISMA) evaluation showed that 16 of the 36 key IT managerial and supervisory positions



stationed at HUD headquarters were either vacant (11) or filled by temporary “acting” personnel (5) during fiscal year 2016. This condition significantly challenges HUD’s ability to manage and perform vendor oversight of its technology infrastructure and conduct technical assessments. It has also resulted in HUD’s extensive dependence on decentralized IT contracts throughout the HUD IT environment.

Our annual evaluation of HUD’s IT security program for fiscal year 2015, as mandated by FISMA, revealed some IT security improvements, but extensive noncompliance with Federal IT guidance continues. As shown in OIG’s fiscal year 2015 FISMA report, HUD has extensive deficiencies in 5 of the 10 program areas on which OIG reports to OMB, compared to 9 of 10 in fiscal year 2014. HUD is showing some progress in remediating these deficiencies; however, it has 45 open FISMA evaluation recommendations spanning several years that have been open from 300 to 800 days. These recommendations need to be addressed to rectify longstanding security weaknesses. Further, the privacy program has an additional 21 open recommendations for the fiscal years 2013 through 2015 evaluation period.

To ensure improvement in the above areas and reduce vulnerabilities to the IT security environment, all HUD program offices will need to collaborate effectively and establish ownership and oversight of IT security controls. HUD’s fiscal year 2016 IT funding level has decreased 16.3 percent from fiscal year 2015, which continues to impact agency modernization and IT security efforts. With the constrained budgets, HUD will be challenged to fund the operation of current systems while also initiating projects to upgrade legacy applications and improve security.

Further, our evaluations have revealed a lack of enterprise risk management, which directly affects HUD’s ability to manage all IT risks using a holistic framework and hinders HUD’s IT modernization efforts. HUD’s Office of the Chief Information Officer (OCIO) had begun addressing this weakness by developing an IT Risk Management Office, but unless HUD develops an enterprisewide risk management program with one management approach, it will not be able to appropriately prioritize all IT risks.

#### ***Summary of OIG Work***

OIG’s work has been focused on assessing mandated requirements and other IT evaluations to assist HUD in identifying IT risks and vulnerabilities in addition to prioritizing efforts to improve the cybersecurity posture and IT infrastructure and secure HUD data. Many areas and deficiencies remain to be reviewed and assessed to independently identify and provide recommendations for improving the cybersecurity posture.

#### ***Looking Ahead***

We will continue to evaluate HUD’s IT infrastructure, policy, and processes, while also continuing to provide oversight on the progress of HUD’s IT security program, modernization efforts, and ability to implement IT security long-term plans. We will do this through mandated assessments and targeted evaluations, while instilling a collaborative environment with HUD.

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## Single-Family Programs

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FHA's single-family mortgage insurance programs enable millions of first-time borrowers and minority, low-income, elderly, and other underserved households to benefit from home ownership. HUD manages a growing portfolio of single-family insured mortgages exceeding \$1.2 trillion. Effective management of this portfolio represents a continuing challenge for the Department.

### Preserving the FHA Fund

Before fiscal year 2015, FHA's fund had been below its legislatively mandated 2 percent capital ratio for the past 6 years. However, beginning in fiscal year 2015, the fund met its threshold target capital ratio once again.<sup>16</sup> According to the 2015 actuarial study, the fund had an economic value of \$23.8 billion. Based on the 2015 projections, the fund is expected to maintain a capital ratio above the threshold limit and will gradually build reserves over time if the forecasted trend continues. Restoring the fund's reserves and finances has been a priority for HUD, and it has increased premiums, reduced the amount of equity that may be withdrawn on reverse mortgages, and taken other steps to restore the financial health of the fund.

The Department must make every effort to prevent or mitigate fraud, waste, and abuse in FHA loan programs. OIG continues to take steps to help preserve the FHA insurance fund and improve FHA loan underwriting by partnering with HUD, the U.S. Department of Justice, and multiple U.S. Attorney's offices nationwide in a number of FHA lender civil investigations. In some instances, these investigations involve, not only the underwriting of FHA loans, but also the underwriting of conventional loans and government-insured loans related to Federal programs other than FHA. For those investigations that involved OIG's assistance on the FHA-related part of the cases, the Government has reached civil settlements yielding more than \$14.6 billion in damages and penalties in the last 5 fiscal years.

For the FHA-insured loans, results in the last 5 fiscal years have shown that a high percentage of loans reviewed should not have been insured because of significant deficiencies in the underwriting. As a result, the Government has reached civil settlements regarding FHA loan underwriting totaling \$4.9 billion for alleged violations of the False Claims Act; the Financial Institutions Reform, Recovery, and Enforcement Act; and the Program Fraud Civil Remedies Act. Nearly \$3.2 billion of the \$4.9 billion is of direct benefit to the FHA insurance fund. Ongoing investigations are expected to lead to additional settlements that will significantly help recover losses to the FHA insurance fund.

### Monitoring Lenders and FHA Claims

In spite of these positive steps, we remain concerned about HUD's resolve to take the necessary actions going forward to protect the fund. HUD is often hesitant to take strong enforcement actions against lenders because of its competing mandate to continue FHA's role in restoring the

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<sup>16</sup> Our calculation of the capital ratio was based the information we obtained from FHA's final actuarial report, published in November 2015, and using the amortized insurance-in-force as the denominator.

housing market and ensure the availability of mortgage credit and continued lender participation in the FHA program.

For example, FHA has been slow to start a rigorous and timely claims review process. OIG has repeatedly noted in past audits and other types of lender underwriting reviews HUD's financial exposure when paying claims on loans that were not qualified for insurance. Two years ago, OIG noted HUD's financial exposure when paying claims on loans that were not qualified for insurance. Adding to this concern, HUD increased its financial exposure by not recovering indemnification losses and extending indemnification agreements when appropriate.

Based on the results of an August 2014 audit,<sup>17</sup> we determined that HUD did not always bill lenders for FHA single-family loans that had an enforceable indemnification agreement and a loss to HUD. The audit identified 486 loans with losses of \$37.1 million from January 2004 to February 2014 that should have been billed and recovered. HUD needs to ensure continued emphasis on indemnification recoveries, especially for newer FHA programs, such as Accelerated Claims Disposition or Claims Without Conveyance of Title (CWCOT). We referred three recommendations to the Assistant Secretary for Housing – FHA Commissioner on January 8, 2015. The three recommendations asked HUD's Deputy Secretary for the Office of Finance and Budget to initiate the billing process, including determining lender status for loans that (1) were part of the CWCOT program and (2) went into default before the indemnification agreement expired. Further, we recommended initiating the billing process for five refinance loans on which HUD incurred losses. Due to continued disagreements on the appropriate action, we elevated the recommendations to the Deputy Secretary on March 31, 2015. We continue to wait for the Deputy Secretary's request for further discussions or her decision on the matter.

FHA program regulations at 24 CFR (Code of Federal Regulations) Part 203 do not establish a maximum period for filing a claim, and they do not place limitations on holding costs when servicers do not meet all foreclosure and conveyance deadlines. In addition, HUD reviews only a small percentage of claims to ensure that servicers meet required deadlines. In July 2015, HUD submitted a proposed rule for public comment in the Federal Register (FR-5742) to establish a maximum period for servicers to file a claim for insurance benefits and curtail servicers' claims for property preservation and administrative costs occurring after the date on which the servicer should have filed a claim. HUD proposed to allow servicers 12 months from the expiration of the reasonable diligence timeline to convey the property. HUD stated that the proposed rule would improve its ability to protect the FHA insurance fund. However, the proposed rule was not finalized because mortgage servicers expressed concern that such changes were not realistic, citing unavoidable delays in the foreclosure process. HUD needs to continue to pursue changes to FHA program regulations and work with industry leaders to reissue proposed changes to adequately protect the fund from unnecessary and unreasonable costs incurred when servicers do not convey properties in a timely manner. Further, in its 2015 actuarial report, HUD projected that it may incur future losses because of servicers' delayed foreclosures and conveyances. HUD reported concern that delayed foreclosures limited its ability to identify current and future risks to the FHA insurance fund.

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<sup>17</sup> Audit Report 2014-LA-0005, HUD Did Not Always Recover FHA Single-Family Indemnification Losses and Ensure That Indemnification Agreements Were Extended, August 8, 2014

Based on an audit report issued in October 2016<sup>18</sup> covering FHA's monitoring and payment of conveyance claims, we found that HUD paid claims for nearly 239,000 properties that servicers did not foreclose upon or convey on time. Servicers missed their foreclosure and conveyance deadlines and did not report the self-curtailment date of their debenture interest. As a result, HUD paid at least \$2.23 billion in unreasonable and unnecessary costs. Without regulatory authority, HUD has few options to compel servicers to convey and file a claim. Program regulations allow HUD to disallow mortgage interest when a servicer misses a foreclosure deadline, but HUD has no further recourse to protect itself from paying holding costs incurred after servicers have missed conveyance deadlines. Therefore, if a servicer missed its deadline to initiate foreclosure, it forfeited its mortgage interest and had no further financial or regulatory incentives to meet its remaining deadlines.

Further, in another audit,<sup>19</sup> we found that HUD did not always collect on partial claims due upon termination of the related FHA-insured mortgages. HUD failed to collect an estimated \$21.5 million in FHA partial claims that became due last fiscal year. HUD's contract with its national loan servicing contractor lacked a performance requirement measuring partial claims collection. In addition, HUD's monitoring reviews of the contractor did not improve the contractor's performance in collecting partial claims. HUD should require the contractor to identify all partial claims that were due and payable, prepare the paperwork needed for debt collection, and transfer the claims to the Financial Operations Center. The Financial Operations Center should collect the \$21.5 million in uncollected partial claims from fiscal year 2015 from the borrowers, or if it is not possible to collect from the borrowers due to lender error, it should collect those funds from the lender. HUD also needs to strengthen contract and monitoring review procedures to ensure that partial claims are properly collected.

### Loss Mitigation

FHA requires that its servicers use loss mitigation tools to assist homeowners facing default and as a way to minimize losses to the FHA insurance fund. However, despite the intended purpose, FHA has difficulty ensuring that its program guidance is clearly written for effective implementation. We have conducted two audits<sup>20</sup> of FHA's Home Affordable Modification Program (HAMP). HAMP allows homeowners to modify their FHA-insured mortgages to reduce monthly mortgage payments and avoid foreclosure. The program allows the use of a partial claim of up to 30 percent of the unpaid principal balance as of the date of default, combined with a loan modification. One audit found that HUD did not have an effective postclaim review function and did not have clear program guidance for the FHA-HAMP partial claim option. HUD's policies allowed servicers to determine partial claim amounts in different ways, which resulted in some claims that were higher than necessary. This condition occurred because HUD and its contractors did not produce timely quality postclaim review reports and

<sup>18</sup> Audit report 2017-KC-0001, *FHA Paid Claims for Properties That Servicers Did Not Foreclose Upon or Convey on Time*, October 14, 2016

<sup>19</sup> Audit report 2016-KC-0001, *HUD Did Not Collect an Estimated 1,361 Partial Claims Upon Termination of Their Related FHA-Insured Mortgages*, August, 17, 2016

<sup>20</sup> Audit Report 2015-LA-0003, *HUD Did Not Have Effective Controls or Clear Guidance in Place for the FHA-HAMP Partial Claim Loss Mitigation Option*, September 18, 2015, and Audit Report 2015-LA-0001, *HUD's Claim Payment System Did Not Always Identify Ineligible FHA-HAMP Partial Claims*, April 20, 2015

failed to adequately monitor FHA-HAMP. As a result, FHA overpaid at least \$177 million in partial claims due to servicer miscalculations. Management decisions have been reached for recommendations with varying target closeout dates. The other audit found that HUD's claim payment system did not always identify ineligible FHA-HAMP partial claims. The system allowed payment of (1) more than one claim with a previous modification or FHA-HAMP option in a 24-month period, (2) duplicate claims, (3) partial claims in excess of 30 percent of the unpaid principal balance at the time of default, and (4) non-HAMP partial claims after HUD discontinued this claim type. This condition occurred because HUD did not design and implement sufficient claim payment system controls. As a result, HUD spent approximately \$22.5 million on potentially ineligible claims.

#### **Departmental Clearance Process**

Departmental clearance is a necessary and important process to ensure required agreement by applicable HUD leadership on the subject matter and content of a directive or policy change. This action requires a review by HUD offices that have expertise, policy or legal, with the subject matter of the change and that there is no conflict with other HUD or administration policies. The originating HUD office places a directive to implement a specific policy change of departmental clearance by completing these four steps: (1) execute an intraoffice agreement, (2) execute a form HUD-22, (3) launch the clearance process, and then (4) manage the clearance. All directives must be cleared, at a minimum, by the following six offices within headquarters: Office of the Chief Human Capital Officer, Office of General Counsel, OIG, OCFO, OCIO, and Office of Policy Development and Research.

At a time when FHA is working to restore confidence in the housing market, we have concerns that when the Department is making program, policy, or procedural changes, it is *not* (1) identifying the significant changes in its notice, (2) following the formal clearance process and instead opting for a more informal method, or (3) avoiding the process altogether and making changes unilaterally. We have noted that HUD failed to follow departmental clearance protocols for FHA programs, policies, and operations by not (1) ensuring that key officials reviewed directives before issuance and (2) following required departmental clearance procedures when issuing directives or Paperwork Reduction Act documents. These actions were contrary to the directives policies in Handbook 000.2, REV-3, HUD Directives System. Below are examples of policies that were not properly vetted through the clearance protocols.

- **Loan Quality Assessment Methodology (defect taxonomy)** – This methodology discusses significant policy and procedural guidance related to FHA's lender monitoring process and enforcement of FHA loan origination defects. HUD posted this document on its Drafting Table Web site on September 16, 2014, before completing a limited clearance process on May 1, 2015. Posting in draft form for public comment will indicate to the public that, although in draft, the policy and legal positions in the draft form are accurate and reflect the direction that the Department is interested in pursuing. However, the public cannot be assured that draft directives will be pursued unless the draft is approved through departmental clearance. The defect taxonomy remains in draft with no implementation date set.
- **Addendum to Uniform Residential Loan Application (form HUD-92900-A)** – This document was used for establishing the eligibility of proposed mortgage transactions for

FHA's insurance endorsement. It revised a previously cleared Paperwork Reduction Act document; therefore, departmental clearance was required. Clearance was also required because this document removed certification language that could potentially impact FHA's enforcement efforts. A controversial memorandum issued from Edward Golding, HUD's Principal Deputy Assistant Secretary for Housing, and a U.S. Department of Justice responsive press release highlighted the significance of the document changes.

Excerpt from FHA posting, March 15, 2016

In this final loan-level certification, FHA is clearly identifying what lenders will be held accountable for only those mistakes that would have altered the decision to approve the loan. This important move makes it very clear that minor mistakes that do not affect the decision to approve a loan are not the focus of our compliance efforts.

Excerpt from U.S. Department of Justice press release, March 15, 2016

The department will continue these enforcement efforts by using the False Claims Act, and will continue to be guided by the language of the act that prohibits the submission of knowing and material false claims. In the FHA context, this means that no lender will face False Claims Act enforcement based on an unknowing mistake or an immaterial requirement. But, at the same time, the department will not hesitate to bring an action where a lender – or any other individual or entity who would defraud the federal taxpayer – submits false statements and claims at the expense of the federal fisc.

HUD posted the document on its public Drafting Table Web site on May 1, 2015; however, it did not complete the departmental clearance process until August 11, 2015. In addition, the 60-day Federal Register notice relating to this document was improperly issued before it went through departmental clearance. The Federal Register notice was issued on May 15, 2015.

#### **Downpayment Assistance and Premium Pricing**

Through the course of three audits,<sup>21</sup> we learned about and continue to be concerned with a funding arrangement for downpayment assistance to FHA borrowers, which we believe violates the National Housing Act regarding prohibited sources for downpayment assistance. Specifically, we learned that NOVA and LoanDepot had entered into triparty agreements among the FHA lender, a housing finance agency (HFA), and U.S. Bank, a Ginnie Mae issuer. These agreements were part of a program in which the HFA would provide downpayment assistance in a grant or loan to the borrower. The FHA lender would provide the primary financing to the borrower in the form of an FHA-insured loan. Upon origination, the FHA loan would be sold to U.S. Bank, which would securitize the mortgage loan through Ginnie Mae security and service

<sup>21</sup> Audit Report 2015-LA-1010, loanDepot's FHA-Insured Loans With Golden State Finance Authority Downpayment Assistance Gifts Did Not Always Meet HUD Requirements, September 30, 2015; Audit Report 2015-LA-1009, loanDepot's FHA-Insured Loans With Downpayment Assistance Funds Did Not Always Meet HUD Requirements, September 30, 2015; and Audit Report 2015-LA-1005, NOVA Financial & Investment Corporation's FHA-Insured Loans With Downpayment Assistance Gifts Did Not Always Meet HUD Requirements, July 9, 2015

the mortgage. Although not parties to the FHA loan, the HFA and U.S. Bank required the FHA lender to inflate the interest rate on the loan. The HFA providing the downpayment assistance and U.S. Bank had previously determined what interest rate above the market interest rate would be necessary on the FHA loan to net a premium payment from the investor when the loan was securitized. The HFA, U.S. Bank, and the FHA lender agreed that the premium payment would reimburse the HFA for the downpayment and pay other program-related fees. The increased rate was up to 1.5 percent above the market rate for FHA loans (for example, 4.5 percent for HFA downpayment assistance versus 3 percent for nonassisted FHA loans). The HFA, U.S. Bank, and the FHA lender also agreed to charge the borrower additional securitization, administration, and tax fees as part of the origination totaling \$300-\$600, which would not have otherwise been paid on the lower interest rate mortgage. We determined that U.S. Bank had similar agreements with FHA lenders and HFAs around the country.

Since the issuance of the first and later similar audits, we have attempted to resolve the findings and recommendations with the Department to no avail. HUD has failed to recognize disturbing parallels to the seller-funded downpayment assistance arrangements practiced from the late 1990s to 2008, which caused wide-scale problems for the program that continue to be felt today. On May 25, 2016, the Department issued its decision regarding our disagreement over the HFA's downpayment assistance and premium pricing in the NOVA audit. The decision relied heavily on a HUD, Office of General Counsel, legal opinion that did not review the specific details or funding structure of borrower-financed downpayment assistance programs. Instead, the legal opinion was meant to opine on HFAs as permissible sources of downpayment assistance since they are government entities. We strongly disagree with this position because downpayment assistance provided or reimbursed indirectly by a party that benefits financially from the transaction is prohibited under statute and negatively affects the borrower.

HUD's actions enabled questionable downpayment assistance programs. HUD's requirements, guidelines, and interpretations on downpayment assistance from government entities allow for increased risk to the FHA Single Family Mortgage Insurance program and have enabled the creation and growth of questionable borrower-financed downpayment assistance programs. Current requirements and guidelines provide little oversight and give HFAs broad access to the FHA program that other entities do not have. For example, a comparison of Handbook 4155.1 provisions in effect at the time of the OIG audits to the provisions in Handbook 4000.1 reveals major changes in policy. Handbook 4000.1 was modified to strictly define premium pricing and eliminated the prohibition on premium pricing as a source of funds for the borrower's minimum required investment that was in Handbook 4155.1.

#### *Summary of OIG Work*

Audits conducted over the last 5 fiscal years related to FHA-insured loans have shown that a high percentage of loans reviewed should not have been insured because of significant deficiencies in the underwriting. OIG has noted HUD's financial exposure when paying claims on loans that were not qualified for insurance. Based on the results of an August 2014 audit, OIG determined that HUD did not always bill lenders for FHA single-family loans that had an enforceable indemnification agreement and a loss to HUD. In addition, OIG conducted two

audits<sup>22</sup> of FHA-HAMP. One audit determined that HUD did not have an effective postclaim review function and did not have clear program guidance for the FHA-HAMP partial claim option. The second audit reported that HUD's claim payment system did not always identify ineligible FHA-HAMP partial claims. OIG's audit of delayed conveyances<sup>23</sup> found that HUD paid claims for an estimated 239,000 properties that servicers did not foreclose upon or convey on time because it did not have adequate controls in place to ensure that servicers complied with Federal regulations. As a participant in the departmental clearance process, OIG noted that FHA did not always follow required departmental clearance procedures when issuing directives. In addition, with the update to the consolidated Handbook 4000.1, FHA made changes regarding premium pricing during the course of several OIG audits, which continues to raise concerns for OIG. Further, OIG issued three audit reports<sup>24</sup> on lenders' allowance of ineligible downpayment assistance, highlighting HFAs' use of a premium pricing structure that does not comply with FHA requirements and negatively impacts borrowers.

### Looking Ahead

We continue to take steps to help preserve the FHA insurance fund and improve FHA loan underwriting by partnering with HUD, the U.S. Department of Justice, and multiple U.S. Attorney's offices nationwide in a number of FHA lender civil investigations; while continuing to monitor the FHA program.

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## Community Planning and Development Programs

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### Integrated Disbursement and Information System

Due to HUD's continued use of the FIFO (first-in, first-out) method as an accounting methodology for appropriated funds<sup>25</sup> for committing and disbursing obligations for community planning and development formula grant programs for fiscal year 2014 and earlier grants, which does not comply with accounting standards, resulted in a material misstatement of HUD's financial statements. HUD's plan to eliminate FIFO from its Integrated Disbursement and Information System (IDIS) Online was applied to fiscal year 2015 and future grants and not to grants for fiscal years 2014 and earlier. Since 2013, we have also reported that IDIS Online, a

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<sup>22</sup> Audit Report 2015-LA-0003, HUD Did Not Have Effective Controls or Clear Guidance in Place for the FHA-HAMP Partial Claim Loss Mitigation Option, September 18, 2015, and Audit Report 2015-LA-0001, HUD's Claim Payment System Did Not Always Identify Ineligible FHA-HAMP Partial Claims, April 20, 2015

<sup>23</sup> Audit Report 2017-KC-0001, FHA Paid Claims for Properties That Servicers Did Not Foreclose Upon or Convey on Time, October 14, 2016

<sup>24</sup> Audit Report 2015-LA-1010, loanDepot's FHA-Insured Loans With Golden State Finance Authority Downpayment Assistance Gifts Did Not Always Meet HUD Requirements, September 30, 2015; Audit Report 2015-LA-1009, loanDepot's FHA-Insured Loans With Downpayment Assistance Funds Did Not Always Meet HUD Requirements, September 30, 2015; and Audit Report 2015-LA-1005, NOVA Financial & Investment Corporation's FHA-Insured Loans With Downpayment Assistance Gifts Did Not Always Meet HUD Requirements, July 9, 2015

<sup>25</sup> The FIFO method is a way in which CPD disburses its obligations to grantees. Disbursements are not matched to the original obligation authorizing the disbursement, allowing obligations to be liquidated from the oldest available budget fiscal year appropriation source. This method allows disbursements to be recorded under obligations tied to soon-to-be-canceled appropriations.



grants management system, was not designed to comply with Federal financial management system requirements and support the U.S. Standard General Ledger at the transaction level. We continue to take exception to not removing the FIFO methodology retroactively, which will continue the departures from generally accepted accounting principles and result in material misstatements on the financial statements. Use of the FIFO methodology contributed to the qualified audit opinion on HUD's financial statements in fiscal year 2013 and the disclaimer audit opinion issued in fiscal years 2014 and 2015, respectively. Therefore, lack of retroactive implementation will have implications on future years' financial statement audit opinions until the impact is assessed to be immaterial. Due to funding problems, completion of the elimination plan will be delayed until May 2017. Despite the changes made to IDIS thus far, additional modifications are necessary for the system to fully comply with the Federal Financial Management Improvement Act (FFMIA).

### **Grant Accounting**

In fiscal year 2016, HUD's inability to provide data to monitor compliance with the HOME Investment Partnership Act (HOME statute) requirements for committing and spending funds will remain a concern until appropriate system changes in IDIS Online are implemented and regulatory changes are fully implemented. The HOME Investment Partnerships Program is the largest Federal block grant to State and local governments designed to create affordable housing for low-income households. Because HOME is a formula-based grant, funds are awarded to the participating jurisdictions noncompetitively on an annual basis.

In 2009, OIG challenged HUD's cumulative method<sup>26</sup> for determining compliance with section 218(g) of the HOME statute, which requires that any uncommitted funds be reallocated or recaptured after the expiration of the 24-month commitment deadline. After a continuous impasse with HUD, OIG contacted GAO in 2011 and requested a formal legal opinion on this matter. In July 2013, GAO issued its legal opinion, affirming OIG's position and citing HUD for noncompliance. In its decision, GAO repeated that the language in the statute was clear and that HUD's cumulative method did not comply with the statute. Accordingly, GAO told HUD to stop using the cumulative method and identify and recapture funds that remain uncommitted after the statutory commitment deadline.

The effects of the GAO legal opinion require extensive reprogramming and modification to IDIS Online in addition to regulatory changes. However, these system and regulatory changes, which are already underway, will apply only to new grants awarded going forward and will not be changed retroactively. Therefore, HUD's plan does not comply with the GAO legal opinion and allows grantees to spend HOME program funding that would normally be recaptured if the 24-month commitment timeframe was not met.

Compliance with GAO's opinion would enable HUD to better monitor grantee performance in a more timely, efficient, and transparent way. It also would strengthen internal controls, bring

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<sup>26</sup> HUD implemented a process, called the cumulative method, to determine a grantee's compliance with the requirements of section 218(g) of the statute and determine the amount to be recaptured and reallocated with section 217(d). HUD measured compliance with the commitment requirement cumulatively, disregarding the allocation year used to make the commitments.

HUD into compliance with HOME statutory requirements, and accurately and reliably report financial transactions.

On June 16, 2015, we issued a memorandum to HUD regarding potential ADA violations due to the noncompliance issues noted above. In the memorandum, we requested that the Chief Financial Officer (1) open an investigation and determine the impact of FIFO and the cumulative method for commitments for the HOME program on HUD's risk of an ADA violation; (2) as part of the violation, obtain a legal opinion from GAO and OMB to determine whether maintaining the cumulative method for determining compliance with the HOME statute results in noncompliance with the statute and potential ADA violations; and (3) if HUD incurred an ADA violation, comply with the reporting requirements at 31 U.S.C. (United States Code) 1351 and 1517(b) and OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, section 145 (June 21, 2005). HUD opened an ADA investigation in response to our memorandum with a target completion date of September 1, 2016, which was later revised to October 24, 2016.

We will continue to report that HUD is not in compliance with laws and regulations until the cumulative method is no longer used to determine whether commitment deadlines required by the HOME Investment Partnership Act are met by the grantees.

### **Subgrantee Monitoring**

In fiscal years 2014 through 2016, at least 15 of our audits have found that in some instances, little or no monitoring occurred, particularly at the subgrantee level. HUD focuses its monitoring activities at the grantee level through its field offices. Grantees, in turn, are responsible for monitoring their subgrantees. HUD should continue to stress the importance of subgrantee monitoring to its grantees. OIG has concerns regarding the capacity of subgrantees receiving funding from HUD programs, including grantees receiving Community Development Block Grant Disaster Recovery (CDBG-DR) funds. Therefore, audits of grantees and their subgrantee activities will continue to be given emphasis this fiscal year as this continues to be a challenge for HUD and its grantees.

### **Section 108 Loan Guarantee Program**

The Section 108 Loan Guarantee program allows grantees of the CDBG program to borrow federally guaranteed funds for community development purposes. Section 108 borrowers obtain up to five times the amount of their annual CDBG grants by pledging to repay Section 108 loans with future CDBG grants in the event of a default. Section 108 thus enables grantees to undertake substantially larger community development projects than CDBG grants alone would support. In May 2015, HUD conducted a public offering of Section 108 guaranteed participation certificates in the amount of approximately \$391 million. The offering consisted of 136 notes from 85 Section 108 borrowers.

HUD considers the program to be a success because there are no reported Section 108 loan defaults. However, this view provides a false sense of success about the Section 108 loan program. There are no reported defaults because borrowers generally use CDBG funds to make loan repayments when funded projects default, when no other source of project income is

available, or when there is a delay in the payment. As a result, the Federal Government bears 100 percent of any losses, regardless of the success of the funded activity.

Audits conducted by OIG for the period 2012 through 2016 identified serious deficiencies in the administration of the Section 108 loan program that affected the effectiveness of the program. We found five Section 108 loans in which loan agreement provisions and HUD requirements were not followed, which resulted in more than \$35.97 million in questioned funds. Borrowers did not ensure that Section 108-funded activities met a national objective of the CDBG program and fully provided the intended benefits. As a result, projects were incomplete or abandoned, and funds were used for ineligible and unsupported efforts. For example, one borrower transferred more than \$6 million in Section 108 loan proceeds to its general fund account as loans for its operations. In addition, loan proceeds were not disbursed within the established timeframe, borrowers did not provide HUD the required loan collateral, borrowers did not establish a financial management system in accordance with HUD requirements, and investments were not fully collateralized. Although HUD was aware of some of these deficiencies, none of the loans were declared in default. In one case, HUD allowed the noncompliance issues to continue for more than 11 years without raising a finding and providing corrective actions or imposing sanctions.

OIG is concerned that these issues, in which more than \$35.97 million was questioned because the loan provisions and HUD requirements were not followed, could have a negative impact on the CDBG program and an adverse effect on the Section 108 Loan Guarantee program objectives. Specifically, the use of HUD funds for efforts not related to the approved activities and projects that did not provide the intended benefits result in a waste of funds.

#### **OIG-CPD Collaboration**

Recently, OIG and HUD CPD began a joint collaboration to assist grantees and subgrantees in the areas in which OIG reported that grantees and subgrantees were most vulnerable. The work group determined that assistance should be provided in the following areas:

- Procurement and contracting,
- Subrecipient oversight,
- Conflicts of interest,
- Internal controls,
- Documentation and reporting, and
- Financial management.

In addition, the Inspector General coauthored a joint letter with Harriet Tregoning, Principal Assistant Secretary, CPD, to State and local governments communicating our collaborative effort to encourage efficient operations and effective accountability for the best use of limited resources. The work group began meeting to develop a series of “integrity bulletins” aimed at providing the grantees and subgrantees with information to help safeguard program funds and ensure that communities get the full benefit of awarded funding. The bulletins on procurement and contracting, conflicts of interest, and subrecipient monitoring and oversight have been sent to grantees and subgrantees during fiscal year 2016, and the work group continues to draft the

remaining bulletins. In addition, the published bulletins are posted on our Web site at [www.hudoint.gov/fraud-prevention](http://www.hudoint.gov/fraud-prevention).

#### ***Summary of OIG Work***

OIG took exception to HUD's not removing the FIFO methodology retroactively, which will continue the departures from generally accepted accounting principles and result in material misstatements on the financial statements. HUD's use of the FIFO methodology contributed to the qualified audit opinion and consecutive disclaimers of audit opinion issued on HUD's financial statements in fiscal years 2013, 2014, and 2015, respectively.

In fiscal years 2014 through 2016, at least 15 of our audits have found that in some instances, little or no monitoring occurred, particularly at the subgrantee level. HUD focuses its monitoring activities at the grantee level through its field offices. We have concerns regarding the capacity of subgrantees receiving funding from HUD programs, including grantees receiving CDBG-DR funds.

Audits conducted by OIG for the period 2012 through 2016 identified serious deficiencies in the administration of the Section 108 loan program that affected the effectiveness of the program. Further, HUD lacked assurance that funds were adequately accounted for, safeguarded, and used for authorized purposes and in accordance with HUD requirements.

In an effort to assist grantees and subgrantees in the areas in which OIG audit reports determined the grantees and subgrantees were most vulnerable, HUD OIG has issued several integrity bulletins aimed at providing the grantees and subgrantees with information to help safeguard program funds and ensure that communities get the full benefit of awarded funding. OIG will continue to work with Harriet Tregoning, Principal Deputy Assistant Secretary, CPD, to encourage efficient operations and effective accountability for the best use of limited resources.

#### **Looking Ahead**

We will continue to monitor these issues and conduct audits as appropriate, related to HUD's community planning and development activities. We are working with HUD through the management decision process to resolve the FIFO methodology and cumulative method recommendations.

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## **Public and Assisted Housing Program Administration**

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HUD provides housing assistance funds under various grant and subsidy programs to public housing agencies (PHA) and multifamily project owners. These intermediaries, in turn, provide housing assistance to benefit primarily low-income households. PIH and the Office of Multifamily Housing Programs provide funding for rent subsidies through public housing operating subsidies and the tenant-based Section 8 Housing Choice Voucher and Section 8 multifamily project-based programs. More than 3,300 PHAs provide affordable housing for 1.1 million households through the low-rent operating subsidy public housing program and for 2.2

million households through the Housing Choice Voucher program. Multifamily project owners assist more than 1.2 million households. The following challenges highlight the various issues faced by the Department:

- Monitoring the Housing Choice Voucher program,
- Central office cost centers,
- Cash management requirements,
- Monitoring Moving to Work (MTW) agencies,
- Overincome families in public housing,
- Environmental review requirements,
- The Indian Home Loan Guarantee program,
- Monitoring small and very small housing agencies, and
- The physical condition of Housing Choice Voucher program units.

#### **Monitoring the Housing Choice Voucher Program**

HUD has a challenge in monitoring the Housing Choice Voucher program. The program is electronically monitored through PHAs' self-assessments and other self-reported information collected in PIH's systems. Based on recent audits and HUD's onsite confirmatory reviews, the self-assessments are not always accurate, and the reliability of the information contained in PIH systems is questionable. Due to its limited funding for new systems development and staffing constraints, PIH employs a risk-based approach to monitoring using its Utilization Tool and National Risk Assessment Tool. HUD will continue to face challenges in monitoring this program until it has fully implemented a reliable, real-time, and all-inclusive monitoring tool.

#### **Central Office Cost Centers**

PIH has a challenge in balancing its responsibility to protect HUD funds and streamlining activities to provide relief for PHAs. PHAs using a fee-for-service model pay a central office cost center for certain costs rather than allocating overhead costs. This practice impacts Housing Choice Voucher, Public Housing Operating Fund, and Public Housing Capital Fund program funds. Once paid to the central office cost center, the funds are defederalized and are no longer required to be spent on these programs. Ensuring that only the funds that are needed are transferred to the central office cost center will allow more funds to be used directly for the programs. HUD will develop rulemaking to ensure that Housing Choice Voucher, Public Housing Operating Fund, and Public Housing Capital Fund program funds are not defederalized when paid to the central office cost center. This measure will ensure that excess fees paid into the account will remain available to the program. HUD has also agreed to establish a process to regularly assess the reasonableness of the asset management fees. However, we continue to be concerned that we have not received justification regarding the need for an asset management fee.

Our 2014 report<sup>27</sup> found that HUD could not adequately support the reasonableness of operating fund management, book-keeping, and asset management fees and Public Housing Capital Fund management fee limits. In addition, HUD lacked adequate justification for allowing PHAs to

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<sup>27</sup> Audit Report 2014-LA-0004, HUD Could Not Support the Reasonableness of the Operating and Capital Fund Programs' Fees and Did Not Adequately Monitor Central Office Cost Centers, June 30, 2014

charge an asset management fee, resulting in more than \$81 million in operating funds being unnecessarily defederalized annually. HUD continues its desire to maintain the fee-for-service model, which is similar to the model used by the Office of Multifamily Housing Programs.

#### **Cash Management Requirements**

In fiscal year 2012, PIH implemented procedures to reduce the amount of excess funds accumulating in PHAs' net restricted asset accounts in accordance with Treasury's cash management requirements as directed by a congressional conference report. By that point, a significant amount of reserves had accumulated with the PHAs. As of 2015, most of the traditional PHA funds had been transitioned back to HUD, but HUD faced an additional challenge of quantifying and transitioning excess funds from its MTW program PHAs. This process was complex and time consuming because the composition of these balances included funding from other HUD programs and was not being tracked separately by HUD or the PHAs. During fiscal years 2015 and 2016, PIH worked with MTW PHAs to determine their accumulated balances. Through PIH's confirmation and validation process, MTW PHAs reported holding \$466.5 million and \$425.6 million, as of September 30, 2015, and March 31, 2016, respectively. However, several PHAs reported that the amount they confirmed should not be transitioned for a variety of reasons, such as that the PHA used the accumulations as collateral, owed funds to other programs under the MTW program, or had upcoming commitments before the planned August transition. HUD evaluated each reason provided by the PHA to determine the proper amount available for transition and had transitioned \$218 million back to HUD as of September 1, 2016. We are in the process of evaluating the amount transitioned to determine whether it is adequate to satisfy cash management requirements.

Adding to this challenge, HUD continues to lack an automated process to complete the reconciliations required to monitor all of its PHAs and ensure that Federal cash is not maintained in excess of immediate need. Reconciliations are prepared manually on unprotected Excel spreadsheets for more than 2,200 PHAs receiving approximately \$17 billion annually. This process is time consuming and labor intensive and does not allow for accurate financial reporting at the transaction level as required by FFMIA. It also increases the risk of error and fraud and causes significant delays in the identification and offset of excess funding. We recommended that HUD automate this process during our 2013 financial statement audit, and the matter was elevated to the Deputy Secretary for a decision on March 31, 2015. We are still awaiting a response.

#### **Monitoring MTW Agencies**

HUD's monitoring and oversight of the 39 PHAs participating in the MTW demonstration program is particularly challenging. The MTW program provides PHAs the opportunity to develop and test innovative, locally designed strategies that use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. However, in the more than 20 years since the demonstration program began, HUD has not reported on whether the program is meeting its objectives. HUD is experiencing challenges in developing programwide performance indicators that will not inhibit the participants' abilities to creatively impact the program. In 2013, HUD management developed new metrics to help measure program performance and stated that new contracts would allow it to better evaluate each agency's performance. According to HUD, it has extensively engaged with the 39 MTW

PHAs to extend their agreements through 2028. In December 2015, the 2016 Consolidated Appropriations Act authorized HUD to expand the program to include an additional 100 participants over 7 years without knowing whether participating agencies are reducing costs to gain increased housing choices and incentives for families to work. We continue to believe that HUD could benefit from a formalized process for terminating participants from the demonstration program for failure to comply with their agreement.

#### **Overincome Families in Public Housing**

HUD is challenged in addressing families having excessive income being allowed to continue to reside in public housing units, since HUD regulations require families to meet eligibility income limits only when they are admitted to the public housing program. Neither public law nor regulations limited the length of time that families could continue to reside in public housing regardless of their income. In December 2004, HUD issued a final rule giving PHAs discretion to establish and implement policies that would require families with incomes above the eligibility income limits to find housing in the unassisted market. Our 2015 audit found that as many as 25,226 families, whose income exceeded HUD's 2014 eligibility income limits, lived in public housing. The PHAs that we contacted during the audit chose not to impose limits based on the notice.

As result of our work and after much public and congressional concern, legislation passed unanimously in both the U.S. House and Senate to address the issue, and the legislation was signed into law by President Obama in July 2016. The legislation requires PHAs to either evict overincome families after 2 consecutive years of exceeding the applicable income limitation or raise their rent to the applicable fair market rent for a unit in the same market area of the same size or the amount of the monthly subsidy of operating funds and capital funds used for the unit. It also requires PHAs to submit an annual report that specifies the number of families residing in public housing that had incomes exceeding the applicable income limitation and the number of families on the PHA's waiting lists for admission to public housing. HUD's Office of General Counsel is developing a plan for implementation that will include the creation of regulations through public involvement in the rulemaking process.

#### **Environmental Review Requirements**

HUD has a duty to ensure that its projects are free of environmental hazards. As a result of recent OIG reports,<sup>28</sup> HUD began providing more training to staff and grantees and implemented processes to improve its training program and curriculum to better support all program areas. Also, HUD was piloting a recently developed electronic data system, HUD's Environmental Review Online System (HEROS), which is part of HUD's transformation of IT systems.

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<sup>28</sup> Audit Report 2015-FW-0001, HUD Did Not Adequately Implement or Provide Oversight To Ensure Compliance With Environmental Requirements, June 16, 2015; Audit Report 2014-FW-0005, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Detroit Office, September 24, 2014; Audit Report 2014-FW-0004, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Greensboro Office, July 14, 2014; Audit Report 2014-FW-0003, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Columbia Office, June 19, 2014; Audit Report 2014-FW-0002, Improvements Are Needed Over Environmental Reviews of Public Housing and Recovery Act Funds in the Kansas City Office, May 12, 2014; and Audit Report 2014-FW-0001, The Boston Office of Public Housing Did Not Provide Adequate Oversight of Environmental Reviews of Three Housing Agencies, Including Reviews Involving Recovery Act Funds, February 7, 2014

HEROS will convert HUD's paper-based environmental review process to a comprehensive online system that shows the user the entire environmental process, including compliance with related laws and authorities. It will allow HUD to collect data on environmental reviews performed by all program areas for compliance. HUD's Office of Environment and Energy has also implemented an internal process within HEROS to track findings, which will allow the program areas to focus training on recurring issues. Risk-based compliance monitoring by HUD's field staff will target the highest risk PHAs and responsible entities based on identified factors and will result in improved compliance with environmental review requirements as well as align PIH with previously OIG-endorsed models within HUD.

While HUD has made improvements, it faces several challenges, including a lack of resources, unclear guidance, and a perceived lack of authority to impose corrective actions or sanctions on responsible entities. Until HUD fully addresses these needed improvements, inadequate environmental reviews may contribute to an increased risk in the health and safety of the public and possible damage to the environment. For the five Office of Public Housing field offices we visited, PHAs spent almost \$405 million for activities that either did not have required environmental reviews or had reviews that were not adequately supported.

### **The Indian Home Loan Guarantee Program**

With annual increases in funding and the number of loans guaranteed, the Section 184 Indian Home Loan Guarantee program continues to be an area of concern. The Section 184 program is a great resource for the Native American community. However, the lack of controls, oversight, and enforcement increases the risk to the program. OIG recently completed an audit<sup>29</sup> detailing how the Office of Loan Guarantee did not provide adequate oversight of the Section 184 program, resulting in an increased overall risk to the program. We found that HUD did not identify underwriting deficiencies in 3,845 guaranteed loans totaling more than \$705 million. Given the lack of enforcement and the Office of Native American Programs' acknowledgement that there is significant room for improvement, there is continued risk for fraud, waste, and abuse within the Office of Loan Guarantee and at the lender level. This lack of oversight and high incidence of poorly underwritten loans has the potential to negatively impact the financial standing of Native American communities. HUD agrees that new or revised policies for its program would allow it to better track and monitor the loan guarantees. PIH is working to find an automated solution.

### **Monitoring Small and Very Small Housing Agencies**

HUD faces challenges in monitoring PHAs when more than 2,000 of its 3,000 PHAs are small or very small. Since these PHAs receive approximately 12 percent (or an estimated \$732 million) of HUD's \$6.1 billion in low-rent authorized funding, it creates oversight burdens and costs for both HUD and PHAs that are disproportionate to the number of families these PHAs serve. In a recent report,<sup>30</sup> we found that a significant cause of the deficiencies identified in small and very small PHAs was that executive directors and boards of commissioners either chose to ignore requirements or lacked sufficient knowledge to properly administer their programs. HUD uses a

<sup>29</sup> Audit Report 2015-LA-0002, HUD Did Not Provide Adequate Oversight of the Section 184 Indian Home Loan Guarantee Program, July 6, 2015

<sup>30</sup> Audit Report 2015-FW-0802, Very Small and Small Public Housing Agencies Reviewed Had Common Violations of Requirements, September 16, 2015



national risk-based approach to identify PHAs that may have governance issues to provide direct support. In addition, in 2015, HUD launched an online training course, *Lead the Way*, which is designed to help PHAs' boards and staff fulfill their responsibilities in providing effective governance and oversight. However, we remain concerned that the administrators, board members, and local officials do not have the resources or information available to them to properly administer their programs. Further, we are concerned that without additional oversight or outreach, there is increased risk of fraud, waste, and abuse going undetected at these entities.

In an effort to promote awareness, HUD OIG has issued several industry advisories that highlight areas of risky and illegal activities that jeopardize the integrity of otherwise legitimate housing programs. The advisories are posted on our Web site at [www.hudoig.gov/fraud-prevention](http://www.hudoig.gov/fraud-prevention). Several advisories were directly related to PHAs and were emailed to executive directors. In addition, the Inspector General coauthored a joint letter with Lourdes M. Castro Ramirez, Principal Deputy Assistant Secretary, PIH, to PHAs communicating our collaborative effort to encourage efficient operations and effective accountability for the best use of limited resources. The letter also introduced *Lead the Way*, a training module for board members and executive staff.

### **The Physical Condition of Housing Choice Voucher Program Units**

In response to a 2008 audit report,<sup>31</sup> HUD developed a plan to monitor the physical condition of its Housing Choice Voucher program units. HUD is testing a system of inspections similar to the model used for its public housing units and multifamily projects. However, this testing, with an initial target completion date of September 30, 2014, is taking considerably longer than expected. HUD has performed initial inspections of more than 30,000 voucher units. However, it needs resources to continue developing the new protocol and related software for its comprehensive monitoring system. A demonstration program has been developed to implement the revised protocol. Meanwhile, we continue to identify PHAs with inspection programs, which do not ensure that voucher program units comply with standards.

Our 2008 audit report found that HUD did not have adequate controls to ensure that its Section 8 housing stock was in material compliance with housing quality standards. This condition occurred because HUD had not fully implemented its Section 8 Management Assessment Program. As a result, it could not ensure that the primary mission of the Section 8 program, paying rental subsidies so that eligible families can afford decent, safe, and sanitary housing, was met. In addition, HUD's lack of knowledge regarding the condition of its Section 8 housing stock resulted in inflated performance ratings for PHAs administering the program. As a result, HUD routinely rated some agencies as being high performers when a significant percentage of the units they administered were in material noncompliance with housing quality standards. We also continue to audit the physical condition of Housing Choice Voucher program units.

### ***Summary of OIG Work***

In recent audit reports, we demonstrated that PIH continues to face challenges in (1) monitoring the Housing Choice Voucher program, (2) balancing its responsibility to protect HUD funds and streamlining activities to provide relief for PHAs, (3) fully implementing cash management

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<sup>31</sup> Audit Report 2008-AT-0003, HUD Lacked Adequate Controls Over the Physical Condition of Section 8 Voucher Program Housing Stock, May 14, 2008

requirements, (4) developing programwide performance indicators that will not inhibit the MTW participants' abilities to creatively impact the program, (5) addressing families having excessive income being allowed to continue to reside in public housing units, (6) ensuring that PHA projects are free of environmental hazards, (7) providing adequate oversight of the Section 184 program, (8) monitoring small and very small PHAs, and (9) ensuring that its Section 8 housing stock was in material compliance with housing quality standards.

In an effort to promote awareness, HUD OIG has issued several industry advisories that highlight areas of risky and illegal activities that jeopardize the integrity of otherwise legitimate housing programs and will continue to work with Lourdes M. Castro Ramirez, Principal Deputy Assistant Secretary, PIH, to encourage efficient operations and effective accountability for the best use of limited resources.

#### **Looking Ahead**

We will continue to work with and monitor HUD's actions to address challenges in these areas. We will continue to audit PHAs to identify other areas of concern that may arise.

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## **Administering Programs Directed Toward Victims of Natural Disasters**

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Congress has frequently provided supplemental appropriations through HUD's CDBG program to help communities recover from natural and man-made disasters. The CDBG program is flexible and allows CDBG-DR grants to address a wide range of challenges. Congress has appropriated more than \$47 billion in supplemental funding to HUD since 1993 to address long-term recovery in the wake of the attacks of September 11, 2001; Hurricanes Katrina, Rita, and Wilma in 2005; Hurricanes Ike and Gustav and Midwest flooding in 2008; and Hurricane Sandy in 2012. Most CDBG-DR funding is available until spent, with the exception of the Hurricane Sandy funding, which must be obligated by the end of fiscal year 2017.

Although HUD has made progress in recent years with assisting communities recovering from disasters, it faces several management challenges in administering these grants. Based on our prior and current audits, we identified the following challenges for the Department regarding the disaster recovery program:

- Ensuring that expenditures are eligible and supported,
- Certifying that grantees are following Federal procurement regulations,
- Conducting consistent and sufficient monitoring efforts on disaster grants, and
- Keeping up with communities in the recovery process.

#### **Ensuring That Expenditures Are Eligible and Supported**

The Department faces significant challenges in monitoring disaster program funds provided to various States, cities, and local governments under its authority. This challenge is particularly pressing for HUD because of the limited resources to directly perform oversight, the broad

nature of HUD projects, the length of time needed to complete some of these projects, the ability of the Department to waive certain HUD program requirements, and the lack of understanding of disaster assistance grants by the recipients. HUD must ensure that the grantees complete their projects in a timely manner and use the funds for their intended purposes. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover due to limited resources. However, oversight of these projects is made more difficult due to the diverse nature of HUD projects and the fact that some construction projects may take between 5 and 10 years to complete. HUD must be diligent in its oversight to ensure that grantees have identified project timelines and are keeping up with them. HUD also must ensure that grantee goals are being met and that expectations are achieved.

OIG has completed 23 audits and 1 evaluation as well as investigation-related actions relating to CDBG-DR funding for Hurricane Sandy and other eligible events occurring in calendar years 2011, 2012, and 2013. We have identified \$3.8 million in ineligible costs, \$482 million in unsupported costs, and \$5.2 billion in funds put to better use. There are a number of other audits and evaluations as well as investigative work, which are currently underway. Before Hurricane Sandy, OIG had extensive audit and investigative experience with HUD's CDBG-DR program, most notably with grants relating to recovery after Hurricane Katrina and the terrorist attacks of September 11, 2001. While over the years, HUD has gained more experience and has made progress in assisting communities recovering from disasters, it continues to face challenges in administering these grants.

HUD faces a significant management challenge to ensure that funds disbursed for disaster recovery programs are used for eligible and supported items. We have highlighted three audit reports that illustrate these challenges for HUD in administering disaster recovery programs.

- In our review of New York State's Small Business Grants and Loans program,<sup>32</sup> we determined that State officials did not establish adequate controls to ensure that CDBG-DR funds were disbursed for eligible costs. As a result, the State disbursed \$272,459 in CDBG-DR funds for ineligible costs and \$152,703 for unsupported costs. In addition, State officials did not adequately ensure that \$300,000 was disbursed to eligible businesses and that ineligible costs could be promptly recaptured.
- In our review of Luzerne County's Disaster Recovery grant program,<sup>33</sup> we determined that County officials did not ensure that subrecipients followed procurement requirements and lacked documentation to support funds disbursed for a building rehabilitation project. As a result, HUD and County officials did not have assurance that \$227,243 disbursed for contracts related to street improvements and flood drainage facilities was spent for costs that were fair and reasonable and that \$109,423 disbursed for a building rehabilitation project was used in accordance with HUD and Federal requirements.

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<sup>32</sup> Audit Report 2016-NY-1006, New York State Did Not Always Disburse Community Development Block Grant Disaster Recovery Funds in Accordance With Federal and State Regulations, March 29, 2016

<sup>33</sup> Audit Report 2016-PH-1004, Luzerne County, PA, Did Not Always Use Disaster Funds in Accordance With HUD and Federal Requirements, June 18, 2016

- In our review of Rhode Island's Disaster Recovery grant program,<sup>34</sup> we found that State officials generally obligated and disbursed Sandy funds in a timely manner in accordance with HUD rules and regulations. However, State officials obligated \$127,750 for one project without performing an adequate duplication of benefits analysis and cost analysis before procuring rehabilitation services.

We attributed these conditions to the grantees' weaknesses in maintaining file documentation, unfamiliarity with HUD rules and regulations, and failure to follow State and Federal procurement regulations.

#### **Certifying That Grantees Are Following Federal Procurement Regulations**

We continue to have concerns about HUD's ability to ensure that disaster grantees are following Federal procurement regulations. Grant recipients of HUD CDBG-DR funds must provide a copy of their procurement standards and indicate the sections of their procurement standards that incorporate the Federal standards. The State and its subgrantees may follow their own State and local laws, so long as the procurements conform to applicable Federal law and standards. Further, a State must establish requirements for procurement policies and procedures based on full and open competition. In addition, all subgrantees of a State are subject to the procurement policies and procedures required by the State, so long as the procurements conform to applicable Federal law and standards. In our recent audit of the State of New Jersey's CDBG-DR Superstorm Sandy Housing Incentive Program,<sup>35</sup> auditors found that the State did not prepare an independent cost estimate and cost analysis before receiving bids or proposals and awarding the contract. These conditions occurred because the State did not have adequate controls in place to administer its contract and monitor contract performance. Further, it was not fully aware of applicable Federal procurement and cost principle requirements. As a result, HUD did not have assurance that the \$43.1 million disbursed under the contract was for costs that were reasonable and necessary.

Our audits of disaster programs found CDBG procurement violations and other contracting problems. For example, in a recent internal audit of HUD's controls over its certifications of State disaster recovery grantee procurement processes,<sup>36</sup> we found that HUD did not always provide accurate and supported certifications of State disaster grantee procurement processes. Specifically, HUD (1) allowed conflicting information on its certification checklists, (2) did not ensure that required supporting documentation was included with the certification checklists, and (3) did not adequately evaluate the supporting documentation submitted by the grantees. As a result, HUD did not have assurance that State grantees had sufficient procurement processes in place, and the Secretary's certifications did not meet the intent of the Disaster Relief Appropriations Act of 2013.

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<sup>34</sup> Audit Report 2016-BO-1001, The State of Rhode Island Generally Administered Its Community Development Block Grant Disaster Recovery Assistance Grant in Accordance With Federal Regulations, March 09, 2016

<sup>35</sup> Audit Report 2016-PH-1009, State of NJ's CDBG DR "Superstorm Sandy Housing Incentive Program," September 30, 2016

<sup>36</sup> Audit Report 2016-PH-0005, HUD Certifications of Disaster Procurement Processes, September 29, 2016

### **Conducting Consistent and Sufficient Oversight Efforts on Disaster Grants**

Another area of concern is HUD's ability to properly monitor all disaster grant recipients. Based on our fiscal year 2015 financial statement audit, we communicated to HUD that it did not always monitor disaster grants in accordance with its policies and procedures. Specifically, monitoring reports were not issued in a timely manner, and followup on monitoring findings was not performed consistently or in a timely manner. As reported in prior years, HUD faces difficulties in timely report issuance and monitoring of disaster program funds because of limited resources to perform the oversight and an aggressive monitoring schedule for Hurricane Sandy grantees. The inconsistent nature of the disaster recovery programs and HUD's intense workload continued to surpass its efforts to mitigate its challenges and conduct its work in a timely manner. Since HUD disaster assistance may fund a variety of recovery activities, HUD can help communities and neighborhoods that otherwise might not recover. However, HUD must be diligent in its oversight duties to ensure that grantees have completed their projects in a timely manner and that they use the funds for their intended purposes. Untimely resolution of grantee performance and financial management issues increase the programs' susceptibility to instances of fraud, waste, abuse, and mismanagement of funds.

### **Challenges in Administering Disaster Programs**

Keeping up with communities in the recovery process is challenging for HUD. Congress has appropriated \$47 billion to HUD since fiscal year 1993 for disaster assistance. Of the active disaster grants, HUD has more than \$36 billion in obligations and \$33 billion in disbursements. Although in some cases, many years have passed since the specific disaster occurred, significant disaster funds remain unspent. Thus, HUD must ensure the timely expenditure of funds, compliance with procurement requirements, and timely oversight efforts.

### ***Summary of OIG Work***

Our audit reports exposed the challenges for HUD in administering disaster recovery programs. They highlighted CDBG procurement violations and other contracting problems. Also, the reports illustrated grantee control problems with ineligible and unsupported cost items. As reported in prior years, HUD faces difficulties in timely report issuance and monitoring of disaster program funds because of limited resources to perform the oversight and an aggressive monitoring schedule for Hurricane Sandy grantees.

### **Looking Ahead**

We will continue our audit, investigative, and evaluation work regarding HUD's disaster recovery activities, including (1) the timely expenditure of funds, (2) compliance with procurement requirements, and (3) timely oversight efforts.

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## **Departmental Enforcement**

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A common thread underlying several of the issues discussed earlier is the lack of a cohesive departmental approach to monitoring, risk management, and follow-through for OIG findings

and recommendations. In an evaluation<sup>37</sup> we conducted on the effectiveness of the Departmental Enforcement Center (DEC), we found that the Department does not have an enterprise risk management approach to monitoring. Its monitoring is, for the most part, contained in each program office, and the approaches and results differ greatly.

While there were some successes, a much greater task lies ahead. DEC, working with the Office of Multifamily Housing Programs and the Real Estate Assessment Center, had improved housing physical conditions and financial management of troubled multifamily properties. Although some other program offices had taken steps toward risk-based enforcement, they had not taken full advantage of the benefits demonstrated when programs allow DEC to assess compliance and enforce program requirements. DEC proved that it can remedy poor performance and noncompliance when programs are willing to participate in enforcing program requirements.

DEC was established in part to overcome a built-in conflict of roles. The HUD management reform plan stated that program offices had a conflicting role in getting funds to and spent by participants versus holding them accountable when fraud or mismanagement of the funds occurs. However, memorandums of understanding between DEC and the program offices, for the most part, limit DEC's ability to monitor, report, and take action to end noncompliance. While the Office of General Counsel disagreed with much of our report, it is working with the program offices to strengthen the memorandums of understanding. However, we emphasize that new agreements need to give DEC clear and increased enforcement authority for it to be effective as a separate entity.

#### *Summary of OIG Work*

We conducted an evaluation of the effectiveness of DEC and found that the Department does not have an enterprise risk management approach to monitoring. Its monitoring is, for the most part, contained in each program office, and the approaches and results differ greatly.

#### **Looking Ahead**

We will continue to evaluate the Department's approach to monitoring, risk management, and follow-through for OIG findings and recommendations.

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## **Operational and Financial Reporting Challenges Affecting Ginnie Mae**

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Managing counterparty risks and strengthening Ginnie Mae's financial management accountability have been and continue to be the major challenges affecting Ginnie Mae in fiscal year 2016 and in the coming years. Key factors that contributed to these challenges include the

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<sup>37</sup> Evaluation Report 2015-OE-0004, Comprehensive Strategy Needed To Address HUD Acquisition Challenges, February 2, 2016

rise of nonbanks, lack of resources, inadequate financial systems, and lack of a fully functioning financial management governance framework.

### **Managing Counterparty Risks**

Ginnie Mae mortgage-backed securities (MBS) are the only securities to carry the full faith and credit guaranty of the United States Government. If an issuer fails to make the required pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. In the aftermath of the 2008 financial crisis, a number of regulated banks have retreated from securitizing mortgages, and in this vacuum, the ranks of nonbank institutions have increased. As of today, 7 of 10 Ginnie Mae issuers are nonbanks. Unlike regulated banks, these entities lack a primary prudential regulator to ensure their safety and soundness. Also, these entities are not as well capitalized as regulated banks. Thus, Ginnie Mae has to mitigate these risks with greater oversight and resources dedicated to nonbank compliance, resources Ginnie Mae does not have. In the near term, these changes have strained both its operating and financial resources.

Historically, Ginnie Mae issuer defaults have been infrequent, involving small- to medium-size issuers. However, major unanticipated nonbank issuer defaults, like Taylor, Bean & Whitaker Mortgage Corporation in 2009, have led to a multi-billion-dollar rise in Ginnie Mae's mortgage servicing as well as its repurchase of billions of dollars in defaulted loans to meet its guarantee to the MBS investors. In 2016, Ginnie Mae was exposed to a 5-year, \$7.5 million mortgage fraud scheme executed by a small long-term issuer. The issuer exploited a flaw in the issuer buyout program by defaulting loans it serviced, buying the delinquent loans out of the pool, and resecuritizing them.

### **Financial Reporting Challenges**

Although Ginnie Mae has made progress in financial management governance issues in fiscal year 2016, there remain significant issues that warrant the attention of Ginnie Mae's stakeholders.

For the third year in a row, our annual financial statement audit of Ginnie Mae received a disclaimer of opinion due to its nonpooled loans assets (NPA) being unauditible. This year, Ginnie Mae acknowledged that the NPA balances are not supportable and not in accordance with generally accepted accounting principles. Ginnie Mae has reengaged its financial reporting and audit readiness contractor to assist in the development of its loan-level accounting system and related infrastructure.

With the approval of OMB and Congress, Ginnie Mae has significantly increased its management capacity. The total number of Ginnie Mae full-time employees increased from 89 in fiscal year 2012 to 130 at the end of fiscal year 2015. However, Ginnie Mae continues to have issues with staffing. Some personnel were hired in 2016 on a rolling basis. Of the 17 positions identified during the fiscal year, 7 were still unfilled as of mid-August. Ginnie Mae continues to rely heavily on third-party contractors to perform almost all key operating loan servicing, pool processing, and other functions. It is vital to the country's larger financial health that Ginnie Mae be able to significantly increase staffing and benefit from a pay structure that will allow it to

attract and hire individuals with the needed skills, knowledge, and abilities to manage a \$1.6 trillion program.

In fiscal year 2016, Ginnie Mae revamped a majority of its existing accounting policies and procedures, which have not been updated for many years, to comply with changes in generally accepted accounting principles among other things. Ginnie Mae has not finalized all of its accounting policies, and the accounting procedures are still in process. Currently, 5 of the 20 policies have been finalized. The remaining guidelines are in various stages of development. Therefore, the underlying accounting problems that are preventing Ginnie Mae from obtaining a clean audit opinion will continue until the accounting policies and procedures have been finalized and fully implemented and Ginnie Mae is appropriately staffed with the needed skills to manage its accounting requirements.

#### ***Summary of OIG Work***

We identified significant financial governance issues within Ginnie Mae. In fiscal year 2015, Ginnie Mae failed to maintain a governance framework that allowed appropriate policies, people, systems, and controls to ensure the reliability and integrity of Ginnie Mae's financial and accounting information.

#### **Looking Ahead**

Ginnie Mae will continue to face challenges in this dynamic environment due to the shift in its business model. Ginnie Mae and HUD have yet to adequately respond to this new concept and properly mitigate these risks by implementing a sound infrastructure and control environment. Ginnie Mae has stated that it would require a significant investment in technology, infrastructure, and people spanning multiple years to make its significant financial assets auditable. HUD and Ginnie Mae need to engage with Congress to lay out priorities, accelerate needed human capital and infrastructure improvements, and mitigate risks faced by the entity.

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## **Conclusion**

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HUD will continue to face the challenges we have described until it puts controls and adequate resources in place to provide the necessary oversight and enforcement of HUD's programs and operations. We remain committed to working collaboratively with HUD and will continue to strive to provide best practices and reasonable recommendations that support HUD's mission and responsibilities.



Chairman DIAZ-BALART. Thank you very much, sir. We, obviously, have many issues to talk about and I know that a lot of members have questions.

Members, we will proceed in the standard 5-minute rounds, alternating sides, recognizing members in order of seniority as they were seated at the beginning of the hearing. We will try to move quickly so everyone can get their questions in.

Be mindful of your time. Obviously, the 5 minutes includes not only your questions, but also the answer time. And I will, by the way, adhere to that as well. So I will be mindful of that as well.

Let me start, Inspector Montoya, with you. For several years now, and you mentioned it right now in your testimony, that your office has been—well, frankly, has had to express disclaimers on HUD's consolidated financial statements. Every Federal agency should be able to produce financial statements that meet audit standards, but this is, obviously, especially important for a financial institution like HUD.

As simply as you can, if you can please provide the committee with an update on the state of financial grievances and governance, the governance issue at HUD, if you would?

Mr. MONTOYA. I will do my best to keep it under an hour and a half.

Chairman DIAZ-BALART. And simple, right?

Mr. MONTOYA. And simple. I will do my best.

Chairman DIAZ-BALART. Of course.

Mr. MONTOYA. Thank you, Mr. Chairman. I think I would sort of roll this all up into one quick phrase and that is a failure of leadership at all levels. Having said that, this is a good example of the interdependencies and interrelationships of the many programs that HUD faces.

Let us start with human capital. They do not have the appropriate skills, knowledge, and expertise to prepare Federal financial statements. That is different from budget process. You couple that human capital concern that HUD has had for a number of years, and you overlay that onto the dependency on IT systems that, in many cases, were never designed to handle financial management processes, they are aging, and you end up with a confluence of the problems that you see, right, lack of internal controls and then lack of systems that can provide the relevant information that they need. That is the shortest answer I can give you.

With regards to the failure of leadership, I do not think for several administrations now there has been a real look at prioritizing the type of skill sets and the personnel they need to get to address these many issues, not only in the financial management internal controls area, but also in their IT, security, and infrastructure.

Chairman DIAZ-BALART. Let me try to see if I can get you to specifically, if you can, comment on HUD's use of internal controls regarding its financial statements.

Mr. MONTOYA. Well, the problem with the Department is it is heavily siloed. So most of the financial accounting processes are not centered into the Chief Information Officer. They are basically left to the various programs, and in many cases these programs do not understand general accounting principles, if you will.

And so often they are putting systems into place that do not comport with Federal financial management. And so when you go to roll the systems up for the financial statements, we see a number of areas where there are mistakes, if you will.

Chairman DIAZ-BALART. You know, that is, obviously, extremely disappointing and it is not the first time that we have heard this kind of thing. It is a persistent problem at HUD. Now, I think most of us would agree that what makes it more difficult, actually more alarming, is that HUD has been without a Chief Financial Officer (CFO) for more than 18 months. So, you know, I do not know how an agency can deal with all these issues without having a qualified CFO.

And so can you briefly discuss what is happening there, and also what gaps do you think HUD needs to fill to tackle some of these problems that you have mentioned?

Mr. MONTOYA. Yes, sir. They have, in fact, have been without a CFO for quite some time. I would say that out of their nine senior accounting positions only two of them, at best, have an accounting background, let us say a certified public accounting type of certification. A lot of them are budget-related type backgrounds. But, again, that is different from Federal financial management. And so that is problem number one and goes back to my earlier statement that they do not understand the intricacies of the systems they oversee.

The best example is this idea that somebody could approve to round to the nearest billion and hundred billion when all that is allowed is a million.

Chairman DIAZ-BALART. Yeah, that is insane.

Mr. MONTOYA. So you understand how the numbers get crazy.

Chairman DIAZ-BALART. That is insane.

Mr. MONTOYA. Yes, sir.

Chairman DIAZ-BALART. And I am trying to be kind.

Mr. MONTOYA. I would not disagree with you, sir. And that goes, again, to the lack of experience and knowledge that you need in a CFO's office to prepare the statements.

I will give you an example, if you will bear with me for a second here. So the assistant chief financial officer for accounting has an MBA in finance, but that does not necessarily relate to the accounting principles that individual needs to know. So I think that would be my biggest concern is, again, the failure of leadership to get these positions filled and get them filled with the appropriate skilled staff.

Chairman DIAZ-BALART. In the 14 seconds that I have, the fact that they have not prioritized filling the CFO position, to me, does it take 18 months usually?

Mr. MONTOYA. I would not think so, sir. But apparently it has here.

Chairman DIAZ-BALART. Thank you, sir.

Mr. Price, you are recognized, sir.

Mr. PRICE. Thank you. I would like to ask both of you to address conflicts of interest and how your offices deal with them, what your responsibility is, and a couple of more detailed aspects of that. Of course, this is especially a challenge as we start a new administration, hundreds of new personnel come into the departments to fill

important positions. These individuals bring experience from outside government.

With that comes, of course, the risk of conflicts of interest. Such conflicts become a focus of Senate confirmation hearings, so Cabinet-level nominees. But the scrutiny, of course, has to go beyond that and that is where, I assume, your offices come in.

So what role do the inspector general offices play in investigating conflicts of interest, assessing the effectiveness of the Department's existing processes to deal with conflicts of interest? How are these concerns brought to your attention, typically? What responsibility do you have to deal with them? Are you free to initiate inquiries before a complaint is registered? And then how do you handle potential conflicts of interest after a senior officer is confirmed? Do you proactively review ethics filings? You see where I am going? I would appreciate your elaborating as much of this as time permits.

Mr. SCOVEL. Thank you, Mr. Price. Let me take a stab at it from the perspective of the Department of Transportation. Our Office of Inspector General (OIG) takes its responsibility to investigate allegations of conflict of interest most seriously, and over the years we have done so with some notable successful investigations and prosecutions.

We receive allegations from many different sources, oftentimes through our Hotline, oftentimes through information that is presented by other Federal employees, frankly, to our field officers, our field investigative offices. And in some instances our field offices are colocated with other Department offices, and so staff get to know staff and generates that kind of understanding and trust so that we will come by interest might exist.

Through our investigative resources we will pursue as quickly and as thoroughly as possible any allegation of a conflict that rises potentially to the level of a crime. We are under obligation as well, as an OIG, to inform the FBI in every case where public corruption—and that is one of the acknowledged and longstanding focuses of interest on the part of the FBI—where any allegation of public corruption might be involved. And together we will investigate these cases.

I have referred to a couple of notable examples, one dating back some years now, but it involved the Deputy Administrator at the Federal Railroad Administration (FRA), and allegations that she had improper business relationships with other associates in the industry, business and personal relationships.

Much more recently than that we investigated and arrested and secured a conviction, with the assistance of the U.S. Attorney's Office in the District of New Jersey, of the number-two Federal Highways official for the State of New Jersey. He was alleged to have engaged in conduct that amounted to a conflict of business interest between what he was supposed to be doing for the Department and the government and what he was doing on the side as well.

We also review with the Department, and the Department has a standing obligation, the Department's agency ethics officials have a standing obligation, to refer to us any matters that they have questions about. And occasionally we will get information through those sources, too.

So, to sum it up, sir, we take it most seriously. We have a proven track record. We will continue to keep our eyes open, and, in fact, we have a couple of inquiries open at the moment that I am not at liberty to discuss in a setting like this. But I hope I can reassure you that we do understand that to be one of our prime responsibilities.

Mr. PRICE. Thank you. Mr. Montoya?

Mr. MONTOKA. Yes, Mr. Price. We, like Inspector General Scovel, do take the matters seriously. We have a proven track record as well at looking at conflicts of interest. On several occasions we have found that they are unfounded and we move on. Several cases we have found issues.

One in particular had to do with the deputy secretary some years ago on a lobbying issue. I believe in that case he was ill-served by the Office of Ethics for the Department. And I think that within the Office of Ethics in the Department I would not have any confidence in them, sir. They have proven time and time again that they do not have, I guess, the ability to speak truth to power, if you will, and to make the tough calls when necessary.

As an example, they referred a matter to us of an ex-employee who may be lobbying, if you will, back into the Department, having business with the Department that they should otherwise not have. When we go back to them with our findings and the results, because they are the ones that have to make the determination as to whether there has been an ethics violation, they do not want to make that determination and that troubles me that they will not want to make the determination.

We had another example having to do with the interpersonal act, hiring appointments, where an individual from the regulated community was brought into the Department in a high-level position, and the Office of Ethics was nowhere to be found when it came to not only this individual's financial disclosure reports, but talking to the Secretary and the Deputy Secretary about what this person should or could do while they were in the Department.

Now, in fairness to them, I think any Office of Ethics within a department or agency should have some degree of organizational independence. It is that organizational independence, maybe not so much like an IG, but certainly some independence that would keep them from having concerns of fear of reprisal and conflicts themselves with the folks that they have to serve.

I think in our case, they do not ask the relevant questions. They do not dig deep. They take at face value what the individual says and they leave it at that.

Chairman DIAZ-BALART. If I may?

Mr. MONTOKA. Yes, sir?

Chairman DIAZ-BALART. Because our time has run out. But, Mr. Price, I think you have touched on a very important issue that we need to further look into. Thank you.

Mr. PRICE. Yes. We will pick it up later. Thank you very much.

Mr. MONTOKA. Absolutely. Thank you, sir.

Mr. PRICE. Absolutely.

Chairman DIAZ-BALART. Mr. Young, you are recognized, sir.

Mr. YOUNG. Thank you, Mr. Chairman, Ranking Member Price, and my colleagues. Good morning. Gentleman, thanks for coming today.

Mr. Montoya, thanks for your testimony. And the issue of the financial statements, the auditing, the lack of understanding key information that should be there, the human capital issue, I appreciate the chairman's attention to this and I know my other colleagues on both sides want to try to get to the bottom of this and fix this because it is a very frustrating situation.

In your testimony you shared since 1991 the OIG has reported a lack of a integrated financial management system. How long have they been using the same integrated financial management system? And how does that dovetail with the computer systems as well? So you have a process and then you have, I guess, a product. Do they match up? Just talk a little bit about that.

Mr. MONTOKA. So a lot of their IT systems are 15 to 30 years old.

Mr. YOUNG. Okay. Wow.

Mr. MONTOKA. Many of them were not designed to handle Federal financial management processes. That is the first troubling part.

The other issue, I would say, and I have a great example here—well, let me talk about the fact that these problems, not all the IT issues, but the human capital and the financial management processes, are problems that are going to take years to correct, sustained leadership not only from Congress, but the administration, a commitment to really correct these problems. And absent any kind of a budget shortfall or cut, these are still things that are going to be resonating and still issues that they are going to have to deal with.

Probably one of the best examples I can give you is just the lack of systems to handle some of these financial management processes. It is within the Office of Public and Indian Housing there is a lack of an automated process to complete the reconciliations required to monitor the public housing authorities and to ensure Federal cash, mind you, that is not maintained in excess of the immediate need. These reconciliations are prepared manually on unprotected spreadsheets. So for over 2,200 public housing authorities receiving \$17 billion annually, they manage this on an Excel spreadsheet.

So you can see that when we talk about implementing IT systems that can handle these types of accounting issues, it becomes very critical.

Mr. YOUNG. I want to get to a few of your recommendations. Would you recommend having an integrated technology system that was up to date, but as well when it comes to the human capital issue and the Office of the CFO, ensuring that the people coming in there—like you said, I think there was only 2 of the 10 maybe had accounting backgrounds. Is that what you said?

Mr. MONTOKA. Yes, sir.

Mr. YOUNG. Okay. What can Congress do to help you with that? To help ensure that those who are coming into those positions have the appropriate backgrounds. I mean, do we go as far as not just recommending, but mandating that those within that office have an accounting degree? I mean, how far do we go? Because we have

to make this work. This is not about attacking HUD. This is about ensuring the taxpayer dollars are spent wisely and the programs are effective.

Mr. MONTROYA. Yes, sir. Thank you. Well, to be clear, I think in some of these high-level positions, high-leadership positions, you do not necessarily have to have the accounting degree, but you should surround yourself with people that have the requisite skills. You should be willing to listen to them and to provide you advice and counsel.

In the area of let us talk about Ginnie Mae, the General National Mortgage Association or the Government National Mortgage Association. They are handling a \$1.7 trillion portfolio. By the end of the year that will be about \$2 trillion. They do not have the infrastructure, again the IT systems or the personnel, to handle the security processes they have to handle in the markets that they have to deal with every single day. I think in their particular case, I think Congress and the administration need to think about a different pay scale, quite frankly, not one consistent with Fannie Mae, for example, where the CEO makes \$1 million a year, but maybe something on the order of what the Federal Housing Finance Agency or CFPB or the SEC and some of these other governmental agencies make in order that the salaries are high enough to entice the right type of personnel. Often Ginnie Mae loses good candidates to higher paying banks and financial institutions, so it is very difficult for them to compete. So that is on the one hand.

On the other hand, with regard to these systems, HUD continues to be so heavily siloed that even within the IT environment and the financial environment, each program office could do its own thing from an accounting standpoint and an IT standpoint that does not relate to another office's accounting and IT functions, so the two do not talk. And that was one of the biggest problems in the New Core program that they tried to implement. These systems do not talk because the data is not the same, the systems are not the same. And so I do not know that New Core would have ever worked quite frankly.

Mr. YOUNG. This is frustrating and I imagine it frustrates you, too, but you are helping us get to the bottom of the human capital needs. The systems are not integrating together. They are very old as well as maybe the structure. You talked about all the silos, but I would like to have further conversations with you on this. Mr. Chairman, I yield back.

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

Mr. AGUILAR. Thank you, Mr. Chairman, Mr. Ranking Member. Thank you, gentlemen, both for being here. Picking up on what my colleague was just talking about, I mean, Mr. Montoya, some of the key words you mentioned is something anyone who has been in a public financing realm never wants to hear, which is lack of internal controls, something that is deeply troubling. Specifically to follow up on what Mr. Young was saying, HUD has on two different occasions taken steps to implement new systems and it has not worked. Additionally, outsourcing data entry and financial management activities have raised oversight concerns from your office.

Can you talk a little bit about the centralization of these procedures versus outsourcing some of those activities, and what the ef-

fect of budget reductions could do on our ability to deliver accurate financials in the future?

Mr. MONTROYA. Yes, sir, Mr. Aguilar. Thank you for the question. With regard to internal controls, it boils down to the lack of policies and procedures. Now, they are getting better at updating their policies and procedures. These are accounting policies and procedures. And, yes, it has to be centralized in the chief financial officer position and that should flow then to the rest of the programs. So that is the biggest problem when you talk about internal controls.

With regard to the collaboration between all these programs, there is difficulty there in sort of talking to each other before they created a separate financial management structure, for example, or even their IT structures. And, yes, it is frustrating that for years these things have been going on, and I will say that some of the stuff is not new. On the order of 23 years ago, GAO had testimony on these very same issues and yet we are here 23 years later talking about the very same things: the IT systems, the ageing systems, and some of the financial systems.

That is troubling for me as an IG and that is why I make the statement that I think it is a failure of leadership at all levels, and even at the IG level, that maybe as IGs, my predecessors and I, have not been forceful enough and outspoken enough to say do we need to wait 23 more years? You have two financial institutions sitting with this Department, the Federal Housing Administration and Ginnie Mae. Together their portfolio is about \$3 trillion. If one of those has a major breakdown, if you will, that is going to affect the national economy. And these two organizations are really not prioritized.

When you talk about human capital, for example, hiring a CFO for Ginnie Mae is not any more important than hiring a typist. The president of Ginnie Mae and I had a pretty good relationship. We talked often. He would tell me stories where he wanted to pull his hair out because when he would send up a request to hire a chief financial officer, it took a back seat to whatever was in front of him in the queue: a typist, a general staff person. There is no prioritization to put everything aside and let us get the CFO hired first. After that person is hired, we will hire whatever else we need. That is the kind of stuff that is most frustrating to me, and that is a leadership issue. That is a basic, fundamental governance and management issue.

Mr. AGUILAR. With fewer resources will that get better or will that get worse, with fewer resources, centralization versus in-house work? I mean, how is that going to look?

Mr. MONTROYA. You know, I do not know that it is going to get—I do not think the budget really has anything to do with it, quite frankly, sir, because whether you have everything you could possibly want or not, if you do not prioritize the staff, the systems, the processes that you need first, it does not really matter how much money you have, and I think they have shown that. They have not had this kind of a severe budget cut, whatever is anticipated, for years and yet they have chosen not to prioritize it.

So will they prioritize it with a budget cut? I am hopeful because with any kind of budget cut, you really have to prioritize and do what is important first.

Mr. AGUILAR. Appreciate it. Mr. Scovel, I will try to get this out quickly to give you a little bit of time. In your testimony you indicated that more needs to be done to ensure that high-risk contracts are managed well and you also indicate that many of the issues with contract management could be avoided if the contracts were properly specified and properly scoped. How is DOT working to improve those specifications and limiting the use of high-risk contract vehicles in the future and what can we do to make this acquisition piece a little better?

Mr. SCOVEL. Thank you, sir. It is a concern of ours. We have identified a number of issues across the Department, including even at the Department level. We focused a lot of our efforts, however, on the Federal Aviation Administration (FAA) and its contract practices, and we have gotten into all of that through our work when we are called on to review the NextGen Air Traffic Control Modernization Program.

High-risk contracts, cost-reimbursable contracts, of course, leave the door open to a contractor billing the Department, excessively perhaps, for costs. We have found instances where the Department did not sufficiently check on a contractor's cost-accounting systems to ensure that the costs that were actually advanced by the contractor to the Department for reimbursement were backed up within that contractor's accounting system.

With regard to sole-source contracts, particularly on the FAA side, those have been a consistent concern of ours. FAA tends to acquire a lot of proprietary technology through sole-source contracts. That means it is locked in in future contracting cycles to a particular contractor. Oftentimes those contracts are let without conducting the sufficient market research and the independent government cost estimate that is required in order to properly let a sole-source contract.

Mr. AGUILAR. I appreciate it, Mr. Scovel. My time is up.

Mr. SCOVEL. Thanks.

Mr. AGUILAR. And it is my first real hearing and I do not want the chairman to get upset with me.

Mr. SCOVEL. I understand.

Mr. AGUILAR. So I will cut you off there and we will restart this.

Mr. SCOVEL. Thanks. Thanks very much for your question.

Mr. AGUILAR. Thank you.

Chairman DIAZ-BALART. Thank you again, Mr. Aguilar. Mr. Joyce, you are recognized, sir.

Mr. JOYCE. Thank you, Mr. Chairman. I just want to follow up on a couple of the questions here and have you put on your hat of a private citizen who has all this intel as to what has been taking place. How do you fix those problems? You said money is not necessarily the issue. How do you get to the bottom of this and cure these issues?

Mr. MONTOYA. I think just getting the right people in the right seats and looking at the right things.

Mr. JOYCE. That is easy to be said, but, I mean, we need to get down to it—we cannot continue to do the same thing year after year. You said you have been following through now on 30 years of this and have the same issue. This is ridiculous.



Mr. MONTROYA. So I think like many organizations, HUD in particular does very well at looking outward, managing its programs outward. They do not do a very good job at looking inward. And if they do not get to that soon, they might not be able to do their job looking outward.

I will give you an example again where the IT systems and financial management accounting sort of interplay. HUD relies heavily on IT to deliver and manage its services throughout its own organization and externally.

Mr. JOYCE. One question. Are these old legacy systems that continue to be patched that we have invested a lot of money in, so, therefore, we think we should keep them versus something that is obviously better? I mean, you and I probably grew up when they had a plastic phone that you would dial and now we have these. Is the agency keeping up with the technology?

Mr. MONTROYA. They are not. In fact, many of their systems cannot even be patched. Some of their systems do not even have application support. And the example I was going to give you was the Tenant Rental Assistance Certification System, TRACS as it is known. It satisfies the Multifamily Housing Program. It accounts for 78 percent of HUD's housing subsidies, about \$10 billion annually.

And I want to quote something the Department, the staff folks, told us when we were doing this review, and I am going to quote: "TRACS has no vendor support agreement. Therefore, when the old system catastrophically fails, there is no means to manage Housing's rental assistance programs and/or pay subsidy payments of approximately \$9.8 billion annually." My point to that is when this thing fails—and it is not a matter of if, it is a matter of when—there is no manual way to get \$10 billion out to the general public who need these funds. That is the kind of critical point or mass that we are at.

And so to your question, no, some of these cannot even be patched anymore and some of them do not even have vendors that keep up with them, quite frankly.

Mr. JOYCE. Which is something that you brought up as well, the fact that some of these things are being allowed without any vetting of the people who are getting these contracts. So these are age-old contracts that continue to stay in place, yet they cannot keep up with the system that they are allegedly trying to maintain?

Mr. MONTROYA. Yes, sir. I was just passed a note, 87 percent are past their end-of-life system. These systems, 87 percent of them, are past end of life. And that is the other problem within the Department. Yes, we are heavily reliant on contractors. The problem is that the Department has divested itself of its own internal expertise, background and experience, that we do not even have staff that can properly manage these contracts. So we do not have staff that can manage an IT contract from the standpoint that if an IT contractor says you need \$1 billion over here, that we would know to say yes, no, or that is not \$1 billion. It should be \$1 million. And that is another concern that we keep seeing.

And I am driving the point home with these systems because, again, the Department has—I think we tend to forget—has two fi-

nancial institutions in it, and these institutions are reliant on the same systems that the rest of HUD is.

Mr. JOYCE. I am outraged that we would be in a position where you do not have an IT department that can make a judgment on whether or not these systems that are being implemented are worthwhile or even cost-effective, and there is no way to get to the bottom of that? I am a former prosecutor, so I am sort of a brass tacks guy. I want to get down to how do we fix the problem?

Mr. MONTOYA. You know, so the CIO's position at the Department is a politically appointed position. The gentleman who was there, I have to give him credit. I think he was really advanced the ball, but he left. He was there 2 years and he leaves. So you are absent the CFO. You are absent, I think, is the Chief Security Officer. We are also absent the Chief Architect for these systems. So, again, much like in the financial arena and the IT arena, we are absent key staff. The only one that is a political appointee is the CIO, Chief Information Officer. The rest are careerists. So, again, even there we lack very critical positions being filled.

So, again, with the lack of leadership—now look, do not get me wrong. The Department is made up of really hardworking, dedicated staff. I want to make sure we are clear about that; 99.9 percent of them, like any environment, are hardworking, dedicated, and they are committed to an honorable mission. The problem is they are not given the tools, the resources, to do it well and to do it efficiently and eventually not even effectively when these systems break down.

Mr. JOYCE. The crazy part is that we are spending money but not giving them the tools that they need so they can operate in a 2017–2018 setting.

I realize I have gone beyond my time, Mr. Chairman, and I will yield back. I guess I do not have any time to yield back.

Chairman DIAZ-BALART. Thank you. Ms. Clark, you are recognized.

Ms. CLARK. Thank you, Mr. Chairman, Mr. Ranking Member, and thank you to our witnesses for being here today. As part of the accountability, the Whistleblower Program is an important piece of that. Mr. Scovel, I missed that from your status update, but I did see, Mr. Montoya, that there has been training going on. Could you both update me on where that is? Are there challenges that you see? And do they have sufficient resources to carry out the mission?

Mr. SCOVEL. Let me start, Ms. Clark. Thanks very much for the question. I appreciate your interest in this important topic. Whistleblowers and other insider reports are key areas for us to be able to explore in order to effectively protect the Department's programs and the taxpayer dollar.

In our Office of Inspector General we have an individual whom we call our whistleblower protection ombudsman. He has been in charge of our whistleblower protection and the training within our office for a number of years now. We have a training effort to educate all of our OIG staff, so that should they come in contact with individuals who express an interest in perhaps revealing information and could be characterized as whistleblowers, that all of our staff know the procedures to refer them to the proper person.

Our whistleblower ombudsman has handled several dozen cases during the time that he has been with us and since he has been appointed. Seventeen of those cases have been referred to the Office of Special Counsel, which has primary jurisdiction to investigate and resolve whistleblower complaints raised by Federal employees. Within our office we have got six open investigations currently, one involving a Federal employee, another five involving Federal contractors, and we have primary responsibility for those.

We have closed four, and let me give you a taste of how those have been resolved over the last couple of years. One individual took our report of investigation and deemed it worthy of pursuit in District Court in the District of Columbia; another was denied at the Department level. One, we have determined we had no jurisdiction because the whistleblower allegation was lodged under the Recovery Act, and it turned out there were no Recovery Act dollars implicated in this particular contractor employee's case.

One we substantiated; it was a whistleblower matter that was submitted by an employee of WMATA, the Washington Metropolitan Area Transit Authority. He was alleging contract improprieties within the agency and he entered into settlement negotiations and, in fact, resolved the case and received a settlement from WMATA based on that.

Ms. CLARK. Do you see any challenges specifically to this program?

Mr. SCOVEL. We do, most certainly. The whistleblower protection ombudsman is a specific designation that we are required to have only through November, I believe, of this year. We would consider it an important designation to maintain by law. We are prepared to do it, notwithstanding a requirement. So, we will continue it in our office because we deem it that important.

However, we find that we are strapped for resources. We have one attorney investigator who not only doubles as our whistleblower ombudsman, but also as an investigator for some, if not most, of the matters alleged in these whistleblower communications.

So, should we have more resources? Of course we could do more. In the meantime, I am reasonably satisfied that we are doing all we can with what we have got.

Ms. CLARK. Great. Thank you. Mr. Montoya, I wanted to talk to you in my remaining time, about some of what you highlighted in your report of September 30th about prosecuting civil fraud. Specifically with financial institutions there is quite a list: Wells Fargo, 1.2 billion; Freedom Mortgage, 133 million; seven major cases.

It does not look like it is the first time that you have gone after some of these bad actors. How many financial institutions have been debarred from participating in HUD programs since 2008?

Mr. MONTOKA. Thank you for your question, Ms. Clark. I do not believe any have been debarred from doing business with the Department or FHA.

Ms. CLARK. And is there a reason why? Is that part of your calculus with disbarment, is repeated violations?

Mr. MONTOKA. Well, it certainly could be, that is actually up to the Department to make a determination as to whether that would

happen; highly unlikely. You know, many of these failures are, if you will, lack of appropriately ensuring that folks could actually pay for these loans occurred years and years ago, and I think a lot of that conduct has really changed over the last 5 years.

So, could that have happened 5 years ago? Maybe. I think it would be highly unusual to debar a bank or an institution that could otherwise, you know, provide mortgages to low- to moderate-income families. I think, in fairness to the Department, we work jointly with them, with the Department, my office and the Department of Justice, to address these issues. I think the Department took it seriously. But again, yeah, it would be a question for the Department, whether they actually ever considered debarment.

Ms. CLARK. Thank you, Mr. Chairman.

Chairman DIAZ-BALART. Thank you. Before I recognize Mr. Valadao, let me announce I am going to have to be in a markup on budget on the Health Care Act. So, I am going to ask the vice chairman if he could take over.

And with that, I recognize the distinguished gentleman from California, Mr. Valadao.

Mr. VALADAO. Thank you, Mr. Chair. Mr. Montoya, I understand your office published an audit back in July 2015, which concluded that over-income tenants blatantly abused the public housing system. It has been reported that thousands of people across the country receiving HUD benefits despite earning incomes greater than the eligibility threshold. The audit report also indicated with more than 300,000 qualified families that are stuck on waiting lists.

For example, I am aware of cases in my own district in which families making over \$100,000 were receiving public assistance from HUD. Audits like these provide HUD the opportunity to re-evaluate policies and initiatives, make improvements to take sufficient steps to reduce abuse such as over-income families in public housing.

Can you please describe steps HUD has taken to negate flagrant abuse by tenants who make more than the low-income threshold?

Mr. MONTOYA. Yes, sir. Thank you, Mr. Valadao, for the question. Well, yeah, so the subject our work took on, not only a lot of public interest, but obviously a lot of congressional interest, and legislation was passed unanimously about a year ago. It was called the Housing Opportunity Through Modernization Act, and it requires public housing authorities to evict over-income families after 2 consecutive years of exceeding applicable income limitations. The key will be the oversight that HUD provides to that process and whether public housing authorities are actually doing it.

It is unfortunate, but the Department really does not have the resources to provide that level of oversight. We, at some point, will probably come in some several years later to do a follow-up audit or evaluation to see if we find any extreme outliers. But really it is going to fall to the Department to provide that oversight.

Mr. VALADAO. So, my next question then is to Mr. Scovel. In 2015, Congress passed the FAST Act, the largest transportation package in more than a decade. With the FAST Act it was reported that the inspector general submit an assessment to the Department of Transportation on the impact of delays, and the pick up and delivery of goods by motor carriers and drivers. To my knowl-

edge the report has not been submitted to the Department of Transportation.

Do you know when the Department will have the "Delays in Goods Movement Report" completed to submit to the Transportation Committee? And do you mind providing this Committee with an estimated timeframe for the completion?

Mr. SCOVEL. Yes, sir. In fact, I may be able to answer all aspects of your question right now. The Department, as required, did complete its study—I am sorry, you were referring to a study on freight delays?

Mr. VALADAO. Yes.

Mr. SCOVEL. Yes. I am sorry. I mistook your question for one regarding hours of service for motor carriers. I do not have a timeframe for you on the freight delay study. I understand that we will be auditing it, and we will be happy to follow up with more information to you and your staff when we have that available.

Mr. VALADAO. Okay. And then on the hours of service, you were going to say?

Mr. SCOVEL. Yes. I was going to say that in the Appropriations Act, the Department's imposition of suspended hours of service for motor carrier drivers, the Department was required to conduct a study, and then, in the meantime, suspend the imposition of those aspects of the rules, often called the restart provisions of the rule.

That study was completed. My office was required under the Appropriations Act to certify, in effect, the methodology that was used in the study. We did that. We completed that review and communicated to both the Congress and the Secretary on March 2nd that the study had met all requirements.

The Secretary, I believe, has already submitted her report to the Congress. If not, then it should happen any day, because that matter had been in her office the last we were informed. Thanks.

Mr. VALADAO. Thank you. I yield back.

Mr. JOYCE. Thank you very much, Mr. Valadao. There is no time to yield back, but that is fine; just kidding. Starting, I hate to be rude, but I guess I'll start this round and then we will continue to go through the questions.

Inspector Montoya, first, both of you gentlemen, I notice your lovely green ties, so thank you for keeping it in honor of St. Patrick's Day; my birthday, too.

As you know Ginnie Mae has had problems with tracking and hiring staff that have the right skill sets to perform mission-critical jobs. What are the effects of not having employees with the necessary skills in Ginnie Mae's financial accounting management and overall management capacity?

Mr. MONTOYA. Well, sir, I think the first problem you see is disclaimers of audit opinions, and so that is the first part.

The second part is that, you know, with these nonbanks that they are starting to see a huge influx of, there is really no oversight body to them. Maybe the Consumer Financial Protection Bureau, but there is not an oversight body like you would have like if it was a bank.

These nonbanks are not capitalized as a bank would be, and so it is going to be incumbent upon Ginnie Mae to do that oversight. If they do not have the appropriate accounting skills, financial-type

background, it is going to be even more difficult for them to do the proper oversight of these nonbanks. And so those are two areas where I think it could be very detrimental to Ginnie Mae.

Mr. JOYCE. Following up on that, is it a significant issue that individuals with the necessary skill sets are extremely well paid in the private sector, so it becomes nearly impossible for Ginnie Mae to compete. What would make the agency more competitive?

Mr. MONTROYA. Well, as I stated earlier, sir, I think what would make it more competitive is that the Department, the administration, and Congress get together to consider a different pay structure for at least Ginnie Mae. And by that I am not even advocating for all of Ginnie Mae employees, and they have got about 140, but there is a small cadre that you could probably look at that are paid a higher salary.

And again, consistent with other Federal agencies, like the Federal Finance Housing Agency, CFPB, even makes a higher salary. So, consistent with that, it gives you a little bit more latitude, if you will, to attract folks.

Mr. JOYCE. With a portfolio of 1.7 trillion in outstanding principal balance, Ginnie Mae is a big and important financial institution, needless to say. What are the potential consequences if they do not get their financial house in order?

Mr. MONTROYA. Well, we saw it in the case of TBW when they had to take over these portfolios when these organizations, you know, tank, in essence. They do not have the infrastructure to handle that. So if you get a lot of these issuers that cannot do what they need to, well, Ginnie Mae is guaranteed that there is—you know, through the good faith and credit of the U.S., you know, that these payments are going to be made. That means they have got to take it on, they have got to service, they have got to operate these things. They do not have that infrastructure. Without that you have major problems.

And they do have contractors, they use a lot of contractors. In fact, most of the work is done by contractors. But therein lies, still, the problem with the lack of actual onboard expertise. They do not have the proper skills to oversee the contractors who are overseeing all these things that need to be overseen.

Mr. JOYCE. Yes. I would like to recognize Ranking Member Price.

Mr. PRICE. Thank you. I actually want to continue this line of questioning, but first I want to return briefly to the previous discussion of conflicts of interests and ethics. I am impressed with the testimony both of you gave as to the authority and responsibility you have to pursue conflicts of interest at all levels. Especially caught my attention, Mr. Montoya, with your comments about the disabilities of the Ethics Office within HUD. You are responsible for overseeing that office for making those critiques public inside and outside the agency. You have the ability to be proactive and I take it you have the ability and the responsibility to do a post-confirmation review of the ethics filings of senior officials. All of those things true?

Mr. MONTROYA. No, we do not do a post review of the filings of the ethics official per se.

Mr. PRICE. What would it take to trigger such oversight?

Mr. MONTTOYA. Well, we have an allegation of a conflict of interest.

Mr. PRICE. An allegation from some credible source of a conflict of interest?

Mr. MONTTOYA. Right. So, for example, in the matter where they hired somebody through an IPA that really should not have been there, at that point, we asked for this information. The irony there is they had not made or produced it.

Mr. PRICE. All right, fine. Let me turn to this line of questioning having to do with financial management. Mr. Montoya, you cited over two decades of challenges in this regard and you provided a rather generic explanation, failure of leadership. It seems to me if you have got two decades of failures of leadership, you might look beyond that. And actually, the more you talk, the more I think you have, in fact, looked beyond that, that that generic explanation may not be your entire explanation because you are citing the ability to attract and compensate and motivate first-rate personnel.

This Ginnie Mae case seems like a case in point. So if administration after administration, if decade after decade you are observing a failure of leadership, it looks like you certainly want to scratch beneath that generic explanation and see if there are systemic or system problems that make leadership difficult or impossible as you define it.

So that takes me to the Ginnie Mae case. And you have just talked about what I take to be an overreliance, certainly a heavy reliance, on third-party contractors to perform key functions, the inability inside the agency to oversee those contracts. You have cited the pay structure that makes it hard to attract the right kinds of employees and to have them exercise authority effectively.

It is hard to imagine that a budget like we have seen in the last 24 hours or a hiring freeze makes any of this easier. You say it is not budgetary, but surely budget and personnel cuts of a drastic sort do not help. I do not understand your statement that this is not, in any way, budgetary. So you see where I am coming from in terms of wishing you to elaborate. Give us a little fuller, more satisfying explanation.

And then, Mr. Scovel, if we have time, I would like for you to—I assume DOT does not have problems of this magnitude. I would like to have your attempting to compare here what maybe is going right or at least differently in that agency. But, Mr. Montoya.

Mr. MONTTOYA. At some point, somebody has got to make these decisions that you are going to find the right people to put them in the right place, in the right seat. You are going to look at those things that are a priority to the Department, and that is what I am getting at. Yes, we have done a lot of behind-the-scenes reviews, audits, investigations. We relate that to the Department through our recommendations for best practices. I will give you the best example I have.

In the first 3 years I was at the Department, we had maybe six or seven disagreements with the Department senior leadership. Eventually, we were able to figure those out and come to some resolution. So these things never went to the Deputy Secretary for a decision, i.e., where she is playing—you know, having to make a

decision between us as the IG and the assistant secretary for the program.

In the last 2 years, with the prior administration, particularly the Deputy Secretary, those skyrocketed to 16 disagreements. And in those occasions, really what it related to was an atmosphere that was created that was to not listen to the IG, they do not have anything to provide, and many of these recommendations went to these core management and performance challenges that I am talking to. So when you have leadership who fails to see that these recommendations are going to hopefully help them and yet they discount them out of turn, that is troubling to me.

As I have often said, as IGs, we are not there to make those Departments look bad. We are part of those Departments. It is our job to help them succeed. It is our job to help them reach their mission assignments and their responsibilities, not the opposite. And there was a culture created for the last 2 years that was to not trust the IG. Slow them down as much as you can. I had to, on several occasions, I had to threaten to come to Congress with 7-day letters because there was a failure of cooperation, failure to give us the documentation we needed to do our audits, our investigations. If it had not been for the Secretary and his team to come in to say to the Deputy Secretary, no, you will give them that information, we would not have done it. We would have had to come to Congress.

So listen, I want to credit publicly Secretary Castro for honoring his commitment when he signed a joint letter with me that his staff would cooperate with our office. But if not for him, the Deputy Secretary would have allowed these things to basically go by the wayside. That is what I mean by a failure of leadership.

Mr. PRICE. My time has expired. We will return to this. Thank you for elaborating that.

The question remains, though, given stellar leadership or outstanding leadership, what kind of measures, what kind of policies are required here? And, of course, we need to get to that as well. That is where I think this Ginnie Mae case is troubling and, at least for me and I think many others, raises questions about the wisdom of such across-the-board measures as hiring freezes. And certainly, the kind of budget cuts we are looking at here, that pertains, by the way, to your own offices and the kind of ability you are going to have to perform your functions as well, of course, as Ginnie Mae and other offices who have these severe management challenges. So we will return to this. Thank you.

Mr. MONTROYA. Thank you, sir.

Mr. JOYCE. Thank you, Ranking Member Price. And I think I speak on behalf of this whole committee that if you feel compelled that you need our help at any time, come before this committee. With that, I recognize Member Young.

Mr. YOUNG. Thank you, sir. Mr. Scovel, I want to talk about unmanned aerial aircraft systems, what we call drones commonly. You released a report in December 2016, finding that the FAA has not established a comprehensive oversight framework for the use of drones overseeing the UAS industry. Can you share some of the key recommendations from this report and what, if any, steps are being done to implement those findings?



Mr. SCOVEL. Yes, thank you, sir. Key area, it is one of—probably the top one in terms of emerging technologies that keeps me awake at night; a significant safety threat, as anyone who flies can appreciate.

FAA is working, in my view, deliberately in an effort to integrate Unmanned Aircraft Systems (UAS) into the national airspace. A key part of that will need to be developing this comprehensive oversight framework that we mentioned in our report. And by way of oversight framework we would start first with consolidated data, relevant data, that right now is spread between three different offices within FAA. It is not integrated, it is not analyzed comprehensively; it is spread between different silos within FAA to the detriment, we think, of the Agency's ability to understand the threat to safety posed by UAS and also to deal with it.

Mr. YOUNG. Are they moving on that recommendation about consolidating their data, do you know?

Mr. SCOVEL. They have agreed, but they are holding off. They have a target action date and they are working to complete, I understand. However, I think that within the minds of many there is a question mark related to what will happen should air traffic control be separated from FAA proper.

Right now, responsibility for UAS integration is spread between the Air Traffic Organization, ATO—the safety organization that is separate from but also within FAA, of course—and then there is a UAS Integration Office. All three of those entities are responsible for collecting some data, but it is not all integrated. Some of those entities may remain within FAA should air traffic control be separated.

Mr. YOUNG. Do you know if in your findings, recommendations, and within the folks at FAA looking at this, if they are taking into account proprietary information by private citizens? Particularly in agriculture, we have a lot of farmers and producers who use drones, UASs, for many reasons, and I am just wondering regarding that proprietary information and privacy if that is being addressed.

Mr. SCOVEL. Yes, FAA does not have a primary responsibility for privacy, that is, you know, in the classic sense of a drone hovering over your backyard or whatever the nature of the perceived intrusion might be. However, FAA has agreed with the National Telecommunications and Information Administration that has, by designation of President Obama at the time, primary responsibility to develop a Government-wide framework regarding privacy concerns—to address privacy concerns.

The role that FAA has taken on for itself has been that of education. So when applicants register their UAS with FAA, they receive a packet regarding privacy and the best practices there.

The other aspect that you mentioned, sir, specifically with regard, say, to precision agriculture and other specific uses, FAA—and I do want to give them good credit for this—FAA has undertaken stakeholder communication and collaboration most diligently, and it has a Drone Advisory Committee, for instance, that is helping the Agency understand better how to integrate beyond—what is called in the industry and the Agency—beyond line-of-sight operations, which would include many agricultural applications as

well. That is a key area that both industry and the Agency realize they need to focus on. There need to be some technological improvements in order to facilitate that.

Mr. YOUNG. Well, that is encouraging.

Mr. SCOVEL. But they are keyed onto it.

Mr. YOUNG. That is encouraging because it is always good, I think, when you take into account who this affects and the opinions and needs, wants, comments of the stakeholders.

My time is about up, Mr. Chairman, but will there be a third round?

Mr. JOYCE. Yes, sir.

Mr. YOUNG. Thank you.

Mr. JOYCE. Thank you, Mr. Young. The Chair recognizes Ms. Clark.

Ms. CLARK. Thank you, Mr. Chairman. I want to follow up on a point from our ranking member. And as we are looking at conflicts of interest, as we are looking at personnel issues, I think, Mr. Montoya, your testimony was that 43 percent of HUD career permanent employees will be eligible to retire by 2019. What is the impact of a blanket hiring freeze?

Mr. MONTOYA. Well, there certainly will be an impact with a blanket hiring freeze because it goes back to my concerns that they then are very limited in who they can hire and, of course, it slows the process down in hiring some of these key roles and positions they need to fill. With regards to the retirements, the troubling part there is much of the expertise that the Department currently holds will leave with it. And that goes again to what limited staff we do have to provide the contract oversight, if you will, and the financial management governance side and the IT side will be gone and so we will even have less internal. So from the standpoint of making sure the Department has it right with the limited hires they will get, assuming they get any, they have got to make the right hires and they have got to prioritize those hirings.

Ms. CLARK. I also want to go back to our discussion about disbarment. And in your testimony you raised that HUD is often hesitant to take strong enforcement actions against lenders because it has a competing mandate to continue FHA's role in restoring the housing market. Do you believe this is part of why we have not seen financial institutions with multiple violations being disbarred? And if so, what kind of recommendations do you have around this tension between the mission of HUD?

Mr. MONTOYA. So that is probably a question best for HUD. Whether that is their reasoning, it certainly could be. With regards to the tension, you know—

Ms. CLARK. But that was your testimony, right, you do believe that?

Mr. MONTOYA. Oh, yes, I do.

Ms. CLARK. Yeah.

Mr. MONTOYA. I do believe that. But with regards to why they do not disbar, I think part of that is, you know you do not—and in fairness, they do not really want to lock down the economy. They do not want to lock down the ability for people to get homes. You just want—

Ms. CLARK. But even if we took disbarment away, if we are just looking at repeated violations and pursuing those—

Mr. MONTROYA. Right.

Ms. CLARK [continuing]. Do you think that would be—is there a way to address this tension that might ease that problem?

Mr. MONTROYA. So they do have an MRB, a board that is supposed to look at these actors who continuously do these things. And at that level, they can impose financial penalties, they can disbar at that level. And so they do have a mechanism outside of a civil case, for example, the DOJ, to take strong enforcement. Often it is very weak.

We did some work on that, on the MRB, the Mortgagee Review Board, about 10 or 12 years ago. I have asked my staff to do another review. But even back then, we saw very weak penalties were doled out even for some of the most egregious things; very low penalties, if any. Usually they will walk away with a slap on the hand. And, again, I think that goes to they are really reticent to try to do the carrot and the stick. You know, they are there as regulator, encouragers, you know, open up the market.

Ms. CLARK. Yeah.

Mr. MONTROYA. But they also have that role of overseer to say, well, look, yes, we want you to open up the market, we want you to provide, you know, loans for housing, but we do not want you to defraud us in the process. So there has got to be that balance and, unfortunately, they lack a lot of that stick side. Right? They leave it to me in a lot of ways to do that.

Ms. CLARK. All right, thank you. I want to get a quick question in for Mr. Scovel about the Merchant Marine Academy and the sexual harassment and assault. You said in your testimony they had completed 29 of the 44 action items suggested in the 2014–15 action plan. Can you give me an update?

Mr. SCOVEL. Still working on the remaining items, Ms. Clark. As we informed the committee, and we have also worked with the Department and the Maritime Administration (MARAD) and the Academy on these, the 42 action items were those that had been identified by the Academy itself as a result of its last full-fledged survey of students. The Academy had made good progress on those, and we reported to this committee back in August that they had completed 29 in our view. They claimed credit for having completed a few more. We pointed out that, in our view and reasonably, their count could not be accurate, and they ended up fully agreeing with us.

I think they are completely focused on those areas that demand the most attention and that is, to use Inspector General Montoya's terms, proper leadership at the top, continued engagement at that level, incident reporting. The last survey from the 2014/2015 time period indicated a completely unrealistic number of reported incidents compared to those students who, in an anonymous survey, had reported instances of sexual harassment themselves. That and coordination with the industry on the Sea Year program where cadets from the Academy are especially vulnerable when they take their many months at sea with the shipping industry. Working with the industry on that and also preparing cadets for that Sea Year experience, the school realizes that those are the key ele-

ments that will bring them to success. Important area, of course, especially this week in light of testimony from the Marine Corps over on the Hill, so, you know, the services themselves are wrestling with it.

Just yesterday I saw a media report that the other service academies, too, had reported an increase in reports of sexual harassment as well. So the Merchant Marine Academy knows that it has still a lot of work to do, but I am confident that they are focused in the right directions.

Ms. CLARK. Thank you. Thank you, Mr. Chairman.

Mr. JOYCE. Ms. Clark. Mr. Aguilar.

Mr. AGUILAR. Thank you, Mr. Chairman. Nice tie. Happy birthday, again.

Mr. Scovel, your testimony notes that more than \$6 billion was spent in contracts annually for fiscal years 2015/2016. Specifically, you note that cost-reimbursable contracts may be considered high risk because contractors are paid whether work is completed or not. We have also heard examples where the product delivered by a vendor may have included services not designed within the contract or needed by the Department of Transportation. This may result in additional costs to the overall completion of the project.

So my question is, does the DOT have a mapping tool that tracks in real time the progress infrastructure projects are making toward completing the work required within the Federal grant process—Federal contract process? And if not, are there standards in place to collect information that could be used to aggregate this tool utilized by the agency? I believe that mapping tools that organize and display the progress of these infrastructure projects across the country can support the agency's efforts better and help them manage assets and investments.

Mr. SCOVEL. Absolutely, and I would entirely agree. I think you are right, those are critical tools in order to ensure success for the Department's mission.

I would distinguish between those aspects of the Department's funds that are allocated to grants and the individual operating administrations, especially the Federal Transit Administration (FTA) and Federal Highways. While they do track or map their grants within their divisions, in the case of Federal Highways that would be 52, so each State is its own—has its own division and office under Federal Highways, plus the District and Puerto Rico. I would need to get back to you to see how far Federal Highways' headquarters is on integrating and comprehensively analyzing, across the Nation, how all of those particular grants might map out. But I do know that division-by-division they are tracked and followed through that tool.

The Federal Transit Administration is organized by region. They do attempt to do the same thing. We have worked in the past with the Federal Transit Administration at the headquarters level to try to identify best practices between its regions on how they can track and monitor and assess the progress of their grants. And FTA has made pretty good progress in that area.

Mr. AGUILAR. So you can work with them on best practices, but it is really left up to each office as to how they administer?

Mr. SCOVEL. Most certainly, but that has been a consistent theme with us when we have audited both FTA and Federal Highways. And that would be greater oversight at the headquarters level of what the division offices are doing within Federal Highways; what the regional offices are doing within Federal Transit to ensure greater consistency and better understanding at the headquarters and the Secretary level, and at the congressional level, of what those two operating administrations are doing.

The \$6 billion figure, sir, that we cited in our written testimony has to do with contracts that are let by the Department as opposed to grants. And it is that cost-reimbursable aspect that we highlighted by way of finding some particular audit that we completed as posing a particular danger, a special danger to the Department. And the Department has agreed with our recommendations on that and is making some progress in executing on those.

Mr. AGUILAR. I appreciate it. Mr. Montoya, by statute, FHA is required to maintain a capital ratio of 2 percent or more in the reserve fund. In fiscal years 2015 and 2016, the capital ratio was 2.07 and 2.32. It is projected that the fund will continue to be above the threshold limit. President Obama issued guidance to lower the FHA premiums, partly because the FHA Reserve Fund achieved the capital ratio that surpassed its legally required threshold 2 years in a row.

On January 20th, President Trump suspended the guidance and eliminated the opportunity for homeowners to take advantage of the lower FHA premiums. Does the OIG have any data to demonstrate that increasing FHA premiums is necessary to maintain the 2 percent capital ratio threshold in the FHA Reserve Fund?

Mr. MONTOKYA. Well, we do not have any data, per se. I think what we have looked at with regards to the actuarial report is they seem to be on track, assuming nothing goes wrong in the mortgage market, to continue to add to that MMI Fund. You know, our concern is that the Department does not make decisions that could negatively impact it. We have an ongoing body of work that we were in major disagreement with the Department having to do with down payment assistance and the fact that mortgages are being given to low- to moderate-income families with very high interest rates. And if those homeowners cannot eventually afford those higher interest rates, if we have a downturn in the market, you could have defaults. So it is really incumbent upon FHA itself to make the right decisions on risk versus reward, and we understand they have got to do that.

In this particular case, our disagreement is that we think they are in violation of the Housing Act in allowing these sort of what we call borrower-funded down payments to occur and so sometimes FHA can be its own worst enemy. But what we know now with regards to our review of the actuarial is that they are above the threshold and they seem to be on track to continue to add to that.

Mr. AGUILAR. Appreciate it. Thank you, Mr. Chairman.

Mr. JOYCE. Thank you, Mr. Aguilar. And here we are at the end of the second round and we recognize Mr. Dent.

Mr. DENT. Thank you, Mr. Chairman. Good morning.

Mr. Scovel, I would like to ask you just a question on MAP-21. On March 6th, your office issued an audit report on DOT's progress

in implementing initiatives under MAP-21, which are designed to accelerate project delivery. While the report detailed certain initiatives that had a low level of State participation, during your office's examination of this issue, were there any programs that you found that had a high level of State participation?

And two, if Congress is going to be considering a transportation infrastructure package at some point in the near future, it would be helpful to understand what programs may be working to expedite project timelines so that Congress can, you know, best direct its efforts and ensure that any resources provided for infrastructure have a real and immediate impact. I think that is one of the frustrations we have all seen with infrastructure, that we are not in the 1930s and the 1950s anymore. When we said we were going to go build a road, we used to go out and build it, and now we spend a hell of a lot of time and money on preconstruction activities and we do not have a whole lot of stimulative effect because there is not much shovel-ready. So have at it.

Mr. SCOVEL. Okay, thanks, sir. Yes, we did recently release—very recently release—our audit report to fulfill our obligation in the act to audit the progress or the successes under Subtitle C of MAP-21. This had to do specifically with a thought that shifting responsibility from Federal Highways especially to the States—should they decide to take it for environmental reviews—might, in fact, speed things up. While I think to most laymen it would make sense, for many of us, we see the requirement for an environmental review to be a significant showstopper.

In fact, I was rather surprised that our audit report did not substantiate my supposition. And that is because, generally, the States declined to accept the invitation, if you will call it that, to take from Federal Highways the responsibility to conduct these environmental reviews for a number of reasons. Primarily, there was no financial incentive for them. Many States are resource- and budget-strapped at this point. Some States identified to us—when we questioned why not, you know, you might be able to get your projects underway sooner—they said, well, our lawyers are telling us that we will be required to waive sovereign immunity, which we are loath to do because we know that in many of these instances, we are going to get sued.

So one State especially stood out as an example of being willing to take that step, and that was the State of Texas. And they indicated to us that they were willing and the legislature was willing to waive sovereign immunity, and it required an act of the legislature, of course. And furthermore, they considered their budget picture and resource-staffing picture to be sufficient to allow them to take it on. They did. They achieved some successes in moving some projects a little bit quicker than others, developing some innovative approaches on other projects, but the other States that we questioned did more detail. Oregon, Georgia, Pennsylvania was one, they tended to hang back, so we would characterize it very much a mixed bag.

I do not know that there is any particular silver bullet, frankly, to make a huge progress in accelerating projects. The changing nature from project to project, State to State, and what resources the States are able to develop make it difficult to say that there is any

universal method to achieving accelerated project delivery that would be the hope for all of us.

Mr. DENT. Well, thank you. And I would like to turn to Mr. Montoya. On January 20th, your office issued a report that found HUD program participants may be receiving multiple subsidies through both multifamily housing programs and Public and Indian Housing programs. And according to these findings, you provided recommendations for HUD to address these issues. These recommendations required public housing agencies to better utilize the Enterprise Income Verification system, which contains resident information. Given the constrained fiscal climate in which we are operating, it is imperative that all appropriated funds are put to qualified and proper uses.

Could you tell us if, one, if HUD has begun to implement the recommendations in your report to prevent future waste? And two, if your office believes there are any other areas where HUD could prevent duplicative awards by utilizing information or verification systems that are readily available to them? And my time is almost up.

Mr. MONTOYA. Yes, Mr. Dent. Thank you for the question. I would have to get back to you on whether they have actually implemented or are working on the recommendations. I think other areas where there is duplication of benefits is the Disaster Program, and that is really not only within the Department, but as it relates to SBA and FEMA money. We are doing a body of work in that arena to see where there might be duplications of benefits and maybe where there could be some legislation that could help correct that.

Mr. DENT. Thank you. I see my time has expired.

Mr. JOYCE. Thank you, Mr. Dent. We will start on the third round of questions and continue on as long as the committee people have questions to ask. I will start off myself.

Mr. Scovel, one of the things that has troubled me is the local metropolitan transit system, WMATA. Incidents this year included a track fire, a derailment, a flooded station, and one-day emergency shutdown of the entire system. These incidents have unveiled a massive extent of disarray to WMATA's infrastructure and repair process.

Additionally, it was announced that nearly half of the Track Inspection Department is under review, discipline, suspension, or at risk of being fired after investigation into the July 29th derailment at East Falls Church suggested it was a widely accepted practice within the department to complete reports for inspections that had not been performed.

In light of these developments, I am curious what recommendations your office has, if any, to WMATA that would help ensure the safety of the riders, the cost-effective use of taxpayers' dollars in repair efforts, and that these projects are completed in a timely and efficient manner?

Mr. SCOVEL. Thanks, sir. This is a significant question for all of us in the Washington area and has broader implications for transit agencies across the country, of course. Our office has not undertaken any specific review of WMATA proper. WMATA has its own Office of Inspector General and for that reason and others, we have

not looked at WMATA. I can say that GAO, however, was asked by Congress to look at WMATA's specific implementation of its current SafeTrack effort and recently reported out and recommended to WMATA that it engage in far better project management practices than it had undertaken when it first initiated the SafeTrack surge.

As I understand it, WMATA's reply was, yes, but we felt we were under the gun for significant safety challenges and we wanted to get started; realizing that, of course, we had not completed every mark on the checklist by way of project management expertise, but we will get to it.

Where our office, where DOT OIG has focused our efforts has been on FTA's oversight of transit agencies, and specifically with regard to WMATA, the process by which FTA decided to exercise its recently granted safety oversight authority that came to that Agency from 2012 legislation. We issued an audit report immediately upon enactment and suggested to FTA that it may wish to consider a number of best practices that we had gleaned from regular audits of other safety oversight agencies. FTA had embarked on that, had been making pretty good progress in our estimation. However, then it had to pull the trigger and assume direct safety oversight of WMATA itself.

We initiated another audit and have completed that one that reported that FTA, in exercising that safety oversight authority, had a number of challenges. One had to do with staffing. Did it have the right expertise and the right number of staff to enable it to do that?

The other was, what kind of data was it collecting? It is not going to be able to focus its efforts without the right data.

The final one was oftentimes, as in the case of WMATA, FTA will be pulled into a direct oversight role, but it has to have a way to pull out. It needs to have an exit strategy too, which it had not been able to do sufficiently at the time we conducted our audit with regard to WMATA itself.

So that is the area where our office has been working with FTA and indirectly with WMATA on its current woes.

Mr. JOYCE. Well, it would appear it is a tetra-headed monster, if you will. All the different agencies that are involved, but no one really claiming oversight—

Mr. SCOVEL. Mm-hmm.

Mr. JOYCE [continuing]. Or taking it—and that there are too many people on the Metro rail every single day with potential for disaster. Do you believe in its current structure WMATA is internally equipped to efficiently manage and execute the necessary repairs?

Mr. SCOVEL. Clearly, room for improvement, and I would cite the GAO report in that, particularly with regard to SafeTrack. This is the most significant rehabilitation effort that this transit agency has ever undertaken. GAO found some noteworthy areas where the planning and execution could be far better achieved. It is up now to the board of directors and to the chief executive officer to put those into play. We can see—and I ride Metro myself, every single day. We can see how it is working out and not working out over the course of SafeTrack. Clearly, WMATA has a ways to go.



Mr. JOYCE. Well, I hope you continue to ride in a safe fashion.  
Mr. SCOVEL. Thanks.

Mr. JOYCE. Thank you. Moving now to Ranking Member Price.

Mr. PRICE. Thank you, Mr. Chairman. Mr. Scovel, I belatedly have consulted your resume here, and note the bachelor's degree from UNC-Chapel Hill and the law degree from Duke University. As a former Marine, I assume you have a more courageous answer to this question than I do as to who you root for in ACC tournaments.

Mr. SCOVEL. Oh, absolutely, and I appreciate the question, sir. And thank you for your able representation of the Triangle Area. It is going to be Carolina all the way.

Mr. PRICE. That is a more courageous answer, yes.

Mr. DENT. Villanova.

Mr. SCOVEL. I love Duke. When they are not playing Carolina, Duke is my team, but when they are going head to head, it is Carolina, so.

Mr. PRICE. Very good. Well, as opposed to ducking, that is a good answer. And, of course, when they are not playing each other, it is a very easy answer.

Well, I do want to turn to you because we perhaps have a point of comparison here in terms of DOT's financial management, things that might have occurred to you in terms especially of the factors that go into better performance.

I also want to turn to the question of these new challenges and the budget implications of them. Autonomous vehicles, unmanned aircraft going to need to communicate with other users in the national airspace and on our roads and highways. And as you have said repeatedly here this morning, this is a daunting task. It requires new skills, new tools for the Department to safely integrate these technologies into the transportation network. It will likely require additional resources and skill sets at DOT and, for that matter, in your own office to carry out and oversee these efforts.

So, that is my question. If you have reflections on financial management generally, but then, in particular, when we are talking about hiring freezes, the budget cuts of the magnitude we are looking at here, how on Earth are we going to get on top of this new challenge?

Mr. SCOVEL. Thanks, Mr. Price. Yes, just listening to General Montoya relate his woes at the Department of Housing and Urban Development, I count myself lucky to be at the Department of Transportation in terms of its financial management. And I say that even remembering that within 2 weeks after my taking office as Inspector General in 2006, my office issued a qualified opinion to the Department, the only time, certainly within my tenure as Inspector General, that we saw the necessity to do that. And the reason at the time had to do with how FAA was accounting for its capital, if you will, its plants and equipment, and how it was accounting for depreciation and all of that.

FAA is a big enough part of the Department that it rose to be a material deficiency. And our contract accountants at the time, KPMG, told us that they would be required to issue a qualified opinion and, of course, we did.

I will give the Department and FAA great credit for immediately, upon that problem, setting about correcting it, and within the following year, had it nailed. And while it has been a watch item for us and our contract auditors in the years since, it has not risen to the point again where it threatened the integrity of the financial operation.

We have had other problems that have arisen. I would have to cite Federal Highways. They had a significant problem with regard to unobligated balances for specific projects. The Department created a working group and immediately set upon that when we informed them early on that this was a potential problem.

We have also had more recent questions with regard to how FTA has been cooperating with our contract auditors, and the Department has taken the stick to FTA on that. So, I am very much encouraged by it.

With regard to an overall budget picture for the Department, I will leave it to the Secretary and her team to figure out how to do that with some of the emerging technologies that you cited, UAS, autonomous vehicles—a key for the agencies now trying to work through that problem. What will become even more significant going ahead will be engagement with stakeholders, keeping in mind, of course, the danger, if you will, or the specter of takeover of the regulator. But I think between us and the Secretary and the Congress, of course, we will be able to guard sufficiently against that.

In my own office, I do have concerns about our budget. The hiring freeze is one thing for the next number of months, but a much longer concern and more immediate problem will be the hiring or the budget picture for our office.

I respect General Montoya's 60-to-1 return on investment. In the last year, we had a 54-to-1 return on investment, meaning for every single appropriated dollar that our office received, we were able to return to the Government and the taxpayer \$54.

Together, I think we stand very near the top, certainly within the top five or six among all OIGs in Government.

Seventy-five percent of my budget, sir, is allocated to personnel salary and expenses, because that is how we accomplish our mission. We have no programs. We have no hardware. We have no grants. We have no loans. We deliver reports of investigation to prosecutors so that they can try to nail the bad guys. We deliver audit reports to you and to the Secretary, so that together we can figure out how to improve efficiency, economy, and effectiveness for the Department's programs.

I need people to do that, and most of my budget dollars go to pay them. If I cannot do that, then my ability to keep you and the Secretary fully and currently informed, and that is my mission by way of the IG Act, my ability to accomplish that mission will be threatened.

I used the phrase earlier, sir, that elements in the Department do all they can with what we have. We are at the top of that list in terms of our OIG. I do not tell our people that we are going to do more with less, because that is a sure-fire method to drive people into the ground, but what I do tell them every day, I expect them to come to work and do all we can with what we have got.

It will be up to the Congress and the administration to determine what our sum might be, but I want to assure this committee that you will have our 100-percent effort every day. Thanks.

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

Mr. JOYCE. Thank you. Mr. Young?

Mr. YOUNG. Mr. Montoya, the Mutual Mortgage Interest—Insurance Fund, I'm sorry, Insurance Fund, there is an issue out there regarding the implication of this fund. The Property Accessed Clean Energy, or PACE loans as they call them, they are attached to the property rather than the borrower, have high interest rates, and are repaid by an assessment.

So, there are concerns that allowing HUD to insure mortgages on properties with PACE loans because this puts them in a second lien position, and thereby increases the risk for the MMI Fund and taxpayers.

As you know, the Federal Housing Finance Agency prohibits Fannie Mae and Freddie Mac from insuring properties with PACE loans. So, there are concerns that the PACE loan problems echo the subprime mortgage issue that we had years ago. Creditworthiness does not matter, some say. No down payment is required. Contractors function as loan brokers. Often homeowners may not know what they are getting into. I am sure that all of us do not want to go back to the 2008 crisis, and avoid another \$1.7 billion bailout.

So, would you agree that allowing FHA funds to take a second lien position creates a greater risk to the MMI Fund and to taxpayers? And just talk about the implications of this policy and what you found. I would like your insights.

Mr. MONTOKA. Yes, sir. Thank you for the question, Mr. Young. It goes to the point I made earlier that sometimes FHA is its own worst enemy, and we would agree. Putting the FHA mortgage in a second lien position to these PACE loans could very well be detrimental to the MMI Fund if homeowners default. And you are absolutely correct. Often, these homeowners do not understand the obligations of these loans, that these are assessments, they are not part of a loan, the traditional loan. And, in fact, we are not even sure that these PACE loans or these homeowners are actually going to benefit from any energy measures, and so that increases, obviously, the liability.

It is a concern for me that back in 2015, we thought FHA was on pace to maybe not sort of back this idea. Something changed within the year, and they decided to go ahead and put out guidance that said they would insure these types of loans, with certain caveats that people needed to know that the loan should not be put in a second position, but they do not really have that say so because that is a State issue as to lien position on loans.

So, we are troubled by it. We are appreciative that you brought this to our attention, to my attention. I actually did not realize this, but my audit staff has a proposed audit on these PACE loans, so I would commit to you that when we get done with that body of work and even maybe before that, we would love to give you an oral briefing, and certainly give you the report when it is done.

Mr. YOUNG. When do you anticipate that that audit may be done? We do not want to rush it, but just maybe a timeline.

Mr. MONTOYA. Well, sure. So it was an audit proposal in this year's audit planning stage. So I obviously jumped into the fray and said that is going to be one of them, so it will be starting, hopefully, some time in the next several months.

And so certainly, what we want to determine is the adequate controls that might mitigate the risks associated with insuring these loans, sir.

Mr. YOUNG. Thank you for that, appreciate that.

Mr. MONTOYA. Thank you, sir.

Mr. YOUNG. I yield back, Mr. Chairman.

Mr. JOYCE. Thank you, Mr. Young. Mr. Aguilar?

Mr. AGUILAR. Thank you. Mr. Montoya, picking up a little bit on that, and maybe go back and forth between the MMI Fund and also, as you mentioned, some of the down payment assistance programs that present problems to your office.

Just thinking about it from the perspective of underserved communities, in 2015, the top four home lenders scaled back on FHA lending in 2015, prioritizing conventional loans, while 39 percent of all mortgages issued were government insured, 63 percent of Latinos took out government-insured mortgage loans. So this is something that affects the community that I represent. Down payment assistance is crucial for families who would like to buy a home.

In your office report on the FHA-insured loans published recommendations that HUD consider a position allowing some borrower-financed down payment assistance programs to also participate in the FHA program.

So I guess my question is how do we ensure that proposed reforms do not create barriers to homeownership that disproportionately affect the Latino community?

Mr. MONTOYA. Yes, sir. Thank you for the question, and it is a valid question. What we are sort of mandated to do and what we want to ensure we do is that the home borrower, the loan borrower, the homeowner, goes into these loans fully aware of what they are getting into, and that has been the problem all along is they are not fully informed of what these loans really mean, what this down—now, just to be clear, we do not have a problem or disagree with down payment assistance programs, generally speaking.

We have a contention and a concern over a particular program where these premiums are raised often without the borrower knowing, so that when they get into the loan, they are going to have a higher premium interest rate on the loan. So that is the troubling part of this.

Certainly, with regards to homeowners going into these loans fully informed, fully aware, fully understanding that they can or cannot pay for it, that should not close any community from accessing the loans. Our main purpose here is to ensure these borrowers are fully informed and aware of what it really means and what those numbers are going to really look like when they get into these loans.

Mr. AGUILAR. Can that be done through added disclosures? Or how can we further the goal of informing consumers so they know what they are getting into?

Mr. MONTOYA. Absolutely, sir, added disclosure, and that was one of our recommendations. We had several recommendations on the down payment assistance audits that we did. And part of that is they have to fully disclose that, and you have to disclose that very overtly. You have to get a certification that you did disclose it.

The Department does not even track these types of loans, which is even more troubling. They do not track them separately. So there is no real history on whether these things track well or not, you know, the higher premium interest rate of these loans as compared to general down payment assistance.

These down payment assistance loans were initially designed to receive a grant or money to get people into the homes, right? With no expectation that the money would be paid back. Well, these higher interest loans are designed so that the money is paid back, and it is paid back on the back of the borrower. That is what the borrower does not understand. This is not, you know, a grant that is going to get you into a home and help you. They are going to pay for it themselves.

So absolutely it goes to disclosing and to ensuring that occurs. And so that has been the biggest point of contention on this particular down payment assistance program.

Mr. AGUILAR. Right, okay. But your office is not expressing disagreement that offering the increasing affordability and access to these programs is a worthy goal. The question is how do we get there? What disclosures do we offer in order to protect consumers, and how do we ensure the program is legal moving forward as well?

Mr. MONTOYA. Absolutely. It is a worthy goal and, as I said earlier, the mission of the Department is an honorable mission. What we want to ensure is that these individuals who are receiving these loans are fully aware and they are not taken advantage of.

In the case of the PACE loan that we were just talking about, these contractors are pushing these loans, right? So it becomes this idea that you are not really protecting the consumer, and it really becomes sort of predatory lending, right?

And so that is what our focus is, is to ensure that that sort of thing does not happen to these individuals, these families.

Mr. AGUILAR. I appreciate it. And, Mr. Scovel, I just wanted to let you know that I am sure I cannot speak for Mr. Montoya, but I am sure if you really felt some sympathy for his position, there are plenty of vacant positions at HUD, CFO as we have heard and others. So feel free to jump in with two hands and help out.

Mr. SCOVEL. Ah, great.

Mr. AGUILAR. Thank you, Mr. Chairman. I yield back.

Mr. JOYCE. Thank you, sir. Okay, I'm going to—any more questions? Well, I have got on here of local interest. Mr. Montoya, if you would not mind, the point-in-time count, are you familiar with that?

Mr. MONTOYA. Generally familiar with it, yes, sir.

Mr. JOYCE. Okay. As you know, it requires communities receiving funds through the homeless assistance grants to conduct annual PIT counts, of people experiencing homelessness.

The counts are to occur 1 day during the last week of January. The data collected on this day is then often used a model for total homelessness in a given area, and this has been problematic for communities that I represent, specifically Ashtabula County, Ohio. Located in the most northeast corner of the State, the county represents both rural and urban areas, and its proximity to Lake Erie leads to some of the most extreme weather patterns in the country, especially this week.

Local homelessness assistance program directors have expressed concern that the PIT data collection method for which they must abide is problematic in obtaining an accurate count of homelessness in this region. For one, homeless individuals in rural areas take shelter in hard-to-locate and spread-out locations, making it difficult to pinpoint and register individuals in the timeframe given.

Additionally, it is a safe bet at this time of year you are going to see some extreme weather, during which many homeless individuals take shelter in local businesses, such as laundromats, fast food restaurants, making it even harder to account for a large population of the vulnerable.

Has your office evaluated any ways by which the assistance programs can collect more accurate data? And if so, what are your recommendations for doing so?

Mr. MONTROYA. Thank you for your question, Mr. Joyce. We have not done any body of work on this particular program. I would be interested, and I have asked my staff to look into it, as to whether the systems that HUD uses to collect this data is something we could do analysis on to figure out where these accounts are occurring.

Recognizing they do do this one night every year, and every other year I think they go to those populations who are not in shelters in very specific areas. I think it would be difficult in all cases to sort of make sure you are not missing anybody. But we have not done any body of work. I certainly would be interested into looking into that a little bit deeper for you to see what we might be able to ask with regards to how complete this program really counts.

Mr. JOYCE. Well, thank you very much. Mr. Price?

Mr. PRICE. Thank you, Mr. Chairman. I, in this final round, would like to turn to an issue that is extremely important and needs to be addressed. And I hope that in the time remaining you can at least give a cursory update on your progress. Both departments, of course, have critical and sensitive information, technology systems, air traffic control, processing of federally insured mortgages, and on and on. And cyber attacks are a very real and a serious threat in all these areas.

Every day outdated legacy information systems perform these critical tasks and yet pose unique information security challenges. And they are often fragile. They often lack the resiliency of their modern counterparts. So, just to take HUD alone, you note, Mr. Montoya, that the fiscal 2016 IT funding decreased 16.3 percent from the previous year, and then decreased another 16 percent in 2017. So, constrained resources is a euphemism, I think, for how these agencies are operating in this area. And then looking ahead, maybe even more constraints.

So, could you give us an update on what work remains to be done in improving the security and resiliency of legacy IT systems in each of your departments? Give us an idea of whether or not this can be achieved within existing resources.

Mr. MONTROYA. Yes, Mr. Price. So, with ours, just to give you a sense, I think there is over 400 HUD IT products that are running on unsupported platforms. So, again, that goes to the critical need for that.

To the extent that any budget cut will certainly have an impact on how quickly they can get to these security concerns and issues, but really for them, it is not even a matter of patching and security awareness, it is about creating new IT systems that can take over where these aging systems will eventually just—will stop. So, that is naturally the more critical aspect.

So, even with any budget cut, I think it is going to have to be a real focus on the priorities, what has to come first and what should come first. And I think that would be my simplest answer, that even when it comes to our Department, at some point security patches really are not going to work on these things. So, it is beyond patching these things. It is really about moving them on to new systems.

Mr. SCOVILL. Thank you, sir. For DOT, I would say somewhat much the same thing. There needs to be, certainly, prioritization of replacement for those key of the 460 or so IT systems that the Department of Transportation relies on. With regards specifically to your point about cyber attacks and vulnerabilities, of course we do the required FISMA audit every single year.

We have highlighted across all the domains of cybersecurity areas where the Department needs to make progress. With regard to continuous monitoring, for instance, last year we found that with regard to one of the Department's major networks, the monitoring tool had detected 110,000 weaknesses at the time, yet the Operating Administrations that rely on that network had not been informed where those weaknesses were, so that they could undertake remediation at that level.

With regard to incident handling and reporting, we found similar shortcomings. The committee may remember that in 2014 there was a fire caused by a contract employee in the En Route Air Traffic Control Center near Chicago. The center had to be shut down for several weeks. The aviation industry reported losses of upward of \$350 million as a result. Yet that significant incident had not been reported. Everyone knew about it because it was in the news, but it had not been reported officially to the Department, because the Department views FAA as separate and apart in its incident-reporting requirements. Neither FAA nor the Department had reported it to the Department of Homeland Security, to the U.S. Computer Emergency Readiness Team. Glaring, glaring deficiency.

With regard to contingency planning, this is mentioned specifically in our longer statement. Of the Department's 460 systems or so, we determined last year that 86 percent had not experienced recent or comprehensive contingency testing of its recovery plans should the inevitable cyber attack occur.

So, those would be three areas where the Department clearly needs to prioritize its efforts. Longer range, ultimate fixes, like at

HUD, may rely on upgrading, as financial resources permit, updating the networks themselves. But clearly in the meantime, there is much work to be done.

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

Mr. JOYCE. Thank you, Mr. Price, Mr. Young. Well, I just want to thank both of you gentlemen, along with your staff, for all the answers and your participation here today. The committee staff will be in contact with the budget officers regarding questions for the record. I know I have a number of questions to submit, and I would imagine other members of the subcommittee do as well. And if you would work with the OMB to return the information for the record to the committee within 30 days from Friday, we will be able to publish a transcript of today's hearing.

Mr. Price, any final comments?

Mr. PRICE. No, it was a very useful hearing. Thank you both for being here.

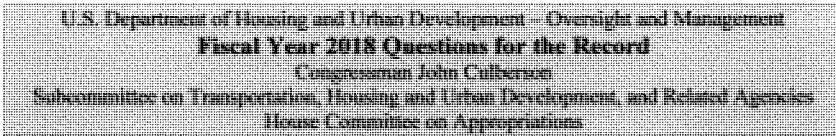
Mr. JOYCE. Yes, thank you both. As a former prosecutor, I appreciate exactly what you are doing. And keep up the great work.

Mr. MONTOYA. Thank you, Chairman.

Mr. JOYCE. With that, this hearing is adjourned.

Mr. MONTOYA. Thank you, sir.





Mr. Culberson #1

***CDBG-DR Funding Remaining Unspent Years After Disasters***

This year will be the 9 year anniversary of Hurricane Ike's landfall. Last year, Mr. Culberson submitted a Question for the Record (QFR) inquiring about the local housing authority still using Ike disaster relief funds to build subsidized housing. The answer to the QFR stated that the \$6.5 billion in Disaster Recovery funds was to remain available until spent. As of last year, \$1.4 billion of the funds remained unspent, and the answer to last year's question indicated that there is no mechanism available to recapture the unused funds.

**Question:** What prevents the Department of Housing and Urban Development from recapturing disaster recovery funds that years after a disaster have not been disbursed?

**RESPONSE:** Generally, the appropriations contain a timeframe, specified disaster, or location for which funds are to be provided. In allocating Community Development Block Grant Disaster Recovery (CDBG-DR) funds, the Department analyzes available data from the Federal Emergency Management Agency, the Small Business Administration, and other sources to determine the (1) estimated costs of unmet recovery needs and (2) grant amounts.

We have no authority to recapture CDBG-DR funds from grantees with remaining DR grant balances if there are no violations of program requirements or the terms of the grant agreement and the grantee continues to make eligible expenditures. Congress identified the existing CDBG-DR funds as "× year" or "no year" money, meaning that there is no expenditure timeline or deadline. The exception is the CDBG-DR funds awarded under Public Law 113-2, which requires a 2-year expenditure deadline for each obligation, a final obligation deadline, and a final expenditure deadline of 2022.

The Department has implemented (and is implementing) several actions that allow it to address open grants, including (1) hiring a staff member specifically focused on CDBG-DR grant closeout and grant tracking, (2) establishing target (not mandatory) closeout dates for CDBG-DR grants, (3) producing a monthly report of spending that identifies "slow spenders" based on the target (not mandatory) closeout dates, and (4) working with HUD field offices and grantees to establish voluntary closeout actions to meet the target closeout dates. In this fiscal year, HUD said that it closed CDBG-DR grants for Nebraska, Kentucky, Texas, and Florida, and there are other grantees for which it anticipates reaching grant closeout this year.

HUD recognizes that there may be circumstances that affect closeout, including the capacity of the grantee, program launch challenges, litigation, and subsequent disasters and said it takes those reasons into account as part of the analysis of the progress of long-term recovery.

However, we have also found that despite the time limit placed on newer disaster funds, HUD has been reluctant to enforce the time limit and has instead provided waivers to several grantees, such as Connecticut, North Dakota, and Tennessee. Further, for disaster funds, HUD started using a cumulative process<sup>1</sup>, which allowed some grantees not to hit the 2-year expenditure deadline when they otherwise would have. We have also found instances of HUD's failure to recapture funds in relation to other programs, such as the American Recovery and Reinvestment Act of 2009 and the HOPE VI Program. In these cases, HUD's Office of Public Housing and Office of General Counsel redefined force account labor, obligations, and program income to support the claim that the funds do not need to be recaptured.

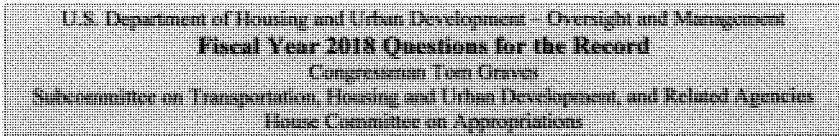
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<sup>1</sup> Cumulative Disbursement Process: Under the new cumulative disbursement process, DRSI will continue to create the budget tables to be included in the grant conditions. The only difference in the new budget tables will be the elimination of the Program/Project Level descriptions within the grant agreement. Funds obligated under each grant agreement will be recorded separately with the respective 2-year disbursement deadline associated with the amount of funds obligated. With implementation of the cumulative disbursement process, an amended grant agreement will be issued to each grantee, including a cumulative disbursement table (called the Cumulative Expenditure Schedule in the grant agreement). Grantees will be required to sign an acknowledgement statement accepting the revised terms and conditions and return it to HUD in order to implement the new process.

*CDBG-DR Funding Remaining Unspent Years After Disasters*

**Question:** In my district, the local housing authority is still using disaster relief funds from Hurricane Ike to build subsidized housing, including \$26 million of CDBG-DR funding for one project that has an estimated per unit cost of \$240,000. They are demolishing an office building to build the project. It is questionable to suggest that demolishing a functional office building to build subsidized housing is associated with hurricane destruction from 2008. Based on the most recent semi-annual report to Congress, \$1.1 billion of obligated funds from Hurricanes Ike, Gustav, and Dolly have not been disbursed. Seeing as how Texas has had several major disasters in the past year, is HUD able to de-obligate these funds and re-allocate them for actual disaster recovery from storms that have impacted the area in the past two years?

**RESPONSE:** No. HUD does not have the authority to recapture CDBG-DR funds awarded to grantees from previous appropriations and reallocate those funds to grantees for current disasters. Each CDBG-DR appropriation statute specifies the disaster(s) that can be funded; for example, 2016 disasters, Hurricane Katrina, the State of Louisiana for the Road Home, etc.



Mr. Graves #1

### ***Moving to Work Program***

I am aware that HUD's Moving to Work program has had a number of challenges. Ideally, I think we all would want to see our public housing programs helping the most vulnerable people in society. We also want to see that we don't condone a cycle of dependency for folks to stay on government assistance—so it seems that this program makes a lot of sense. The best cure for joblessness and poverty, after all, is employment.

**Question:** Could you summarize some of the challenges faced by the Moving to Work program and what lessons you and your team have learned through oversight and audits in recent years?

**RESPONSE:** As noted in our management challenges, HUD's monitoring and oversight of the public housing agencies (PHA) participating in the Moving To Work (MTW) demonstration program are particularly challenging. The MTW program provides PHAs the opportunity to develop and test innovative, locally designed strategies that use Federal dollars more efficiently, help residents become self-sufficient, and increase housing choices for low-income families. However, in the more than 20 years since the demonstration program began, HUD has not reported on whether the program is meeting its objectives.

In 2013, HUD developed crosscutting standard metrics to address the U.S. Government Accountability Office's (GAO) and our recommendations. HUD is just beginning to see results from those indicators and should soon be able to tell whether they are effective so it can start monitoring the progress of PHAs with similar strategies. In addition, as the 39 MTW PHAs' contracts came close to expiration, HUD could not agree with the current MTW PHAs on changes to the contract. In the 2015 Consolidated Appropriations Act, Congress required HUD to extend the contracts until 2028 so no new reporting requirements could be added. This Act also prevented HUD from correcting a funding error that overfunds several PHAs. This overfunding of 11 PHAs will continue until 2028. In December 2015, the 2016 Consolidated Appropriations Act authorized HUD to expand the program to include an additional 100 participants over 7 years without knowing whether participating PHAs are reducing costs to gain increased housing choices and incentives for families to work. These new participants will be added in cohorts or groups that will be assigned to test one specific policy each. This should allow HUD to better obtain results regarding the initiatives it would like to test.

*Moving to Work Program*

**Question:** Is the program achieving the goals envisioned when it was enacted?

**RESPONSE:** In the more than 20 years since MTW became a “demonstration program”, HUD has not reported on whether the program is meeting its objectives and it continues as a demonstration program. According to a 2012 GAO review, HUD has increased its efforts to monitor MTW PHAs’ compliance with the program’s statutory purposes and requirements. The GAO report concluded that HUD’s recent initiatives were moving in the right direction in terms of ensuring MTW PHAs’ compliance with statutory requirements, but it also concluded that without standard definitions and a systematic process, HUD could not effectively evaluate whether MTW PHAs are in full compliance with the statute. We also performed an audit several years ago and believe not enough has been done to define metrics and measure the success of the program. HUD missed the opportunity to gather baseline metrics when it began the program with the initial 39 PHAs. Since these two reports came out, HUD has developed crosscutting standard metrics to address this lack of data. As results become available over the next year or two, it will be clear whether it is collecting the data it needs to adequately monitor the MTW PHAs.

In the expansion program authorized by the 2016 Appropriations Act, HUD will take a more proactive role in controlling the initiatives undertaken and information gathered. Law requires that new PHAs be added to the program in cohorts or groups of PHAs that target one specific policy change. By narrowing the focus to one policy and trying it at several different PHAs, it is possible to gather the needed data to properly analyze the policy being tested. As the expansion program is implemented, we may have an opportunity to reevaluate the program and HUD’s efforts to better monitor the outcome of the MTW demonstration program.

***Moving to Work Program***

**Question:** What are some other ways we could improve public housing to prevent a cycle of dependency?

**RESPONSE:** Some examples are below.

- HUD could improve how it promotes, tracks, and enforces the community service and self-sufficiency requirement. This would include taking action against individuals who do not meet the requirements and taking action against PHAs that do not adequately promote, track, and enforce the requirement.
- HUD could perform better research of and enforce the income reporting requirements of tenants reporting \$0 income (by possibly requiring an additional level of review, although more would need to be done to better identify what that could be).
- HUD could provide incentives (reductions in rent) for families that have individuals spending more than 40 or 50 hours per week working, pursuing schooling, receiving job training, etc., so that those who are working to improve their situations are better able to save (this would be different from the Family Self-Sufficiency program and would be more focused on identifying those who are involved in greater work or educational hours).
- HUD could provide incentives (reductions in rent) for families that need childcare in order to work, pursue schooling, receive job training, etc.

In response to a HUD Office of Inspector General (OIG) audit that centered on overincome families continuing to reside in public housing, Congress was quick to act by drafting the Housing Opportunity Through Modernization Act which was signed into law by President Obama on July 2016. Section 103 of the Act requires PHAs to either evict overincome families after 2 consecutive years of exceeding the applicable income limitation or raise their rent to the applicable fair market rent for a unit in the same market area of the same size or the amount of the monthly subsidy of operating funds and capital funds used for the unit. It also requires PHAs to submit an annual report that specifies the number of families residing in public housing that had incomes exceeding the applicable income limitation and the number of families on the PHAs' waiting lists for admission to public housing. However, the implementation has been delayed. In November 2016, HUD published a Federal Register notice for comment regarding its implementation of Section 103 of the Act. The notice sought comment on HUD's methodology for setting the overincome limit for areas where HUD has discretion to set higher and lower income limits based on local housing market conditions. The comment period expired on January 30, 2017. HUD received nine relevant comments and was reviewing them and preparing responses. The new administration was briefed on Section 103 of the Act and provided a summary of the comments received. Action to issue a Federal Register notice making

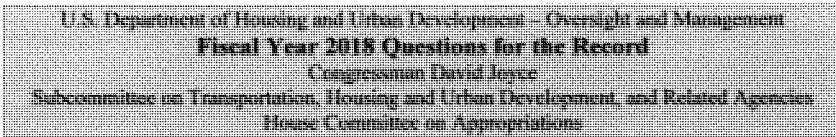
Section 103 effective has been placed on hold pending further discussion concerning the impact of Presidential Memorandum 1 and Executive Order 13771 on implementation.

***Moving to Work Program***

**Question:** I am aware of some of the laws that prevent implementation of work requirements in public housing programs; however, do you think implementing work requirements would be helpful?

**RESPONSE:** Yes, work requirements for those other than the elderly and disabled can be implemented; however, work requirements can also be costly to the individual. There need to be considerations for overcoming barriers to working, such as transportation, childcare, education, and training. Other considerations could include rent reform policies that would create stronger financial incentives for tenants to engage in work and move toward self-sufficiency. However, HUD could better promote, track, and enforce the community service and self-sufficiency requirement. This would include taking action against individuals who do not meet the requirements and taking action against PHAs that do not adequately promote, track, and enforce the requirement.





Mr. Joyce #1

### ***Section 8 Housing Program***

In two recent reports, one dated September 30, 2016, and one as recent as March 3, 2017, the department cited abuse and mismanagement within the Section 8 Low-Income Housing Program.

In the September 30, 2016 case, your office noted that the authority in question did not manage the financial operations of its program in accordance with HUD rules and requirements. Specifically, it “(1) disbursed \$796,186 in program funds for unsupported transactions, (2) misclassified program fraud recovery proceeds, (3) did not terminate program assistance to noncompliant participants, and (4) did not void or reconcile its outstanding checks in a timely manner.” In response to these findings, your office provided four recommendations to the public housing entity.

In the March 3, 2017 case, which took place in another jurisdiction, your office found a management agent did not properly verify tenant eligibility, that the management agent requested subsidies for ineligible tenants and tenants not living in units, and among other alarming violations, did not retain tenant files. As a result, it received \$144,556 in ineligible and \$726,399 in unsupported housing assistance payments and could not account for at least \$16,687 in project rents owed by tenants. In this case, you also provided a series of recommendations, including that the management agent return the misused tax dollars.

**Question:** In either of these cases, have you seen your recommendations fully implemented and has HUD been reimbursed for the taxpayer funds lost by these housing entities? If not, when do you expect to see these program safeguards implemented and the funds repaid?

**RESPONSE:** Our recommendations have not yet been fully implemented in either of these audits. Specifically, for the September 30, 2016, audit, while \$190,572 of the disbursed funds has been recovered, the final action target date for the support or reimbursement of the remaining \$604,614 is June 30, 2017. Additionally, our recommendations regarding the development and implementation of adequate internal controls over its financial management of program funds, ensuring that staff is available to monitor and enforce repayment agreements, and ensuring compliance with HUD rules and requirements regarding the Authority’s current and future cost allocation plans have final action target dates of June 30, 2017, and September 30, 2017. The recommendation to obtain HUD training and technical assistance to ensure that the financial management of the Authority’s program complies with HUD rules and requirements was closed as of April 6, 2017.

The March 3, 2017, audit report was just issued. A proposed management decision (documenting the corrective action necessary to respond to the recommendation and the final action date when the corrective action would take place) would not be due from the Department for a minimum of 120 days after report issuance.

***Section 8 Housing Program***

**Question:** One of these instances of abuse was discovered after your office responded to a complaint. Does your agency have any other complaints of this nature pending an investigation? If so, how many?

**RESPONSE:** HUD OIG often investigates allegations of waste, fraud, and mismanagement in government subsidized housing programs. After HUD OIG Office of Investigations (OI) conducted a query of its criminal investigations covering Public and Indian Housing Programs and Multifamily Programs, which cover the subsidized housing programs, OI determined it has a total of 498 open cases, 466 being opened pursuant to a complaint.

### *Section 8 Housing Program*

**Question:** In each instance reported, nearly a million dollars were misused by just two single entities. Do you have reason to believe these cases are isolated or that the structure of the Section 8 program makes it vulnerable across the country to this gross abuse of taxpayer dollars?

**RESPONSE:** Section 8 mainly involves multifamily subsidized properties and the Housing Choice Voucher program. The two reports mentioned are two of many reports issued regarding Section 8. While these issues are not isolated, we work with HUD to identify properties and PHAs that mismanage their programs. These are often targets of OIG audits.

Multifamily properties are governed by a regulatory agreement or HAP contract. This program is most susceptible to mismanagement and abuse by owners or management agents. Regular reviews by HUD or its contractor administrators are the best deterrents and tools for identifying improper actions. Referrals are also an excellent source for OIG to audit or investigate a property.

The Housing Choice Voucher program is more complex in that the PHA has to work with both the tenant and landlord to provide housing. Both large and small PHAs face struggles, but the types of struggles differ. While large PHAs have economies of scale that can produce more excess cash, small PHAs usually have fewer people to check on each other (separation of duties), and theft can go undetected for longer periods. In smaller PHAs, executive directors also may not make much money and grant themselves perks to compensate, which hurts the tenants.

In the example cited in your question, the property was managed by an identity-of-interest management agent<sup>2</sup>, which allowed the fraud to occur without the buffer independent management would provide. The board was also not an effective governance structure as it consisted of the owner and her children. And the owner had a personal relationship with the HUD multifamily director, who had recently served a jail/prison sentence for fraud. Also, this property had abnormally high housing assistance payment amounts, which allowed the dollar amounts to add up more quickly. Most Section 8 properties usually don't have all of these characteristics.

Two additional examples:

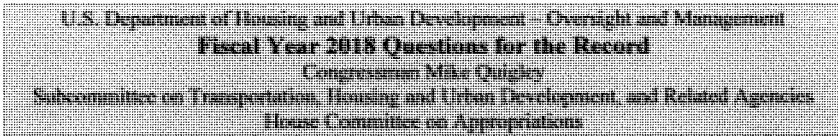
In a March 10, 2017, report, we noted that the allegations in a complaint regarding serious financial and operational mismanagement were valid regarding Irvington Housing Authority (audit report 2017-NY-1008). Authority officials spent program funds for unsupported and ineligible costs, excessive compensation was provided to the former executive director, HUD was not notified about litigations, deficiencies were noted in rent collection, program income was spent for ineligible and unsupported costs, and controls over procurement were inadequate. We questioned \$95,240 in ineligible expenditures and \$1.1 million in unsupported expenditures.

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<sup>2</sup> A management agent is a person or company hired by a multifamily owner that operates the property on the owners behalf.

In a September 28, 2016, report, we noted that the Housing Authority of the City of Rock Island, IL (audit report 2016-CH-1007), did not comply with HUD's conflict-of-interest requirements when it did not obtain the services of an independent third party to perform housing quality standards inspections and rent reasonableness determinations for units it substantially controlled. As a result, the Authority inappropriately (1) paid nearly \$454,000 in housing assistance to the entities and (2) earned nearly \$44,000 in administrative fees. Further, HUD lacked assurance that the Authority acted in the best interests of its program households.

One way the Office of Public and Indian Housing (PIH) can better manage the Housing Choice Voucher program is to focus on the modernization of its systems. Enterprise Voucher Management System (eVMS) will replace HUD's Central Accounting and Program System for vouchers. The new VMS system based on PIH Information Center data will allow HUD to fund the voucher program using more recent, actual expense data at the household level, versus at the PHA level. Uniform Physical Conditions Standards (UPCS) is the current physical standards used to measure the condition of public housing and multifamily units. UPCS-V is an inspection protocol and supporting information technology system that is currently in the demonstration phase (237 PHAs to participate) which replaces HQS for the Housing Choice Voucher program. The new voucher unit inspection protocol incorporates the pass or fail of housing quality standards into the rigor of UPCS, thus unifying the inspection standards for all HUD affordable housing.



Mr. Quigley #1

***Chicago Housing Authority and Moving to Work Programs***

Chicago, like most major cities, has significant demand for low income housing assistance. In the past, HUD has given the Chicago Housing Authority a great deal of flexibility when it comes to meeting the needs of the thousands of Chicagoans currently looking for housing help.

Specifically, CHA [Chicago Housing Authority] is one of the nearly 40 PHA's given a Moving to Work designation. I strongly support the Moving to Work program and favor its expansion. Flexibility in providing housing opportunities is important.

However, Congressman Quigley believes there are some issues regarding oversight and transparency for this program.

You may be aware that CHA seems to have developed quite a stockpile of unused funding. This January, the Chicago Tribune published and expose that claimed that CHA has paid down a great deal of its agency debt and funded its pension programs, while at the same time more than 119,000 people remain on waitlists for housing assistance.

The Tribune reported that between 2008 and 2013, the CHA issued 14,000 fewer low-income housing vouchers than the number provided by HUD and between 2005 and 2015, CHA's cash reserves grew 250% to \$379 million and its bond debt fell from \$346 million to \$18 million.

**Question:** Do you believe that this is an issue and HUD should have an active role in ensuring that federal housing dollars are used for housing purposes?

**RESPONSE:** HUD does have a role in ensuring that funds are used as intended. In addition, we believe that growth of cash reserves at MTW PHAs is an issue in which HUD should have an active role in ensuring that Federal housing dollars are used for housing purposes. However, HUD gives the MTW PHAs a great deal of freedom and flexibility. As long as a PHA performs according to the programs and requirements laid out its MTW plan(s) and its MTW agreement, HUD is reluctant to take action against the PHA.

In fiscal year 2012, PIH implemented procedures to reduce the amount of excess funds accumulating in PHAs' net restricted asset accounts, based on the results of our audit work. As of 2015, most of the traditional PHA funds had been transitioned back to HUD, but HUD faced an additional challenge of quantifying and transitioning excess funds from its MTW PHA. This process was complex and time consuming because the composition of these balances included funding from other HUD programs and was not being tracked separately by HUD or the PHAs.

During fiscal years 2015 and 2016, PIH worked with MTW PHAs to determine their accumulated balances. However, several PHAs reported that the amount should not be transitioned for a variety of reasons, such as that the PHAs used the accumulations as collateral and owed funds to other programs under the MTW program. HUD had transitioned \$218 million back as of September 2016. We are in the process of evaluating the amount transitioned to determine whether it is adequate to satisfy cash management requirements.

Adding to this challenge, HUD continues to lack an automated process to complete the reconciliations required to monitor all of its PHAs and ensure that Federal cash is not maintained in excess of immediate need. We recommended that HUD automate this process during our 2013 financial statement audit, and the matter was elevated to the Deputy Secretary for a decision on March 31, 2015. Two years later, we are still awaiting a response.

In the case of the Chicago Housing Authority, in 2014, CHA opened its waitlists after they had been closed for more than 4 years. More than 282,000 people registered for the waitlist, which was the greatest number of people to have ever applied. This is an indication of the need for affordable housing in Chicago. In 2000, CHA implemented its plan for transformation. Under this plan, it was supposed to renovate or build 25,000 units of affordable housing. However, as of 2017, the plan had not been completed. Although CHA is required to report to HUD on its plans and use of Federal funds, the reports should be more detailed to allow for complete transparency.

*Chicago Housing Authority and Moving to Work Programs*

**Question:** What oversight does HUD provide in instances such as this and what actions might HUD take to ensure that the most people receive housing assistance possible?

**RESPONSE:** During fiscal years 2015 and 2016, PIH worked with MTW PHAs to determine their accumulated balances. However, several PHAs reported that the amount should not be transitioned for a variety of reasons, such as that the PHAs used the accumulations as collateral and owed funds to other programs under the MTW program. HUD had transitioned \$218 million back as of September 2016. We are in the process of evaluating the amount transitioned to determine whether it is adequate to satisfy cash management requirements.

Adding to this challenge, HUD continues to lack an automated process to complete the reconciliations required to monitor all of its PHAs and ensure that Federal cash is not maintained in excess of immediate need. We recommended that HUD automate this process during our 2013 financial statement audit, and the matter was elevated to the Deputy Secretary for a decision on March 31, 2015. Two years later, we are still awaiting a response.

Some additional actions HUD could take:

- HUD could impose additional requirements for MTW PHAs to limit the amount of funds that PHAs can maintain (maybe a percentage of the amount awarded each year). It could also impose and enforce recapture requirements and penalties for PHAs that fail to use a certain percentage of the funds awarded each year for XYZ.
- In addition to providing a maximum number of vouchers, HUD could provide a minimum number of vouchers that must be issued (unless there is no waiting list). It would also need to impose and enforce penalties for PHAs that fail to award the minimum number of vouchers in order for such a requirement to be adequately implemented and followed.

In the case of CHA, it is required to report on its program activities and the use of Federal funds. However, the reports should be sufficiently detailed, with support, to allow for complete transparency. HUD should revisit how it determined the baseline for the number of persons served. For instance, according to CHA's 2008 amended and restated Moving to Work agreement, CHA is required to assist substantially the same total number of eligible low-income families under MTW as it would have served without the demonstration. CHA entered into a Moving the Work agreement with HUD in 2000. Therefore, CHA's baseline for its program is based on the number of families served at the time it entered into the agreement back in 2000. The population of low-income families in Chicago has increased, and the housing prices have also increased, impacting the need for housing assistance, as demonstrated by the more than 280,000 that applied for CHA's waiting list.



*Lead Contamination in East Chicago, IN*

Residents of a certain area of East Chicago, Indiana, including many public housing residents, were recently informed that the ground around their homes contained levels of lead that exceed safe limits. It is possible that the lead in this land has been present for decades, yet residents were permitted to live and recreate on the land during the intervening time, risking their health.

**Question:** Will HUD OIG investigate the issue of when was HUD informed by the EPA [Environmental Protection Agency] or other agencies of the serious lead and arsenic contamination of the West Calumet Housing Complex, a public housing family development within the boundaries of a Superfund site. What steps did HUD take in response to this information to ensure the safety of the families and children who live there? When did HUD take those steps?

**RESPONSE:** The Office of Audit initiated an internal review of HUD's oversight of lead-based paint reporting and remediation in public housing in March 2017. At this time, the audit will not involve determining when HUD was informed by EPA or other agencies of the serious lead and arsenic contamination of the West Calumet Housing Complex, but we address your question below. However, if a child that resided in the housing development was reported as having elevated blood levels, the audit would involve determining the steps that HUD took in response to ensure the safety of the households and the remediation of the situation.

Based on documentation that we received from PIH, it appears that the initial discussion regarding lead contamination and the impact on the residents of West Calumet Housing Complex occurred on June 1, 2016, through a series of conference calls between EPA and U.S. Department of Justice (DOJ) representatives and the Indianapolis Public Housing Director and Associate Regional Counsel. HUD's Office of Healthy Homes and Lead Hazard Control and Office of Community Planning and Development (CPD), Environmental Review Division and Administrative Law Division, were notified of this matter on June 2, 2016. PIH headquarters was briefed on the situation in early July 2016.

Between June 2 and July 7, 2016, staff from CPD environmental section and PIH's Office of Field Operations and Special Application Center in headquarters continued discussions with EPA and DOJ regarding tenant protection vouchers, the demolition and disposition process, and environmental review records.

In a memorandum, dated June 28, 2016, HUD's Indianapolis Public Housing Director notified its General Deputy Assistant Secretary that the East Chicago Housing Authority (ECHA) intended to apply for 346 housing choice vouchers for replacement housing at West Calumet Complex. On July 25, 2016, HUD's Office of Special Application Center received ECHA's application for the demolition of 112 dwelling buildings at West Calumet Complex so it could safely house residents living in the lead-contaminated site. PIH's Indianapolis office concurred with ECHA's request and forwarded it to HUD headquarters for approval.

HUD developed options to assist the residents of West Calumet around July 15. The options included priority relocation for families with children under the age of 6 and women who were pregnant, assisting ECHA with relocating families to other public housing units that were not in West Calumet, and using existing vouchers under its current budget. Regarding the voucher issuance, HUD assisted with counseling for the families and ensured that ECHA followed the Lead Safe Housing Rule for units selected by the families. For those families that included children with elevated blood lead levels, HUD followed up with the health department on those children.

*Lead Contamination in East Chicago, IN*

Mr. Quigley #4

**Question:** Will any such investigation include determination of what steps HUD took to ensure that the West Calumet public housing residents are relocated, on a temporary or permanent basis, to housing that did not also contain lead (water, soil, paint) or other harmful environmental contaminants?

**RESPONSE:** The audit will potentially address the action(s) undertaken by HUD, when it received knowledge that a child residing in the housing development had an elevated blood lead level.

However, according to the Department, HUD assisted with counseling for the families, ensured compliance with the Lead Safe Housing Rule for new units, and followed up with the health department on children that had elevated blood levels. Voucher units received visual assessments for lead paint hazards, and public housing units received risk assessments-inspections and lead hazard control abatement if it had not already been completed. If the home selected was in an area identified with soil hazards (as tested by EPA), ECHA required landlords to ensure that bare soil was covered until it was abated. Health departments in Indiana, Chicago, and Cook County provided risk assessments and case management for families of children with elevated blood lead levels.

EPA managed all temporary relocations.

*Lead Contamination in East Chicago, IN*

Mr. Quigley #5

**Question:** Will HUD OIG also investigate when East Chicago Housing Authority was informed by the EPA or other agencies of the serious lead and arsenic contamination of the West Calumet Housing Complex? What steps did ECHA take in response to this information to ensure the safety of the families and children who live there? When did ECHA take those steps?

**RESPONSE:** The audit will involve the actions taken by ECHA when it became aware that a child residing in a housing unit had an elevated blood lead level.

*Lead Contamination in East Chicago, IN*

Mr. Quigley #6

**Question:** Will any such investigation include any determination of what effort ECHA has made to help the West Calumet public housing residents relocate, on a temporary or permanent basis, to housing that does not also contain lead (water, soil, paint) or other harmful environmental contaminants?

**RESPONSE:** This question is best answered by HUD. The audit will not involve determining the effort ECHA had made to help the residents relocate, unless a residence reported a child with an elevated blood lead level.



THURSDAY, MAY 18, 2017.

## **EMERGING TRANSPORTATION TECHNOLOGIES**

### **WITNESSES**

**NIDHI KALRA, PH.D., SENIOR INFORMATION SCIENTIST FOR THE RAND CORPORATION**

**PROFESSOR MYKEL KOCHENDERFER, STANFORD UNIVERSITY DEPARTMENT OF AERONAUTICS AND ASTRONAUTICS**

**DAVID STRICKLAND, COUNSEL AND SPOKESPERSON FOR THE SELF-DRIVING COALITION FOR SAFER STREETS**

**BRIAN WYNNE, PRESIDENT AND CEO OF THE ASSOCIATION OF UNMANNED VEHICLE SYSTEMS INTERNATIONAL**

Mr. DIAZ-BALART. Good morning. Let us call the subcommittee to order. Today we are here to discuss how new technologies are changing our transportation system, not to mention our entire world. We are going to focus our time today on two specific technologies: on Unmanned Aerial Vehicles, or what is commonly known as UAVs, and Automated Vehicles, also known as AVs, which those, in essence, are self-driving cars and trucks.

I do not have to tell anybody that these are interesting and exciting times when it comes to technology that will make, whether its freight or travel, far more efficient and convenient; we hope, we think. It will clearly change the way we live and the way we work and, frankly, it is hard to imagine what we may be looking at in 10 years, not to mention 20 or 30 years from now.

Even more exciting is the potential for a much safer and a much more reliable and potentially more efficient transportation system. Last year there were over 40,000 deaths from auto accidents and 90 percent of those were due to human error. By removing this human factor, the automated vehicles could theoretically one day save tens of thousands of lives every single year, and it is difficult to imagine what an incredible achievement that would be for our country and for mankind.

On the unmanned vehicle aircraft side, I should say it appears that the future is, frankly, already here. The promise of drone and that technology is already beginning to transform our day-to-day lives. Together we need to figure out, to support innovation, how do we make sure that we continue to be on the forefront of innovation in our skies while also maintaining a world-class safety record? And I know all of us are proud of having the safest airspace on the planet.

To realize those benefits of these new technologies we must strike a balance between obviously the promotion of innovation, of private innovation, and also of protecting the public interest and the safety of the public so these potentially disruptive technologies offer a world of new possibilities. But, the safety of the American

people obviously has to always come first, and that is the balance that we have to deal with.

All levels of government are going to play a role in safeguarding the public as these technologies come to market, and there is no doubt that agencies funded by this subcommittee will play a very active role in research and regulation of both UAVs and AVs. And in addition, to try to understand how these technologies will change the marketplace, the transportation networks, et cetera, we must also understand what is the appropriate role for government, and for the different agencies.

So to help explore all of that, we are here today. I want to thank the members of the panel, this wonderful panel that I am, frankly, really, really, really, really looking forward to hearing from.

But with that, let me recognize Mr. Price, the ranking member of the committee, and thank you, Mr. Price. You are recognized.

Mr. PRICE. Thank you, Mr. Chairman. I join you in welcoming this distinguished panel of witnesses here today and look forward to receiving their testimony. This hearing is an important opportunity for us as appropriators to examine the emerging technologies in the transportation sector, particularly unmanned aerial systems and automated vehicles.

In many respects these technologies have already arrived, as the chairman stressed. Drones are being used to help farmers inspect crops; utility companies check their power lines in remote or hard-to-reach areas. Car manufacturers have already rolled out semi-autonomous systems designed to help drivers detect and avoid crashes before they occur. I actually have one on my own vehicle, a remarkable cruise control system which does it for me when a car slows down in front.

As these technologies mature they have the potential to provide enormous benefits to our transportation network and to society at large by enhancing efficiency and safety. But before this technology becomes ubiquitous, technologies from industry, academia, and government will need to grapple with a lot of issues, policy, regulatory, operational concerns.

For example, as unmanned aerial system begin flying over population centers how do we ensure the safety of those on the ground as well as other aviation users in the airspace? How can we quickly identify drones when they fly into restricted or sensitive areas?

As more and more cars on our roadways have semiautonomous driving features, how do we account for human behavior which both experience and research tell us can be far from rationale? Automated systems already generate immense amounts of sensitive user data. When these technologies proliferate in our transportation network, how can we use that data to improve our underlying technology while respecting privacy and keeping data safe from those who would abuse it?

As appropriators we especially want to make sure that the Department of Transportation and its various component agencies not only have the resources they need to facilitate innovation and fulfill their critical safety oversight responsibilities, but that they are using these resources most effectively and with a full knowledge of the emerging technologies they are dealing with.



I believe this hearing will provide an excellent platform to discuss these issues and inform our subcommittee's work as we assemble our bill for the coming fiscal year. So, Mr. Chairman, I appreciate your calling this hearing and look forward to the testimony. Thank you.

Mr. DIAZ-BALART. Thank you, sir. Let me introduce our distinguished panel. Professor Kochenderfer from Stanford University, the Department of Aeronautics and Astronautics, that is correct? Thank you, sir.

Mr. Brian Wynne, president and CEO of the Association of Unmanned Vehicle Systems International. Thank you, sir.

Nidhi Kalra, Ph.D. and senior information scientist for the RAND Corporation.

And also then Mr. David Strickman, counsel and spokesperson for the Self-Driving Coalition for Safer Streets.

I want to again, as I said before, thank each and every one of you for joining us this morning and we all really, really look forward to hearing from you. So with that, we will today begin with Professor Kochenderfer.

Professor, your full written testimony will be included in the record and, with that, we look forward to hearing your 5 minutes.

Mr. KOCHENDERFER. Thank you. Good morning, Chairman Diaz-Balart, Ranking Member Price, and members of the subcommittee. Thank you for the opportunity to discuss the integration of unmanned aircraft systems, or UAS, also commonly called drones, into the airspace.

I am a professor in the Department of Aeronautics and Astronautics at Stanford University and a third-generation pilot. I am speaking solely for myself.

For research over 10 years, it has involved statistical estimation of risk and development of technology for enhancing aviation safety and the safety of other transportation technologies. While at MIT Lincoln Laboratory, I developed a collection of airspace models directly funded by the FAA, DHS, and the Air Force. These models have been since used to estimate collision risk for manned and unmanned aircraft by government, academic, and commercial organizations around the world.

My work has also led in part to the technology underlying the FAA's next-generation Airborne Collision Avoidance System X, called ACAS X; the FAA is developing and flight testing a version of for unmanned aircraft. My students at Stanford University have been supporting this effort and the effort of NASA to build a UAS traffic management system, or UTM.

I will begin by outlining the motivation for building a system for enabling the safe and efficient operation of drones. This new wave of unmanned aircraft technology has the potential to save lives and create jobs, as mentioned by Mr. Price.

Drones are able to assist in the inspection of infrastructure, search-and-rescue operations, agricultural surveillance allowing farmers to increase yields, more effectively use water resources, and reduce crop damage. In the medical space drones can enable the swift transport of organs for transplants and the delivery of medicine.

The transformative nature of unmanned aircraft technology on the benefits they bring to society are difficult to deny. However, there are significant worries about the reckless use of drones and the risks they pose to other air traffic participants as well as people and property on the ground. There are also concerns about the violation of privacy given that many drones are equipped with cameras and landowner rights to the airspace immediately above their property. These are all valid concerns, but I will focus my opening remarks on the challenges associated with the airspace integration.

The airspace in the United States is the safest and most complex in the world. The FAA is charged with the responsibility for ensuring that this impeccable safety standard is maintained even with the proliferation of new airspace users, platforms, and applications.

The UTM appears to be the best way forward for integrating these new users, allowing for the flexible use of the airspace while preserving the ability of the FAA to regulate the traffic as needed to preserve safety. The UTM is an air traffic management ecosystem for uncontrolled airspace. NASA has led the effort in developing the concept and prototype in the system with broad participation from industry, government and academia along with coordination with the FAA and the FAA test sites.

The development of the UTM has aimed to identify the relevant services, responsibilities, information architecture, data exchange protocols, and so forth. The vision that has emerged from these research activities over the past few years is that the FAA maintains regulatory and operational authority for airspace and traffic operations.

The UTM would be used by the FAA to issue directives, impose constraints, and modify air space confirmations. But air traffic controllers are not required to actively control drones in controlled airspace. The FAA maintained situational awareness through the UTM. The FAA manages the Flight Information Management System, or FIMS, which interacts with various UAS service suppliers.

A private entity can apply to become a USS, a UAS service supplier, and the various service suppliers coordinate with each other to—oh, thank you—coordinate with each other to provide service such as real-time position information and notification to drone operations and operators. The concept is that participation in UTM may allow, with FAA concurrence, exceptions from the current part 107 requirements.

I would like to conclude by saying that there is an opportunity for the United States to be a leader in the development of the UTM and ushering in the next generation of aviation bringing with it the benefits I mentioned earlier. Thank you for this opportunity and I am happy to be a resource to this subcommittee.

[The information follows:]

**STATEMENT OF  
MYKEL J. KOCHENDERFER, PROFESSOR  
STANFORD UNIVERSITY**

**HEARING BEFORE THE COMMITTEE ON APPROPRIATIONS, SUBCOMMITTEE ON  
TRANSPORTATION, HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES:  
EMERGING TRANSPORTATION TECHNOLOGIES**

Good morning, Chairman Diaz-Balart, Ranking Member Price, and Members of the Subcommittee. Thank you for the opportunity to discuss the integration of unmanned aircraft systems (UAS), also commonly called drones, into the United States airspace.

I am a professor in the Department of Aeronautics and Astronautics at Stanford University and a third-generation pilot. In this testimony, I am speaking solely for myself.

My research for over ten years has involved statistical estimation of risk and the development of technology for enhancing aviation safety and the safety of other transportation technologies. While at MIT Lincoln Laboratory, I developed a collection of airspace models, jointly funded by the FAA, DHS, and the Air Force. These models have since been used to estimate collision risk for manned and unmanned aircraft by government, academic, and commercial organizations around the world. My work has also led, in part, to the technology underlying the FAA's next generation airborne collision avoidance system called ACAS X that is currently undergoing international standardization. The FAA is developing and flight testing a version for unmanned aircraft. My students at Stanford have been supporting this effort and the effort of NASA to build a UAS Traffic Management (UTM) system. In addition, my graduate students have also been involved in advancing the theory and application of technologies relevant to automated driving.

I will begin by outlining the motivation for building a system for enabling the safe and efficient operation of drones. This new wave of unmanned aircraft technology has the potential to save lives and create jobs. Drones are able to assist in the inspection of infrastructure, such as communications towers, wind turbines, and bridges, with the potential to save worker lives every year. They are also able to assist in search-and-rescue operations, where finding victims is time critical. They support agricultural surveillance, allowing farmers to increase yields, more efficiently use water resources, and reduce crop damage. Amazon, Google, and other companies have been exploring the possibilities of using drones for package delivery. In the medical space, drones can enable the swift transport of organs for transplants and the delivery of medicine and defibrillators in emergencies.

The transformative nature of unmanned aircraft technology and the benefits they bring to society are difficult to deny. However, there are significant worries about the reckless use of drones and the risks they pose to other air traffic participants as well as people and property on the ground. There are also concerns about the violation of privacy, given that many drones are equipped with cameras, and landowner rights

to the airspace immediately above their property. These are all valid concerns, but I will focus my opening remarks on the challenges associated with airspace integration.

The airspace in the United States is the safest and most complex in the world. The FAA is charged with the responsibility for ensuring that this impeccable safety standard is maintained, even with the proliferation of new airspace users, platforms, and applications. The FAA required the registration of small drones by February 2016, and by June 2016 there were 495,000 registered, considerably higher than the 320,000 registered piloted aircraft. Many of these aircraft are hobbyist. The FAA forecasts that the commercial drone sector will continue to accelerate, with the commercial fleet growing by a factor of ten from where it was in 2016.

The UTM appears to be the best way forward for integrating these new users, allowing for the flexible use of the airspace while preserving the ability of the FAA to regulate the traffic as needed to preserve safety. The UTM is an air traffic management ecosystem for uncontrolled airspace. NASA has led the effort in developing the concept and prototyping the system with broad participation from industry, government, and academia, along with coordination with the FAA and the FAA test sites. The focus has been on the band of uncontrolled airspace between 200 ft and 500 ft above ground, high enough to avoid buildings and privacy concerns, but low enough to avoid interference with manned aircraft. The development has also focused on flights within line of sight, but the UTM can provide the capability for enabling beyond-visual-line-of-sight operations. The UTM may also be able to provide future support for other areas of uncontrolled airspace, such as above 60,000 ft, as well as support for passenger-carrying, mobility-on-demand concepts.

The development of the UTM has aimed to identify the relevant services, responsibilities, information architecture, data exchange protocols, software functions, infrastructure, and performance requirements. The vision that has emerged from these research activities over the past few years is that the FAA maintains regulatory and operational authority for airspace and traffic operations. The UTM would be used by the FAA to issue directives, impose constraints, and modify airspace configurations, but air traffic controllers are not required to actively control drones in uncontrolled airspace. The FAA maintains situational awareness through the UTM. Operational concepts for drones that must transition into controlled airspace is an area of future research.

The FAA manages the Flight Information Management System (FIMS), which interacts with various UAS Service Suppliers (USS). A private entity can apply to become a USS, and the various service suppliers coordinate with each other to provide services such as real-time position information and notifications to drone operators. The concept is that participation in UTM may allow, with FAA concurrence, exceptions from the the current Part 107 requirements, enabling operations above 400 feet, beyond line of sight, or within 5 miles of an airport.

I would like to conclude by saying that there is an opportunity for the United States to be a leader in the deployment of the UTM and ushering in the next generation of aviation, bringing with it the benefits I mentioned earlier. Private industry has played an important role in developing the UTM concept and prototype, and many of the development activities have been supported by their own investment. Many of

the air traffic research concepts that NASA has been exploring for decades are making their way into the UTM system. NASA should continue to be funded to work with the FAA to transition this research prototype to a deployed system. In addition, appropriate resources should be allocated to the FAA to support the interface with UTM. There are still open research questions related to establishing risk-based separation standards, micro-weather prediction, communication standards, and robust algorithms for sequencing and spacing. Addressing these research questions will require close collaboration between government, industry, and academia. It is in the interest of our nation to support the research needed to ensure aviation safety and efficiency as our technology evolves. The future of unmanned aviation is bright and has the potential to flourish into an entirely new industry with applications yet to be imagined.

Thank you for this opportunity, and I am happy to be a resource to this subcommittee.

Mr. DIAZ-BALART. Thank you very much, Professor. We now recognize Mr. Wynne for your opening testimony. And as I said before, your written testimony will also be included in the record. You are recognized, sir, for 5 minutes, and thank you for being here.

Mr. WYNNE. Thank you, Chairman Diaz-Balart, Ranking Member Price. I really appreciate the opportunity to be here this morning to testify at this hearing, speaking on behalf of the Association for Unmanned Vehicle Systems International, the world's largest nonprofit organization dedicated exclusively to the advancement of unmanned systems and robotics, UAS, and the resources needed to fully integrate UAS safely and efficiently into the national airspace system.

As you know, UAS are regulated by the Federal Aviation Administration, which has taken several positive steps in the past few years. I hope to take a few minutes today to tell you about where the unmanned systems aircraft industry is going and how an appropriately funded FAA is necessary to help the industry reach new heights and create enormous economic value for the country.

The FAA implemented the small UAS rule also known as part 107 last August. It was the result of years of collaboration between industry and government that established a flexible, risk-based approach to regulating UAS. These regulations have been in effect for more than 8 months and there is strong evidence the commercial UAS market is poised for a significant growth.

As of this month, there are more than 820,000 UAS registrations with the FAA, the vast majority of which are hobbyists. Of those about 62,000 platforms have been registered for commercial use. The FAA expects more than 400,000 UAS could be flying for commercial purposes over the next 5 years, a more than sixfold increase from today.

An economic analysis by AUVSI projects the expansion of UAS technology will create more than 100,000 high-paying jobs and generate more than 82 billion to the economy in the first decade following full integration into the national airspace. These figures will likely go higher under the right conditions.

In addition to part 107, an FAA extension measure was signed into law last year which would advance UAS research, expand commercial operations, and enhance the safety of the national airspace for all aviation systems manned and unmanned. While this extension measure will provide some short-term stability through September 2017, it is critical that Congress pass a long-term bill this year. A vital prerequisite for advancing UAS is an adequately funded FAA that can meet the employment and staffing needs required of the future as well as provide the necessary resources to update and automate the FAA's infrastructure to support this new technology.

To safely manage the hundreds of thousands of UAS anticipated to operate in American skies, the FAA needs first and foremost to automate its UAS processes. Automation will also be important beyond part 107 for more complex operations. Many of its important management tools and processes which facilitate safer and more seamless UAS operations currently operate by manual data input or processing.

If the UAS wants to remain a global leader in UAS innovation manual processes and out-of-date technology will not suffice. The FAA also needs additional employees who are dedicated to future UAS rulemakings to move us beyond part 107 and allow for more complex operations. More resources to advance UAS regulations will help enhance the safety and security of the annual airspace.

We recognize that the recent budget agreement that this Congress passed and President Trump signed into law made some additional investments in the FAA. I would like to personally thank this committee's leadership for providing resources to expedite UAS innovation. It is definitely a step in the right direction.

I want to hasten to add that industry is not relying on the FAA and government alone to advance UAS. Industry is currently shouldering much of the R&D costs, finding solutions to make UAS fly higher and farther more safely and efficiently. Industry has also been a close partner with government in advancing a UAS traffic management system known as UTM and in developing standards for remotely identifying operators and owners of UAS.

The UAS industry is primed for incredible growth thanks to industry representatives and government regulators nurturing innovation. Vital to these efforts, however, is an FAA that is appropriately funded and empowered to engage meaningfully in the process alongside industry stakeholders.

Thank you again for the opportunity this morning. I will look forward to answering the committee's questions.

[The information follows:]



**PREPARED STATEMENT OF BRIAN WYNNE  
PRESIDENT AND CEO, ASSOCIATION FOR UNMANNED VEHICLE SYSTEMS INTERNATIONAL**

**U.S. House of Representatives  
Committee on Appropriations  
Subcommittee on Transportation, Housing and Urban Development and Related Agencies  
“Emerging Transportation Technologies”  
May 18, 2017**

Chairman Diaz-Balart, Ranking Member Price and members of the subcommittee, thank you very much for the opportunity to participate in today’s hearing. I’m speaking on behalf of the Association for Unmanned Vehicle Systems International, the world’s largest non-profit organization devoted exclusively to advancing the unmanned systems and robotics community. AUVSI has been the voice of unmanned systems for more than 40 years, and currently we have more than 7,500 members, including many small businesses that support and supply this innovative industry.

My comments today will specifically focus on unmanned aircraft systems, or UAS, and the resources needed to fully integrate UAS safely and efficiently into the National Airspace System. As you know, UAS are regulated by the Federal Aviation Administration, which has taken several positive steps in the past few years to help American businesses and individuals across the United States realize the potential of UAS.

The potential for UAS in business is great. From inspecting pipelines to surveying bridges to filming movies, UAS help save time, save money and, most importantly, save lives. It is no wonder why thousands of businesses—small and large—have already embraced this technology, and many more are considering integrating it into their future operations.

For years, AUVSI has been urging the FAA to use all available means to establish a regulatory framework for UAS, starting with finalizing the small UAS rule. We now have initial regulations governing civil and



commercial UAS operations, which means even more businesses are cleared for takeoff. These regulations have been in effect for a little more than eight months, and there is strong evidence that the commercial UAS market is poised for significant growth.

Much has been accomplished so far because government and industry has banded together to advance UAS. The collaborative process in which we have engaged, and the goals we share of supporting innovation and ensuring the safety of the national airspace, have made for a working relationship that is defined by both productivity and mutual respect. This has led to a more flexible and nimble approach to regulating UAS as well as to more businesses adopting the technology. The United States was once falling behind the rest of the world in embracing UAS; now our country is leading the way.

There is still much more we need to accomplish, however, and I hope to take a few minutes today to tell you about where the unmanned aircraft industry has been, where we hope it will go, and how an appropriately funded FAA is necessary to help the industry reach new heights.

Looking back at other historical transformations in technology and transportation, on June 29, 1956, then-President Dwight D. Eisenhower signed “The Federal-Aid Highway Act of 1956,” which authorized the construction of the national interstate and highways system. The 41,000-mile project came with an authorization of \$25 billion dollars over a 10-year period, and it was the largest public works project in American history at that time.

Per a February 2016 CBO report, “[i]nvestment in highways has made a significant positive contribution to economic growth. Studies of the economic returns from public investment in highways have found that the construction of the Interstate System was associated with sizable gains in productivity, especially for industries that use the road system relatively intensively.”<sup>1</sup> With the past as prologue, I believe we are at a similar moment in time regarding the integration of UAS into the National Airspace System.

In August of 2016, the FAA implemented the small UAS rule, also known as Part 107. The rule was the result of years of collaboration between government and industry that established a flexible, risk-based

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<sup>1</sup> Congressional Budget Office, February 2016, “Approaches to Make Federal Highway Spending More Productive”, [https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50150-Federal\\_Highway\\_Spending-OneCol.pdf](https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/reports/50150-Federal_Highway_Spending-OneCol.pdf)

approach to regulating UAS. This new regulatory framework helped reduce many barriers to low-risk civil and commercial UAS operations. In reducing those barriers, the rule allows businesses and innovators to harness the tremendous potential of UAS and unlock the many economic and societal benefits the technology offers.

It is clear American businesses are eager to take off and the demand for commercial UAS has exploded across a variety of industries. As of this month, there are more than 820,000 UAS registrations with the FAA, the vast majority of which are hobbyists. Of those, about 62,000 platforms have been registered for commercial use. The FAA expects more than 400,000 UAS could be flying for commercial purposes over the next five years—a more than six-fold increase from today.

Part 107 has paved the way by allowing anyone who follows the rules to fly. Generally speaking, operators need to fly under 400 feet, within visual line of sight and only during daylight hours. However, recognizing the need for the rule to be flexible, the FAA created a waiver process under Part 107 that allows for expanded types of operations with the approval of the agency.

To date, the FAA has granted more than 800 waivers to Part 107. An AUVSI analysis of the first 300 found that companies in 44 states were already taking advantage of the process. The vast majority of these companies are small businesses with fewer than 10 employees. More than 97 percent of waivers allow for nighttime operations, while others allow for flights over people, operating multiple UAS and operating UAS from moving vehicles. High profile use of these waivers includes the most recent Super Bowl halftime show, which featured an aerial light show made possible by Intel's waivers to operate multiple UAS at night. BNSF Railway received a waiver to conduct inspections of its sprawling rail network beyond line of sight. Other practical applications of these waivers include nighttime search and rescue operations and filming after sunset.

Part 107 and its waiver process were just the first steps in creating a regulatory framework for full UAS integration. An economic analysis by AUVSI projects that the expansion of UAS technology will create more than 100,000 jobs and generate more than \$82 billion to the economy in the first decade following full integration in to the national airspace. After witnessing the growth of the industry over the last few years and now with Part 107 in place, these figures will likely go higher under the right conditions and once we achieve full integration.

In addition to the implementation of the small UAS rule and the waiver process, Congress passed and the president signed an FAA extension measure which will advance UAS research, expand commercial operations and enhance the safety of the national airspace for all aviation systems—manned and unmanned. Notably, the extension calls for the creation of a comprehensive UAS research and development roadmap to coordinate industry and government R&D initiatives. The extension also outlines a pilot program for UAS Traffic Management (UTM).

While this extension measure will provide some short-term stability through September 2017, it is critical that Congress pass a long-term bill this year that will set the industry and the country on a glide path to reap all the benefits of UAS. A vital prerequisite for advancing UAS is an appropriately-funded FAA that can meet the employment and staffing needs required for the future, including the federal rulemaking processes to achieve full UAS integration, as well as provide the necessary resources to update and automate the FAA's infrastructure to support this new technology and the growing demand for UAS services.

The recent budget agreement that this Congress passed and President Trump signed into law made some significant investments for the FAA's UAS-related activity. I would like to personally thank this Committee's leadership for providing real resources to help expedite the integration of unmanned systems. It is a step in the right direction.

At the same time, there is much more work to be done to help pave the way for a true, holistic plan for full UAS integration that includes beyond line of sight operations, flights over people, access to higher altitudes and platforms above 55 pounds.

To safely manage the hundreds of thousands of UAS anticipated to operate in American skies over the next year, the FAA needs, first and foremost, to automate its IT systems to meet the growing demand for UAS services. Automation will also be important beyond Part 107 for more complex operations. The agency envisions creating a single online portal for all types of UAS users; automating its waiver and airspace authorization requests that allow access to certain segments of the airspace beyond Part 107; and automating its accident reporting and how it shares low-altitude data with non-federal agencies.

These important management tools and processes, which facilitate safer and more seamless UAS operations, currently operate by manual data input or processing, requiring manpower and man-hours that the FAA simply does not have to spare at its current funding levels. With the new Congressional investments provided, hopefully the FAA will be able to adopt new automation technology into their back-end systems. If the United States wants to remain a global leader in UAS innovation, manual processes and out-of-date technology will simply not help achieve that aim.

The FAA also needs employees who are dedicated to future UAS rulemakings to move us beyond Part 107 and allow for more complex operations. More resources to advance UAS regulations will help enhance the safety and security of the national airspace.

Moreover, the industry is not relying on the FAA and government alone to advance UAS. Industry is currently shouldering many of the research and development costs to spur innovation, finding solutions to make UAS fly higher and farther more safely and efficiently.

Industry has also been a close partner with government in advancing UAS Traffic Management (UTM) system, beginning with Low Altitude Authorization and Notification Capability (LAANC). It has also been a partner in developing standards for remotely identifying operators and owners of UAS, building on earlier registration efforts with real-time tracking of UAS operators. AUVSI recently collected papers on remote identification solutions for UAS from industry stakeholders to help the FAA meet its congressional directive under the 2016 FAA reauthorization extension to develop consensus for such standards.

Another key example of collaboration is the Drone Advisory Committee, of which I am a member. RTCA is the supporting organization for this Federal Advisory Committee and it “was formed to provide an open venue for the FAA and key decision-makers supporting the safe introduction of UAS into the National Airspace System. Members of the Committee work in partnership with the FAA to identify and propose actions to the FAA on how best to facilitate the resolution of issues affecting the efficiency and safety of integrating UAS into the NAS.” Through its Drone Advisory Subcommittee and three Task Groups, the DAC is working on providing consensus-based recommendations to the FAA on the issues of roles and responsibilities for federal, state and local governments, access to airspace, and short-term funding for the FAA’s budget. These important collaborative measures will continue to be important to the growth and security of the UAS industry.

The UAS industry is primed for incredible growth, thanks to industry representatives and government regulators nurturing innovation that helps more businesses be more competitive in the marketplace than ever before. We hope that these efforts can be sustained and that we continue to reach new historic milestones in integrating this technology into the national airspace. Vital to these efforts, however, is an FAA that is appropriately funded and empowered to engage meaningfully in the process, alongside industry stakeholders.

Thank you, again, for the opportunity to speak today. I look forward to answering any questions the committee might have.

Mr. DIAZ-BALART. Thank you, Mr. Wynne. We now recognize Ms. Kalra. Again, your opening statements and your full testimony will be submitted into the record. And you are recognized. Thank you so much.

Ms. KALRA. Chairman Diaz-Balart, Ranking Member Price, and distinguished members of the subcommittee, thank you for the opportunity to testify today on important emerging opportunities and risks created by autonomous vehicles.

Now, in the interest of full disclosure, I want to let you know my spouse is the co-founder of a Silicon Valley startup working on autonomous vehicles, though his work has no bearing on my testimony or vice versa.

Now, today, first I would like to talk about safety, and then I will briefly talk about mobility. Now, as you know, traffic crashes pose a public health crisis in the United States, and autonomous vehicles have the potential to mitigate this crisis, and as a society we want them to become as safe as possible, as quickly as possible. But they probably will not eliminate all crashes and may introduce new safety risks, particularly in the near term.

So, please let me describe several challenges that stand in the way of managing the safety risks and realizing the safety potential, and then I will propose some solutions.

The first challenge is that there is not yet a practical way to prove that autonomous vehicles are safe prior to allowing them on the roads for consumer use.

Second, there is no consensus about how safe autonomous vehicles should actually be before they are allowed on the road. This means we neither know what test autonomous vehicles should have to take nor what would constitute a passing grade.

Now, resolving these questions is urgent, because real-world driving experience is actually crucial for improving autonomous vehicle safety, but this presents a third problem, while in the real-world setting presents risk to early adopters and to other road users.

It is a lot like allowing a teenager driver on the road. They may not be good drivers yet, but they need experience to become good drivers. Until then, they pose risks to themselves and to others which we try to limit with learner's permit restrictions. And we might need some policies for autonomous vehicles in their teenage years.

And there is a clear and essential role for sound policymaking, and I will make three recommendations.

First, I recommend that we rapidly develop methods of testing autonomous vehicle safety.

Second, I recommend that that these methods be used to shape a flexible, adaptive, regulatory framework that defines what safety thresholds must be met in order to put autonomous vehicles on the road.

A lower threshold of safety might be okay for demonstration projects designed to improve autonomous vehicle performance in controlled environments, but a higher threshold of safety would be warranted for widespread consumer use in uncontrolled environments.

Such new approach could, for example, be built into the changes that are being considered to exemptions to the Federal Motor Vehicle Safety Standards. Some autonomous vehicle developers are seeking a potential increase from today's 2,500 vehicles per year to 100,000 vehicles per year. But this is risky given the difficulty of assessing autonomous vehicles safety prior to widespread deployment.

Now, a two-phased approach might help. For example, initially allowing a small number of exemptions, and then after safety is demonstrated increasing the cap on exemptions, could be a viable path to deploying innovative vehicle designs while also managing risks.

Now, such a framework would likely fall under NHTSA's jurisdiction, but NHTSA and Federal policymakers should work with industry, State and local policymakers, and the public. NHTSA has already released Federal policies for autonomous vehicles, but these do not specify testing methods or performance requirements, or yet develop such a framework. There also are not yet requirements, but industry guidelines for technology development and use.

And a regulatory framework like the one I describe will take time, so in the interim I thirdly suggest that pilot studies and data-sharing can help manage risks while encouraging technology development.

And before I conclude, I would like to briefly talk about mobility. Autonomous vehicles could improve mobility for millions of Americans who are elderly, young, have disabilities or live in poverty. But policies may be needed to make autonomous vehicles affordable, available, and accessible to these groups. Policymakers can incentivize developers to reach these markets faster than they might otherwise or integrate them into public transit.

Policymakers may need to help developers make them accessible, for example, by complying with ADA Guidelines and building payment systems for these technologies.

And while the cost of shared autonomous vehicles is expected to be low, policymakers could extend transit and peer-transit reduced fares to these technologies.

To conclude, we cannot forecast the impact that autonomous vehicles will have on transportation safety and mobility in the decades to come, but we can shape that trajectory with well thought-out policies.

Thank you very much. I look forward to your questions.

[The information follows:]

# Challenges and Approaches to Realizing Autonomous Vehicle Safety and Mobility Benefits

Nidhi Kalra

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Testimony presented to the House Appropriations Committee, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies on May 18, 2017.





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*Challenges and Approaches to Realizing Autonomous Vehicle Safety and Mobility Benefits*

Testimony of Nidhi Kalra<sup>1</sup>  
The RAND Corporation<sup>2</sup>

Before the Committee on Appropriations  
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
United States House of Representatives

May 18, 2017

Chairman Diaz-Balart, Ranking Member Price, and distinguished members of the subcommittee, thank you for the opportunity to testify on the important emerging opportunities and risks related to autonomous vehicles. Autonomous vehicles have the potential to change transportation profoundly around the world. Today, I would like to discuss two important questions about the future of autonomous vehicles and how policies can shape that future. First, what can policymakers do to promote the safe deployment of autonomous vehicles? Second, how can autonomous vehicles improve mobility for Americans who currently may have limited mobility? I will focus most of my remarks on fully autonomous vehicles—those that can operate without a human driver some or all of the time—rather than on vehicles that require a human driver behind the wheel.

### Autonomous Vehicles Present Benefits and Risks to Safety

As you know, traffic crashes present an enormous public safety crisis in the United States. Autonomous vehicles have the potential to significantly mitigate this crisis by eliminating many of the mistakes that human drivers routinely make.<sup>3</sup> To begin with, autonomous vehicles cannot

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<sup>1</sup> The opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of the RAND Corporation or any of the sponsors of its research.

<sup>2</sup> The RAND Corporation is a research organization that develops solutions to public policy challenges to help make communities throughout the world safer and more secure, healthier and more prosperous. RAND is nonprofit, nonpartisan, and committed to the public interest.

<sup>3</sup> James M. Anderson, Nidhi Kalra, Karlyn D. Stanley, Paul Sorensen, Constantine Samaras, and Oluwatobi A. Oluwatola, *Autonomous Vehicle Technology: A Guide for Policymakers*, Santa Monica, Calif.: RAND Corporation, RR-433-2-RC, 2014; and Daniel J. Fagnant and Kara Kockelman, "Preparing a Nation for Autonomous Vehicles: Opportunities, Barriers and Policy Recommendations," *Transportation Research Part A: Policy and Practice*, Vol. 77, July 2015, pp. 167–181.

be drunk, distracted, or tired; these factors are involved in 29 percent, 10 percent, and 2.5 percent, respectively, of all fatal crashes.<sup>4</sup> Autonomous vehicles could also perform better than human drivers because of better perception (e.g., no blind spots), better decisionmaking (e.g., more accurate planning of complex driving maneuvers), and better execution (e.g., faster and more precise control of steering, brakes, and acceleration).

However, autonomous vehicles likely will not eliminate all crashes. For instance, inclement weather and complex driving environments pose challenges for autonomous vehicles, as well as for human drivers, and autonomous vehicles might be worse than human drivers in some cases, particularly at early stages of testing and deployment.<sup>5</sup> Autonomous vehicles also could pose new and serious crash risks—for example, cyber attacks could cause crashes.<sup>6</sup> Clearly, autonomous vehicles present both potential benefits and risks to transportation safety. Several challenges stand in the way of managing those safety risks and maximizing the benefits.

*There Is Currently No Proven, Practical Way to Determine Autonomous Vehicle Safety Prior to Widespread Use*

A road test at the Department of Motor Vehicles assesses whether a person can perform a specific set of driving skills under regular traffic situations. Passing the test does not prove that the person will be a safe driver, but it is nevertheless viewed as an adequate basis for granting a permit or a license. Such road tests could similarly demonstrate that an autonomous vehicle can perform basic driving skills, but such a test would not be able to assess its safety performance.

A logical alternative is to test-drive autonomous vehicles extensively in real traffic and observe their performance before making them commercially available. Even though the number of crashes, injuries, and fatalities from human drivers is high, the rate of these failures is low *in comparison with the number of miles that people drive*. Americans drive nearly 3 trillion miles every year.<sup>7</sup> The 35,092 fatalities and 2.44 million injuries in 2015 correspond to a failure rate of 1.12 fatalities and 78 injuries per 100 million miles driven. Given that current traffic fatalities and injuries are rare events compared with vehicle miles traveled, fully autonomous vehicles would have to be driven hundreds of millions of miles and sometimes hundreds of billions of miles to demonstrate their reliability in terms of fatalities and injuries. Even with aggressive testing, this would take tens and sometimes hundreds of years for existing test fleets to drive these miles—an impossible proposition if the aim is to demonstrate autonomous vehicle

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<sup>4</sup> This does not mean that 41.5 percent of all fatal crashes are caused by these factors; a crash may involve, but not be strictly caused by, one of these factors, and more than one of these factors may be involved in a single crash. National Highway Traffic Safety Administration, 2016; and National Highway Traffic Safety Administration, “Drowsy Driving,” *Traffic Safety Facts: Crash Stats*, Washington, D.C.: National Center for Statistics and Analysis, U.S. Department of Transportation, DOT HS 812 449, March 2011.

<sup>5</sup> Lee Gomes, *Hidden Obstacles for Google’s Self-Driving Cars: Impressive Progress Hides Major Limitations of Google’s Quest for Automated Driving*, Massachusetts Institute of Technology, August 28, 2014.

<sup>6</sup> Anderson et al., 2014.

<sup>7</sup> Bureau of Transportation Statistics, 2015.

performance prior to releasing them on the roads for consumer use.<sup>8</sup> In the meantime, human drivers would continue to cause avoidable crashes and enormous harms to people and property.

Developers of autonomous vehicles and third-party testers need to develop innovative methods of demonstrating safety and reliability. This is a rapidly growing area of research and development. There are promising ideas, but no demonstrated and accepted methods of proving safety.

#### *There Is No Consensus on How Safe Autonomous Vehicles Should Be*

There is also no consensus on how safe autonomous vehicles *should* be. Some will insist that anything short of totally eliminating risk is an unacceptable safety compromise; it is acceptable if humans make mistakes, but not if machines do. However, waiting for autonomous vehicles to operate nearly perfectly misses opportunities to save lives, as it means the needless perpetuation of the risks of human drivers. It seems sensible to allow autonomous vehicles on America's roads when they are judged safer than the average human driver, allowing more lives to be saved while still ensuring that autonomous vehicles do not increase risk. It is even possible that some policymakers might choose to allow autonomous vehicles even when they are not as safe as average human drivers if developers use early deployment as a way to rapidly improve vehicle safety. The lack of consensus on this point is not a failure but rather a genuine expression of Americans' different values and beliefs when it comes to humans versus machines, but it complicates the challenge of developing safety benchmarks for the technology.

#### *Real-World Driving Experience Is Needed for Safety but Poses Risks*

Resolving the above challenges is urgent because real-world driving experience may be one of the most important tools for improving autonomous vehicle safety and, by extension, road safety. Autonomous vehicle developers use the driving experience of individual vehicles to improve the state of the art in autonomous vehicle safety. The machine learning algorithms that govern autonomous vehicle perception, decisionmaking, and execution rely largely on driving experience to improve. Therefore, the more (and more diverse) miles that autonomous vehicles drive, the more potential there is for improving the state of the art in autonomous vehicle safety performance.

Yet having autonomous vehicles learn from real-world driving experience presents its own problem: Learning in real-world settings implies risks to early adopters or to other road users. This is analogous to the risk of allowing teenage drivers on the road: They may not be good drivers yet, but they need experience to become good drivers. However, until then, they pose risks to themselves and to others. We have policies in place to try to limit risks from inexperienced young drivers, such as a minimum driving age and restrictions on learner's permits. Those policies seek to balance the goal of long-term improvement with the need for near-term experience.

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<sup>8</sup> Nidhi Kalra and Susan M. Paddock, *Driving to Safety: How Many Miles of Driving Would It Take to Demonstrate Autonomous Vehicle Reliability?* Santa Monica, Calif.: RAND Corporation, RR-1478-RC, 2016.

The same will be true for autonomous vehicles. Choices made now about when and how autonomous vehicles are introduced for public use will affect not only safety in the near term but also how quickly the vehicles improve, at what near-term cost, and how safe they ultimately become in the future.

### *What Can Policymakers Do to Promote Safety?*

First, feasible and sound methods of testing safety are urgently needed. These methods can be developed and proposed by industry, researchers and academics, or federal regulators. The methods need to be validated rigorously, objectively, and independently both to assess their statistical soundness, relation to existing safety and performance standards, and engineering and social considerations and to build confidence in the methods among diverse stakeholders.

Second, testing methods should be used to develop a regulatory framework that articulates what safety performance thresholds must be met in order to put autonomous vehicles on the road. Importantly, the framework should balance the need for real-world autonomous vehicle testing with the need to protect the public from undue risk. For example, a lower threshold of safety may be acceptable for early demonstration projects intended to improve autonomous vehicle performance in controlled environments. A higher threshold of safety would be warranted for widespread consumer use in uncontrolled environments. Developing the appropriate thresholds of safety should be informed by research on levels of tolerable risk in automotive and other contexts, historical safety regulation and performance criteria, stakeholder values and preferences, and an assessment of how different safety levels could shape the evolution of transportation safety over the long term. Thus, establishing these thresholds requires a combination of objective evidence and subjective values.

Such a framework could, for example, be built into the changes that are being considered to exemptions to the Federal Motor Vehicle Safety Standards (FMVSS). Manufacturers can seek exemptions from the FMVSS on the basis that their nonconforming vehicle designs are as safe as or safer than conforming vehicles and must provide evidence of this safety. Currently, no more than 2,500 vehicles can be sold annually per each safety-based exemption,<sup>9</sup> but autonomous vehicle developers are seeking, and policymakers are considering, a potential increase up to 100,000 vehicles per year.<sup>10</sup> However, this is risky given the difficulty of assessing autonomous vehicle safety prior to widespread deployment. A two-phased approach of initially allowing a smaller number of exemptions and then, after safety is demonstrated through deployment, increasing the cap on exemptions could provide a viable path to deploying innovative vehicle designs while managing risk.

In the interim, the industry should be allowed to continue technology development with safeguards in place. A first step is to conduct real-world, lower-risk pilot studies of autonomous

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<sup>9</sup> Exemptions may be granted on other bases, but the safety bases are likely most appropriate for autonomous vehicles. 49 CFR 555.6

<sup>10</sup> Greg Rogers, "Washington Preparing for Action on Automated Vehicles," *Eno Transportation Weekly*, April 27, 2017.

vehicles for limited uses and in constrained environments. A second consideration is sharing driving data across the industry and with policymakers.<sup>11</sup> There are certainly serious concerns about protecting trade secrets, but these concerns could be addressed and must be balanced with the societal need for safe, autonomous vehicle technology. Data-sharing should also involve regular information about the number of miles driven, crashes, failures, and other information that can help provide early evidence of safety and security concerns.

## How Can Autonomous Vehicles Improve Mobility for Americans Who Currently May Have Limited Mobility?

Mobility is essential for a rich, productive, and healthy life. Even with the increasing ability to interact online, the ability to get to work, visit friends and family, access health care and other services, participate in civic activities, and generally be connected to the outside world remains vital. Despite mobility's importance, many Americans have limited, sometimes very limited, mobility as a result of advanced age, youth, disabilities, or lack of means. Autonomous vehicles could help these people overcome the obstacles of limited mobility.

The number of Americans 65 and older will increase from 48 million in 2015 (15 percent of the population) to 74 million in 2030 (23 percent). Driving is important to many of these adults' quality of life. Of adults over 65, 90 percent say they intend to age in place—and 80 percent live in car-dependent areas.<sup>12</sup> Eighty-five percent of adults aged 65 to 84 hold licenses, and almost 60 percent of adults over 85 hold licenses.<sup>13</sup>

However, driving is risky for many older Americans. A recent study found that, when compared with drivers aged 55 to 64, drivers over 75 were more than 2.5 times as likely to die in a car crash, and drivers over 85 were almost four times as likely.<sup>14</sup> This increased risk of death is due both to increased likelihood of accidents and greater vulnerability to injuries. But giving up driving has risks as well. Driving cessation almost doubles the risk of increased depressive symptoms and is correlated with (though not strictly a cause of) cognitive, social, and physical declines and higher rates of entry into long-term care.<sup>15</sup>

In addition to older people, people with disabilities, adolescents, and people living in poverty face mobility challenges. In 2010, 56.7 million individuals (18.7 percent of the population)

<sup>11</sup> The kind of data that are shared must be carefully considered. Different developers have very different autonomous vehicle technology designs, which may limit the lessons that can be learned from data-sharing across fleets.

<sup>12</sup> David Dudley, "The Driverless Car Is (Almost) Here," *AARP The Magazine*, December 2014/January 2015.

<sup>13</sup> Policy and Governmental Affairs Office of Highway Police Information, "Distribution of Licensed Drivers – 2014 By Sex and Percentage in Each Age Group and Relation to Population," web page, U.S. Department of Transportation, September 2014.

<sup>14</sup> AAA Foundation for Traffic Safety, "Drivers Over 65 Almost Twice as Likely as Middle-Aged Drivers to Die in Car Crashes, According to AAA Foundation Study," February 18, 2004.

<sup>15</sup> Stanford Chihuri, Thelma J. Mielenz, Charles J. DiMaggio, Marian E. Betz, Carolyn DiGuseppi, Vanya C. Jones, and Guohua Li, "Driving Cessation and Health Outcomes in Older Adults," *American Geriatric Society*, Vol. 64, 2016, pp. 332–341.

identified as having a disability.<sup>16</sup> Only 65 percent of individuals with disabilities drive, compared with 88 percent of individuals without disabilities.<sup>17</sup> Notwithstanding the Americans with Disabilities Act, which mandates that transit authorities operating a fixed route system provide paratransit or a comparable service to individuals with a disability,<sup>18</sup> individuals with disabilities often have limited mobility because of a lack of availability or access to services.

There are also 25 million Americans between the ages of 12 and 17 who have mobility needs but are not yet old enough to drive or are novice drivers.<sup>19</sup> Increased mobility can improve their educational, employment, and volunteer opportunities.

Americans living in poverty also face mobility challenges. About 43.1 million people (13.3 percent of the population) live in poverty.<sup>20</sup> This includes older adults and many individuals with disabilities. In 2014, 10 percent of older adults and 28.5 percent of individuals with a disability had a yearly income below the poverty line.<sup>21</sup> About 24 percent of households below the poverty line do not own a vehicle, compared with just 2 percent of households with incomes over \$100,000. Individuals living in poverty are about three times as likely to take transit and 1.5 times more likely to walk.<sup>22</sup> Walking and transit can take much more time and limit travel to destinations that are accessible by these modes. Autonomous vehicles may provide more efficient transportation, which in turn provides the access to education, training, and work that helps people in poverty achieve upward economic mobility.<sup>23</sup>

#### *Affordability, Availability, and Accessibility Are Keys to Realizing Mobility Benefits*

Autonomous vehicles offer a promising solution for these mobility-challenged groups. Fully automated vehicles would allow many older adults, adolescents, and individuals with disabilities to travel by car without having to drive. They could increase their mobility, with all of the associated social and economic benefits, while mitigating much of the safety risk. Such vehicles may also provide access to automobile transportation for those who cannot afford taxis.

Yet simply bringing autonomous vehicles to market might not fully solve the mobility challenges Americans face. Autonomous vehicles, like other transportation options, must also be

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<sup>16</sup> Matthew W. Brault, *Americans with Disabilities: 2010*, U.S. Census Bureau, July 2012.

<sup>17</sup> U.S. Department of Transportation, *Freedom to Travel*, Washington D.C.: Bureau of Transportation Statistics, 2003.

<sup>18</sup> U.S. Department of Justice, Information and Technical Assistance on the Americans with Disabilities Act, 2016.

<sup>19</sup> Federal Interagency Forum on Child and Family Statistics, "POP1 Child Population: Number of Children (in Millions) Ages 0–17 in the United States by Age, 1950–2015 and Projected 2016–2050," 2016.

<sup>20</sup> Bernadette D. Proctor, Jessica L. Semega, and Melissa A. Kollar, *Income and Poverty in the United States: 2015*, Washington, D.C.: U.S. Census Bureau, September 2016.

<sup>21</sup> C. DeNavas-Walt and B. D. Proctor, *Income and Poverty in the United States: 2014*, Washington D.C.: U.S. Census Bureau, 2015.

<sup>22</sup> Federal Highway Administration, "Mobility Challenges for Households in Poverty: 2009 National Household Travel Survey," FHWA NHTS Brief, 2014.

<sup>23</sup> Raj Chetty and Nathaniel Hendren, "The Impacts of Neighborhoods on Intergenerational Mobility: Childhood Exposure Effects and County-Level Estimates," Harvard University, 2015.

affordable, available, and accessible. Fortunately, autonomous vehicles may have advantages over conventional transit, taxi, or vehicle-sharing services that require human drivers.

For many older adults, individuals with disabilities, and people living below the poverty line, the costs of a personally owned vehicle are prohibitive. The costs of a personally owned *autonomous* vehicle are expected to be substantially higher, particularly initially. Shared autonomous vehicles will be the key to affordability. Shared conventional vehicles are available for many people to use, either on demand or through a reservation system, and are typically pay-per-use. Some estimates suggest that the per-mile cost of using a shared *autonomous* vehicle service could be 30 percent to 90 percent less than owning a conventional vehicle or using conventional taxis, depending on the nature of the service.<sup>24</sup> In other words, per-trip costs could be comparable to public transit, but with greater convenience and speed. Such fleets are likely to be privately owned and operated, but there is potential for them to be integrated into a public transit system, particularly if the vehicles are multi-occupancy (e.g., autonomous vans and small buses).

Second, shared autonomous vehicles must be available where people live. Car-sharing vehicles and taxis are not readily available in most small towns and rural communities because there are too few people to support the services. Poor *urban* areas are another underserved segment in today's mobility market. Public transit may not offer complete solutions, and taxis have historically been scarce because of low demand compared to wealthier urban areas.<sup>25</sup> The lower cost of shared autonomous vehicles may increase mobility in these underserved regions, but only if the cars are available there.

Third, shared autonomous vehicles need to be accessible, with vehicle design, websites, and technology interfaces consistent with the Americans with Disabilities Act and other accessibility standards and guidelines. Shared autonomous vehicles will also need diverse payment systems that do not require smart phones or credit cards. Meeting these design goals can be expensive. For example, the National Highway Traffic Safety Administration estimates that the cost of a new vehicle with adaptive equipment (e.g., mechanical hand controls, power transfer seats, and lifts and raps) can be \$20,000–\$80,000.<sup>26</sup> However, creating an accessible autonomous vehicle may be cheaper than creating an accessible traditional vehicle, as it only needs to be modified for passenger use and not for driving.

<sup>24</sup> Lawrence D. Burnes, William C. Jordan, and Bonnie A. Scarborough, *Transforming Personal Mobility*, New York: The Earth Institute, Columbia University, January 27, 2013; and Tasha Keeney, "What If Uber Were to Adopt Shared Autonomous Vehicles (SAVs)?" *ARK Invest*, June 22, 2015.

<sup>25</sup> Mark W. Frankena and Paul A. Pautler, *An Economic Analysis of Taxicab Regulation*, Bureau of Economics, No. 1103, May 1984; Nelson/Nygaard, *Boston Taxi Consultant Report*, October 11, 2013; and Hara Associates Inc., *Best Practices Studies of Taxi Regulation: Taxi User Surveys*, prepared for San Francisco Municipal Transportation Agency, 2013. Today's ride share services may be helping provide better service in these underserved populations (see the Uber-funded study by Rosanna Smart, Brad Rowe, Angela Hawken, Mark Kleiman, Nate Mladenovic, Peter Gehred, and Clarissa Manning, *Faster and Cheaper: How Ride-Sourcing Fills a Gap in Low-Income Los Angeles Neighborhoods*, BOTEC Analysis Corporation, July 2015).

<sup>26</sup> National Highway Traffic Safety Administration, *Adapting Motor Vehicles for People with Disabilities*, June 2015.



### *What Can Policymakers Do To Promote Mobility?*

All of this suggests that autonomous vehicles may increase mobility for historically underserved populations in a way that is more affordable, available, and accessible than existing transportation options. However, if policymakers choose to prioritize the realization of these benefits, certain policy options could be considered.

First, policymakers could create incentives for manufacturers and service providers to prioritize these markets and reach them sooner than they might otherwise. Incentives could include cost-sharing programs, subsidies, or other financial levers. They could also include partnerships to integrate both public and private shared autonomous vehicles into existing transit and paratransit services so that they are complementary rather than competing. This might involve making payment seamless across modes, providing easy transfers across modes, and integrating scheduling. Private ride-sourcing services like Uber and Lyft are already working with transit agencies to provide connections to existing transit services, but primarily in urban areas.

Second, policymakers could incentivize technology developers to ensure that accessibility for diverse populations is a priority when designing these vehicles. This could include facilitating collaboration between developers, health care providers, independent living centers and other facilities, and, most importantly, the users themselves. Participatory design would be key.

Third, while the cost of shared autonomous vehicles may be lower than some transportation alternatives, public assistance may still be warranted. In many regions, seniors and individuals with disabilities use public transit at a discounted rate or even for free. Policies might be needed to extend these discounts to shared autonomous vehicle services.

*Conflict of Interest Statement: Nidhi Kalra's spouse, David Ferguson, is co-founder and president of Nuro, a machine learning and robotics startup engaged in autonomous vehicle development. He previously served as a principal engineer for Google's driverless car project. This written testimony was carefully reviewed by subject-matter experts within the RAND Corporation; the research quality assurance team for the RAND Justice, Infrastructure, and Environment division; and the RAND Office of Congressional Relations. However, the opinions and conclusions expressed in this testimony are the author's alone and should not be interpreted as representing those of the RAND Corporation or any of the sponsors of its research.*

Mr. DIAZ-BALART. Thank you, Ms. Kalra. I am sorry I got that wrong. We now recognize Mr. Strickland. And again, your statement, your entire testimony, will be submitted for the record. We look forward to your testimony as well. Thank you, sir.

Mr. STRICKLAND. Thank you. Mr. Chairman, Ranking Member, and members of this august committee, I thank you for the subcommittee's interest in exploring the tremendous potential benefits provided by fully automated vehicles. I am a partner at Venable LLP, and testifying here today as counsel to the Self-Driving Coalition for Safer Streets.

Additionally, I served as NHTSA administrator from 2010 to 2014, when the agency issued its first testing guidance in 2013. The Coalition, whose members are the Ford Motor Company, Waymo, Lyft, Uber, and Volvo Cars, is focused on enabling the development and the deployment of level 4 and level 5 self-driving cars.

Despite these companies' different backgrounds, they came together because of their commitment to bring the tremendous safety benefits of self-driving to consumers in the safest and the swiftest manner possible.

The Coalition believes fully autonomous vehicles have a great potential to make our road safer and more accessible. In 2015, 35,092 people died in motor vehicle crashes. The early estimates from NHTSA in the first half of 2016 suggest a 10.4 percent increase in roadway fatalities compared to the same period last year.

Since an estimated 94 percent of all crashes are the result of human error, such as drunk driving, reckless driving, distracted driving, all your variance, fully autonomous vehicles may reduce these crashes because they remove human error from the driving process.

In addition, self-driving vehicles hold the promise to enhanced mobility for the disabled and the elderly, reduce congestion, and improve productivity. As you are aware, in 2016 NHTSA released voluntary guidance regarding the testing and deployment of autonomous vehicles.

The Coalition supports NHTSA's effort to construct a voluntary framework that would promote the expeditious and safe introduction of self-driving vehicles as a means of improving safety and mobility.

Today, I want to discuss three areas where we believe that the Congress can play a key role in promoting the safe and expeditious deployment. The Coalition first wishes that the FMVSS, or the Federal Motor Vehicle Safety Standards, be updated and modernized.

We feel that the development of an updated FMVSS to which, according to the automated vehicle policy, manufacturers could certify HAVs that do not have controls to permit operation by a human driver, i.e., no steering wheels, pedals, et cetera, the potential safety benefits of such vehicles would vastly reduce crashes caused by human drivers are enormous.

Second, we will ask that NHTSA be granted the authority to expand testing and deployment. The Coalition supports NHTSA's proposal in the policy to extend its statutory exemption authority.

Limitations that currently exist under law are insufficient to achieve efficient and thorough testing.

Current authority permits NHTSA to exempt not more than 2,500 vehicles per year for a 2-year period on the basis of equivalent safety. There are other lesser flexibilities in the code, but none of them are sufficient to the task. To increase the exemption cap in a significant manner, the Coalition supports eliminating or raising the exemption cap to a level that will help facilitate meaningful commercial deployment of HAVs.

To achieve this, the Coalition supports the NHTSA's proposal to be provided new authority to "grant incrementally increasing exemptions of the same manufacturer, progressively relaxing the numerical limits on annual production volume and exemption duration over time, or even eliminating those limits altogether while following incremental one-step-at-a-time approach with a preference for the latter."

To be clear, the Coalition believes expanded exemptions should be conditioned on a demonstration to NHTSA of equivalent safety for the FMVSS for which an exemption or exemptions are sought. We strongly believe that the Congress should act to provide this authority to the agency immediately to fully enable the potential lifesaving innovations of level 4 and level 5.

Third, and finally, to promote uniformity at the State and local levels. In the FAVP, NHTSA encourages States to focus on traditional areas of jurisdiction, such as licensing, traffic enforcement, and setting insurance requirements. However, we are concerned that the FAVP still provides a leeway for States to fill in gaps and build their own regulatory framework for automated vehicles.

Recent and ongoing legislative activity in the States across the country has demonstrated the importance and the urgency of this concern. We encourage the Congress and NHTSA to signal to State and local authorities against rushing into legislating simply because the subject matter is new and novel.

With that, I conclude my remarks, and I am open to any questions that the panel may have. Thank you so much, Mr. Chairman.  
[The information follows:]

**U.S. House of Representatives  
Committee on Appropriations  
Subcommittee on Transportation, Housing and  
Urban Development, and Related Agencies**

**Thursday, May 18, 2017  
10:00 AM in 2358-A Rayburn**

Testimony of:  
David Strickland  
Counsel, Self-Driving Coalition for Safer Streets  
Partner, Venable LLP

Chairman Diaz-Balart, Ranking Member Price, good morning. It's an honor to appear before you today. I thank you for the subcommittee's interest in exploring the tremendous potential benefits provided by fully automated vehicles, more commonly referred to as self-driving cars. I am a Partner at Venable LLP and testifying here today as Counsel to the Self-Driving Coalition for Safer Streets. The Coalition, which was founded in April of last year by Ford Motor Company, Waymo (formerly Google's self-driving car project), Lyft, Uber, and the Volvo Car Group, is focused on enabling the development and deployment of Level 4 and Level 5 self-driving cars.

This cross section of companies demonstrates the widespread interest in developing this technology across different sectors—technology, automobile, and transportation networking. Despite their different backgrounds, the companies came together to form the Coalition because of their commitment to bring the tremendous potential safety benefits of self-driving cars to consumers in the safest and swiftest manner possible.

The Coalition believes fully autonomous vehicles have great potential to make our roads safer and more accessible. In 2015, 35,092 Americans died in motor vehicle crashes. Early estimates from the National Highway Traffic Safety Administration (NHTSA) from the first half

of 2016 suggests a 10.4 percent increase in roadway fatalities compared to the same time period last year. Since an estimated 94 percent of all crashes are the result of driver error, fully autonomous vehicles may reduce fatal traffic crashes because they remove human error from the driving process entirely. In addition, self-driving vehicles hold the promise to enhance mobility for the disabled and elderly, reduce congestion, and improve productivity.

As you are aware, in 2016 NHTSA released voluntary guidance regarding the testing and deployment of autonomous vehicles. The Coalition supports NHTSA's effort to construct a voluntary framework that would promote the "expeditious and safe introduction" of self-driving vehicles as a means of improving safety and promoting mobility. Today, I want to discuss three areas where the Coalition believes that Congress can play a key role in promoting the safe and expeditious deployment:

1. **Update the Federal Motor Vehicle Safety Standards ("FMVSS").** NHTSA should work with industry stakeholders to amend the relevant FMVSS to reflect that Level 4 and 5 autonomous vehicles do not require human operations.
2. **Revise NHTSA's exemption authority to allow for a greater number of vehicles to be allowed on the road for testing and deployment of HAVs.** While the current exemption limits an exempted fleet for a manufacturer to up to 2,500 vehicles for up to two years, the need to accumulate results for autonomous vehicles in an expedited timeframe would require a significant increase in the fleet size and a longer exemption period for the fleet. This flexibility would provide multiple avenues for manufacturers and innovators to safely test and deploy a number of vehicle changes that would advance autonomous vehicle safety.

### 3. Encourage a single voluntary national framework for HAVs focused on safety

**assurance.** States should be discouraged from creating a patchwork of inconsistent laws and regulations that will stifle this emerging industry. The Model State Policy articulated in NHTSA’s guidance has not, in the opinion of the Coalition, adequately achieved this objective.

I would like to address each of these items in turn.

#### 1. *Update and modernize the FMVSS.*

The FMVSS act as an impediment to autonomous vehicle testing and deployment because they require the design and inclusion of elements that are not applicable to or necessary for the operation of an autonomous vehicle without a human driver, yet nonetheless must be incorporated to comply with federal law.

The Coalition strongly supports the development of updated FMVSSs to which, in the words of the Federal Automated Vehicle Policy (FAVP), “manufacturers could certify HAVs that do not have controls to permit operation by a human driver (i.e., no steering wheel, brake pedals, turn signals, etc.).” We think such updated FMVSSs, which would provide for the self-certification of vehicles that would allow fully self-driving operation without the presence of, or capability to use, human operator controls in SAE Levels 4 and 5 vehicles, is an essential step to facilitate the widespread deployment of vehicles designed from the ground up to be fully self-driving. The potential safety benefits of such vehicles—which would vastly reduce crashes caused by human drivers—are enormous.

In our comments on the FAVP guidance, the Coalition called upon NHTSA to pursue narrow rulemakings to amend the FMVSS that currently mandate human operator controls in

L4-L5 HAVs. We urge NHTSA to give this rulemaking a high priority, and look to Congress to provide its necessary oversight role in ensuring that this rulemaking is timely undertaken. The Coalition will support the effort to amend and update the FMVSS by submitting to NHTSA suggestions for a new FMVSS.

**2. *Grant NHTSA authority to permit motor vehicle safety innovation.***

The Coalition supports NHTSA's proposal in the FAVP to expand its statutory exemption authority. A broader exemption would enable manufacturers and technology companies to expand and improve the pathway to test and ultimately deploy.

Limitations that currently exist under law are insufficient to achieve the goal of rapid, safe deployment and to attain the real benefits to consumers described above. Current authority permits NHTSA to exempt not more than 2,500 vehicles per year for a two-year period, on the basis of equivalent safety. Existing authority concerning "general exemptions" (49 USC 30113) provides some leeway for development and field evaluation of innovative features but its limitations on duration (two years) and vehicle numbers (2,500 in any 12-month period) do not provide for full deployment. 49 USC 30114 ("special exemptions") is limited to research, investigations, demonstrations, training, competitive racing events, show, or display. The recently enacted section 49 USC 30112(b)(10) permits introduction of vehicles into commerce that do not comply with the FMVSS "solely for the purposes of testing or evaluation."

To increase the exemption cap in a significant manner, the Coalition supports eliminating or raising the exemption cap to a level that will help facilitate meaningful commercial deployment of HAVs. To achieve this, the Coalition supports NHTSA's proposal to be provided new authority to "grant incrementally increasing exemptions to the same manufacturer,

progressively relaxing the numerical limits on annual production volume and exemption duration over time, or even eliminating those limits altogether (following an incremental one-step-at-a-time approach),” with preference for the latter. To be clear, the Coalition believes expanded exemptions should be conditioned on a demonstration to NHTSA of equivalent safety for the FMVSS or FMVSSs for which an exemption or exemptions is/are sought.

We strongly believe that Congress should act to provide this authority to the agency immediately, to fully enable the potentially life-saving safety innovations of Level 4 and Level 5 systems and mitigate the safety risks of legacy controls unnecessary for such systems. This new authority would allow the deployment of innovative safety technologies that meet or exceed the level of safety required by existing federal standards, while ensuring a prompt and transparent process. The Coalition does not see expanded exemptions as a long-term replacement for industry-wide standards. Rather, we see such exemptions as a necessary measure to ensure that safety innovations do not have to await completion of rulemaking actions, which can consume several years.

If granted by Congress, NHTSA’s new exemption authority would supplement existing NHTSA authorities, to expedite the safe introduction of life-saving HAVs.

### ***3. Promote uniformity at state and local levels.***

Congress must take a strong leadership position in clearly defining the federal and state responsibilities when it comes to HAVs. The federal government’s exclusive mandate to promulgate and enforce motor vehicle safety standards has been observed for decades, and we do not believe HAVs present a reason to deviate from that well established precedent.



In the FAVP, NHTSA encourages states to focus on their traditional areas jurisdiction, such as licensing, traffic enforcement, and setting insurance requirements. However, we are concerned that the FAVP still provides leeway for states to fill in gaps and build their own regulatory framework for HAVs. Recent and ongoing legislative activity in states across the country—attempting to set forth varied and competing regulatory regimes for HAV testing and deployment, illustrates the importance and urgency of this concern. We encourage Congress and NHTSA to signal to state and local entities against rushing into legislating simply because the subject matter is new and novel.

Inconsistency at the state and local levels will harm innovation and slow the deployment of this technology that has the potential to save thousands of lives. Should states and local governments move to enact disparate regulatory frameworks, it would reduce federal policymakers' ability to ensure that this country can move forward on safety. The success of autonomous technologies depends on access to public roads; states and municipalities play a great role, and we look forward to working with them to achieve scalable solutions. To the extent states wish to act in this area, the Coalition strongly urges them to examine and address existing laws and regulations that may serve as an impediment to testing and deployment, rather than implementing restrictive requirements that may, in fact, lead to more barriers to operations.

The Coalition encourages opportunities to collaborate with local, state, and federal governments to ensure thoughtful and uniform testing and deployment, including through public-private partnerships, which will be integral to successful deployment of self-driving cars. Early engagement will ensure that the public sector's efforts are in sync with technological developments. Given the Coalition's enthusiasm for fully autonomous vehicles and our strongly

held view that self-driving vehicles have the potential to change the country for the better, we support efforts at the state level to facilitate the rapid testing and deployment of fully autonomous vehicles. Likewise, we have concerns with legislation in any state that unduly limits or impedes the advancement and public use of this technology.

The Coalition appreciates the Subcommittee's proactive approach to understanding the future of self-driving cars and their potential to help consumers across the country. As the Subcommittee continues to explore this area, the Coalition looks forward to serving as a resource concerning both technical and policy questions and working with you to make fully self-driving cars a reality.

I would be pleased to answer any questions you may have.

Mr. DIAZ-BALART. Thank you very much for your testimony. We are going to begin with the rounds as usual. Remember, as always, leave time for not only your questions, but the answers within that 5 minutes.

Let me start with a question to you, Professor. So you have worked with NASA, EFA, and UTM.

Mr. KOCHENDERFER. Yes, sir.

Mr. DIAZ-BALART. And so what are your observations regarding the relationship between the two in developing the UAS Traffic Management System? And we have heard a lot about that. So what is that relationship like?

Mr. KOCHENDERFER. Yes. So, fortunately, NASA Ames is just down the street from Stanford, and so I have been able to participate in many of the meetings between NASA and FAA as well as industry. NASA in particular has been very successful in engaging industry in participation, and many of them have brought their own resources and investment to build up this UTM prototype.

Both NASA and the FAA have worked together to put together some research transition teams, and that they have put together a Joint Management Plan. I think it is a very good relationship because the FAA in this context is the regulator and NASA is serving the role as a research organization and facilitating the connection with industry.

And I would say that so far this has been very successful, but we do need to make sure that the FAA is fully equipped to act upon the recommendations and so forth that have emerged during the development of the system.

Mr. DIAZ-BALART. Professor, is there a timeframe for the actual deployment of the UTM system, and have NASA and FAA established milestones and goals?

Mr. KOCHENDERFER. Yes, they have. I actually reviewed the report last night. They do have milestones. And it is important to understand that this is a very complex engineering problem. And in order to really address it, you need to take these baby steps and validate every step along the way. And so they have set appropriate milestones and so forth that will bring us closer to the goal of flexible airspace access.

Mr. DIAZ-BALART. Thank you. Mr. Wynne, I would love to hear your comments on how the UTM effort is using public-private partnerships. How is that working? Is it working?

Mr. WYNNE. I think it is. The concept of operations that the professor laid out in his testimony I think are extremely important; the FAA obviously needs to continue its role in managing the airspace. I think increasingly what we are developing, and industry is bringing to the table, is the ability to potentially offer services that offload that from the government and make it more widely available, and, more importantly, do so very, very quickly and interoperable with the existing air traffic control system.

Mr. DIAZ-BALART. How can the FAA and industry, for example, cooperate or collaborate on research activities?

Because the issue is, you know, they need to be flexible enough, to respond to issue changes and challenges. And so how do you see that happening?

Mr. WYNNE. Well, I think that a massive change inside of the FAA is—they have embraced this technology, recognizing that we are working on technologies that will scale much faster in unmanned systems, but will also benefit manned systems. So that is a very, very important step forward in mentality. And they also understand that the technology is advancing very quickly. So it is very difficult without the help of industry to understand how to leverage this, but I think that is happening. It is happening from Michael Huerta, the administrator, on down.

Mr. DIAZ-BALART. Great. Mr. Price, I have some time left, but my questions are a little bit longer than that, so I will go to you now.

Mr. PRICE. All right. Thank you, Mr. Chairman. Well, let me turn to our AV group and pose some questions that your testimony raises, especially yours, Mr. Strickland, but happy to have either of you chime in.

You have referred to the NITSA Initiative here and the kind of guidance that has been offered for about a year now, I think, since that was issued. There have been about 50 bills, I understand, however, introduced in over 12 States affecting autonomous vehicles. Most of them were introduced before the NITSA guidelines were published. And I have imperfect information, incomplete information as to how much has actually been enacted in the State level, much less what kind of range of proposals, how wise they are, how consistent they are, what those look like.

I wonder, Mr. Strickland, if you maybe for the record could furnish any inventory you or anyone else has of this, but here I would appreciate either of you characterizing these rudimentary regulatory efforts at the State level. Presumably, what we do not need is a patchwork of legislation that makes it impossible for these technologies to thrive for that matter, for there to be a consistency State to State that achieves the basic objectives of safety and efficiency.

So could you say more about this and the kind of guidance you believe is necessary beyond what NITSA has done, particularly, of course, the Federal role?

Mr. STRICKLAND. Mr. Price, your assessment of what is going on in the States is correct. We have seen activity; over, you know, over 50 bills in a number of States and they address a variety of number of issues, some of them that are well within the purview of what the States regulate, such as rules of the road issues, registration, financial responsibility. Those are all the appropriate State roles. The concerns are that the States may step in and become a non-Federal motor vehicle safety regulator. And that is incredibly problematic in terms of the motor vehicle manufacturing market consistency and the regulatory patchwork.

For us, some of the—all the legislation from our perspective we do not think is entirely necessary for there to be safe deployment and testing of these vehicles. However, there are some issues that need to be taken care of at the State level. We would encourage the Congress and NITSA to really try to fill that space. Unfortunately, NITSA does not have a rule which they can then have the opportunity to preempt any inconsistent Federal motor vehicle safety standard or standard out in the States. So it really is going to be incumbent to really use the bully pulpit to really show Federal

leadership to encourage the States to really focus on those areas which are very necessary in order for us to have safe deployment.

Ms. KALRA. Now, if I may add, you know, since those policy guidelines were laid out, you know, States do not actually want to pass technical regulations. They recognize that this is not something they necessarily know how to do well, it is not going to help the industry. So they were trying to, I think, fill in a gap. But since the indications are out that NITSA is rapidly working on this, I think we are going to see less of that.

Now, to be clear, we already have a patchwork of different, you know, insurance rules and rules of the road. So the question is, can we not add to that particularly with a technical design? And I think we are seeing States back away from particularly those aspects of regulation now that NITSA is showing a lot of activity here.

Mr. PRICE. So both of you are saying that NITSA is on track?

Mr. STRICKLAND. Yes. I would say NITSA at this point in trying to fulfill its leadership role is very much on track, recognizing the limitations of its being able to fill the space with a rule. It just does not have the time to do that and the market is moving so quickly that it is using all of its tools necessary to fill that leadership role, but it does have limitations.

Ms. KALRA. I do not know if NITSA is on track. I do not underestimate the difficulty of the task that NITSA has, but I do think that there are areas that need serious attention, again related to how will we know how safe autonomous vehicles are and how safe should they be.

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

Mr. DIAZ-BALART. Thank you, sir. Mr. Valadao.

Mr. VALADAO. Thank you, Chairman. I appreciate all of you taking some time to be here today.

In addition to unmanned aircraft systems or drones simply being a hobby for many Americans, drones have various business applications in a variety of industries, including agriculture, which is obviously important to me and my district. Accordingly, Congress provided more than \$20 million over the requested amount in fiscal year 2017 to further support and accelerate the safe integration of drones into national air space, including funds to support continued development of unmanned traffic management system.

Mr. Wynne, why do you think the unmanned traffic management system implementation is so important to the long-term success of the United States drone industry, and in particular, how will it ensure safety, security, and most importantly for a lot of us, privacy?

Mr. WYNNE. Yes, that is an excellent question, Congressman. I think that UTM first and foremost needs to be viewed on sort of an evolutionary basis, that NASA talks in terms of build, build 1, build 2, build 3, et cetera. And some of the technologies that are needed to fully implement that system are being developed as we go. So we are spec'ing those out. Ultimately what UTM envisions is the ability to do the most complex operations in urban areas, in congested airspace. There is a lot of airspace out there that is not being efficiently utilized, and I think it offers tremendous opportunities for us to deliver the massive number and increasing number of packages under 5 pounds, just as an example, taking a very com-

plex application and moving it forward. And that would take cars off the road, that would take trucks off the road, that would, you know, help us alleviate some of the congestion problems we have just as one of the externalities that are associated with this.

All of these questions of what data is being utilized on the back end of that are being developed as we speak. I think the UTM system would allow us, for example, to segregate certain airspace that drones would naturally just go around. That will be extremely important from both a privacy and a security perspective, as well as safety.

Mr. VALADAO. So reading even just this morning about a prison in the U.K., this sky fence that is being built, I mean, how much is something like this going to play a role into—I do not know if you guys read this story. I mean, it is something I guess happens quite a bit where they are always trying to find ways to smuggle in drugs, cell phones, and things. There are some examples in the U.K. where they are using drones to drop them in over the fence lines, and the first place I guess in the world where they are actually installing a sky fence. It should be operational soon. And does something like that play a role in the future of this, especially from the privacy perspective? And how affordable can something like this possibly be if you are trying to protect, let us say, your home or your business from people coming and invading your privacy? Or even the prison system, where there—I represent a lot of prisons, too. I mean, is this something that they are looking into as well?

Mr. WYNNE. Absolutely. The community that I have the good fortune to represent includes tracking, identification, counter solutions as well. Our foundations are fundamentally in the military and we have been expanding that into the commercial sector and into the civil sector. So the concepts that you were describing, obviously this will not be successful unless we do all of this flying safely and responsibly. The kinds of things that you are describing are already against the law. So anything that we can do to help individuals or organizations keep their property safe will obviously be brought to bear as well.

Mr. VALADAO. All right. And one more question. Dr. Kalra, am I saying that right?

Ms. KALRA. Good enough.

Mr. VALADAO. Thanks. In your testimony you made the point that autonomous vehicles could pose a new and serious crash risk, for example, cyber attacks. Last fall the Department of Transportation released guidelines for the development of self-driving cars and made cybersecurity part of the 15 point assessment for autonomous vehicles.

In your opinion, what role should government regulators play in keeping self-driving cars from hackers and what more could manufacturers be doing to secure vehicles against such threats?

Ms. KALRA. You know, I mean, the issue of cybersecurity in autonomous vehicles really cannot be understated because these are large cyber-physical systems that if hacked could cause serious harm to people and property. The challenge, I think, and the challenge for the role of government is—I mean, part of is to create the right incentives, but the incentives are already there, so I think it is largely a question of best practices being followed in the indus-

try. I mean, you know, cybersecurity cannot be sort of shrink-wrapped on top. You cannot make a car and then be like, oh, let us, you know, tape it up so no one can get in. It really has to be baked into the very design of the vehicle because the vehicle is not made by one manufacturer, it is made by many, many manufacturers. And so the industry may need to rethink cybersecurity as a supply chain issue as our vehicles become more connected rather than icing on the cake.

Mr. VALADAO. All right. Well, my time is up. Thank you.

Mr. DIAZ-BALART. Thank you, sir. Ms. Clark, you have a question?

Ms. CLARK. Thank you, Mr. Chairman and Ranking Member Price, and thank you to the panelists for being here. It is really a breathtaking technology and the changes that we are talking about that comes with many challenges. I cannot even picture AVs in Massachusetts. And we do a lot of things well, driving is not one of them, and the challenges you are going to have with our rotaries and our drives.

But I wanted to talk to you about a challenge that I see coming with automated driverless cars. And I was looking at Census Bureau occupational data. Almost 3 percent of all working Americans are employed as drivers of some sort, truck drivers, cab drivers, bus drivers. And, in fact, truck driver is the most common job in 29 of our States. In total, 4.4 million Americans age 16 and over earn their living driving a vehicle. So just for a comparison, that is more than 36 times the 121,000 jobs the coal industry has lost since 1985 when that industry's employment peaked.

So, Mr. Strickland, do you have a sense of how many of those 4.4 million jobs will be replaced by autonomous vehicles and what role does the industry have in helping transition Americans to different employment, and what steps are being taken?

Mr. STRICKLAND. Well, Ms. Clark, it is an excellent observation about the potential of disruption. And I do not need to tell you about the, you know, transitions in history which have changed employment prospects. This is nothing new for us. But what we can do is think about this prospectively and work in partnership with not only the private sector, but with the government, and sort of think about how we prepare the possibility of this transition and not knowing the exact scale of it. I think that is still to be determined.

One thing I just want to note, especially on the commercial truck driving side of the question, right now we are looking at about a shortfall of 50,000 drivers. They are constantly looking and constantly advertising. And one of the issues in the truck driving industry is that younger people are not interested in the profession and the current constituents that are in these professions are getting older. So in some ways this is a situation where, frankly, some levels of automation will probably help the industry maintain its productivity.

Second, probably in delivery, I mean, in the commercial driving industries, because it is not just a federally regulated concern, it is both State regulations, there is operator regulations from the Federal Motor Carrier Safety Administration, there is Hazmat with EPA, and all these other issues. Just to be blunt, you may not actu-

ally be able to have a fully unmanned truck driving universe just because of the risks with heavy-duty, over-the-road trucking. So that may be a situation where automation may assist, but may not necessarily fully replace.

In the livery situation, however, to be determined on how it may impact. You may see in taxis in highly urban areas possibly have the diversity of unmanned transportation being available, but I think that is incumbent upon us as an industry and, frankly, the government, State and local, and Federal, to be able to work and think through these transitions so that we are prepared for that eventuality.

Ms. CLARK. So you said that the scale is sort of hard to know, but do you think that the timing—I have seen estimates that the timing really is 5 to 10 years when we are going to see big impacts. Does that timing sound right to you?

Mr. STRICKLAND. I would say, Ms. Clark, that I do not think necessarily in terms of a wide-scale deployment that will actually cause displacement. I do not see that between a 5 to 10-year period. I think what you will probably be seeing is smaller deployments in more discreet areas. And this is just me speaking individually, not necessarily for the Coalition. Lots of our members have sort of different business plans. But I think when you are talking about rotating the fleet or rotating livery vehicles of that massive scale, it will take a long time to have a full replacement that is necessarily, say, a one-to-one replacement for taxis and black cars for self-driving. So I think you will probably see some aspects of it in smaller pieces, but it will be a much longer time before you probably see the type of job impacts that some people are estimating.

But I do not necessarily think that may be the case.

Ms. CLARK. Ms. Kalra, I wondered—I only have a few seconds left—if you have anything briefly to add on this?

Ms. KALRA. Yes. I would add that what is often not talked about in the job prospects is that adding access to transportation, to physical mobility, is often an incredible driver of economic mobility, and I think that should not be underestimated. The questions policymakers ask, on the one hand, while we are going to lose some jobs, how do we make sure that this technology is used so that people can actually get to better training, better education, jobs that they otherwise would not be able to get into so that we can create benefit, economic and job benefit to the same people that might be losing their jobs?

Ms. CLARK. Thank you.

Mr. DIAZ-BALART. Mr. Graves.

Mr. GRAVES. Thank you, Mr. Chairman. Appreciate the panelists being here. This is a great discussion. And I think we can all in this room really appreciate the benefits here of the mobility and safety and technology and excitement of the advances that we are discussing.

I have basically two questions, but the first one is I am curious because I believe this technology, from an autonomous vehicle perspective, is driven mainly as a result of safety, safer roads. And I have not really heard any—and I came in a little bit late—any statistics that might indicate what the incident statistics might be,



autonomous versus nonautonomous, and where is that going as an industry.

We hear a lot about flaws here and there, but I think we can all admit that sometimes we are distracted drivers in many cases. But what are some statistics that we are seeing? And I do not quite know who to direct the question towards, but if you could help us with that, incident statistics.

Mr. STRICKLAND. Certainly. I am happy to start off and hand it over to Nidhi.

As the Federal safety regulator for 4 years, the human tragedy that I had to deal with on an everyday basis is just astounding. And nobody really thinks about it because it is one our top 10 killers of our youngest people. It has been that way for a very long period of time.

I am the chairman of Mothers Against Drunk Driving. Drunk driving crashes kill one-third of all traffic fatalities combined. Distraction, the numbers are not as good. About 3,500 people die because of distracted driving. And the numbers go up because of speed, because of all these issues we are talking about. If you eliminate human error, which 94 percent of all crashes have that element in it, you are going to make a huge improvement to safety.

In terms of actually having a study of what a self-driving vehicle does and compare it to a regular driver, we do not have hard numbers as to, you know, the actual reductions because that is ultimately going to be a road-user data question. But I think from what we see from the technology of the vehicles being able to maintain the driving task, we are sure that we are going to be able to directly drive down human error significantly and ultimately we will be able to know those numbers as we get more testing on-road and we see more limited deployments.

But the bottom line, sir, is that what we see and the 2 years of increases that we have seen in traffic fatalities is that our successes in eliminating bad driving behavior through the behavioral programs, you know, Click It or Ticket or all the drunk driving programs, they have gotten us to a point, but we are going to need this next technological evolution for us to really drive these numbers down to where we are seeing that maybe some time in the future, 30, 40, 50, 60 years from now, people are going to be wondering why we lost so many people to traffic crashes in the first place.

Ms. KALRA. I, too, am optimistic about the safety benefits, perhaps not quite as optimistic, though. Let me say two things.

One is I caution about the use of the 94 percent statistic on human errors because often that is looking at the last line of defense before a crash occurs, and there are many things that lead to a crash. So, I absolutely agree that, you know, drunk driving, these kinds of obvious human errors, autonomous vehicles will never make those mistakes.

We have to ask ourselves what new mistakes would they make? Basically, the fact that humans kind of stink at driving does not mean that a machine necessarily will be better. So, I caution about inferring that we are going to get rid of 94 percent of crashes.

The second part is about statistics. The challenge is that although we have so many tragedies, so many fatalities on our road-

ways, we also drive an enormous amount. Americans drive 3 trillion miles a year, and that translates to, I am going to loosely approximate, 1 fatality per 100 million miles driven.

What that means is, for example, say you had a 20 percent improvement in your fatality rate with autonomous vehicles, so they only have 0.8 fatalities per 100 million miles. To prove that with statistical confidence would require driving 5 billion miles, which is like going to Neptune and back and back again. That is way too many miles to drive with a test fleet where you have trained drivers behind the wheel. It is not going to happen. It would take hundreds of years.

The thing is, once we get people on the road that is going to be easy because Americans drive 8 billion miles every single day. So, that is the conundrum: how do we determine the safety of the vehicles before we let our friends and our families in them? And I do not have an answer to that, and I think that is an urgent question.

Mr. GRAVES. Thank you. I have just a few seconds, but from what I hear the purpose of this clearly should be safety. And what I hear is that even where technology is today, there is an indication that it is possible that autonomous vehicles can provide additional safety measures and prevent incident. We just do not know quite what the number might be.

What I would be interested in in the future, Mr. Chairman, is how do insurance companies factor all of this in, and would my rates go down if I had an autonomous vehicle versus my own personal driving? And that might indicate where the safety measures are. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Mr. Aguilar.

Mr. AGUILAR. Thank you, Mr. Chairman. Thank you, Mr. Ranking Member.

Dr. Kalra, if we could continue down this safety path discussion with you and Mr. Strickland for a moment. You just said from a recommendation standpoint we just do not know enough yet. So, when will we know enough from a deployment perspective of whether a fleet of, let us just say autonomous ride-share vehicles, you know, when they will be safe enough to be deployed? And what recommendations from a policy perspective do you think we should consider?

Ms. KALRA. I think the reality is we will not know before the public starts—I think given the state of methods we have for testing, we may not know with the certainty we would like how safe these technologies are. We do not have a crash-test dummy or fuel economy testing standards. We do not have the analogy for this space.

What that means to me is that we would want to deploy the technology in ways that manage the risk even if we cannot quantify it. So, deploying it in favorable conditions, in well-designed environments with an informed public, informed participants, and doing our very best to make sure that there are things being done in the vehicle and outside the vehicle that address these risks.

For example, having vehicles that drive at lower speeds or only in certain conditions where everyone is required to buckle up inside; they have the highest internal and external safety tech-

nologies. I think these are methods of managing the risk until we better understand what it is.

Mr. AGUILAR. Mr. Strickland, if we can pick up on this, and let me add a component to it. I think from the folks that you represent they are going to be a little bit more potentially vertically integrated, right? So, they are going to be some of the manufacturers as well that can control more things. So, when we talk about the cyber risks that Mr. Valadao brought up, which are very real, it is a little easier when you are vertically integrated if they are designing, they are building, they are doing all this, they are not buying something else and then putting autonomous technology into it; they are developing it themselves and then building it from scratch.

So, can you talk about the safety component from that lens of kind of vertical integration, as well as when we know a fleet could be ready?

Mr. STRICKLAND. Certainly, sir. Safety by design, especially in cybersecurity, and, frankly, all of the vehicle systems is a must. You can never think about safety after the fact because, as Ms. Kalra made note, it is an unsuccessful pathway. And if you are thinking about vehicle automation specifically or just cars in general, being a Six Sigma engineering prospect, making sure that you are 99.999 percent sure that the vehicle or the component is going to operate within its tolerances as it is designed is essential.

The ease in terms of whether you have a company that is better integrated to do that or not is, frankly, to be blunt, not the important issue. The issue is to create the signal for all players on the marketplace that you have to comport and have safety by design. Now, there are going to be some combination of companies that can do that better because of its organization, but that should not be the driver of how you do it.

But to circle back to when we are going to know when the cars are going to be safe enough to be used within some scales, I think a number of issues that Ms. Kalra brought up are very important. But I also want to contrast to the fact of how we think about design and test new systems on vehicles today, things like adaptive cruise control, I think the Ranking Member says he has on his vehicle, or Crash Imminent Braking systems or Electronic Stability Control. There was no special construct or limited environment for any of these technologies as they were deployed, and they were very, very important.

Now, what you had was two things. You had manufacturers and component designers that, frankly, looked at their own particular risks in terms of deploying new technologies for possible commercial deployment, which is a huge limiter on how much risks are being taken. That is number one. Number two, you have NHTSA, which uses its defect authority, which is whether or not something on the vehicle poses an unreasonable risk to safety.

The combination of these two things have allowed for us to have numerous vehicle innovations without there having to be any new Federal motor vehicle safety standard established beforehand. I do not think that we need to think about self-driving vehicles. There are some different variances because we are talking about full control of the vehicle.

But we should not stray away from the native way that we have done this for, frankly, over 50 years in vehicle design. And I think that it has proven to be very successful and that we have gotten these things that are life-saving on the road. For example, Electronic Stability Control was invented by Mercedes in 1990. That technology now deployed throughout the fleet and mandated in 2012 saves tens of thousands of lives a year. That is what we are so concerned about. If we slow this technology down, we lose the opportunity to save lives.

Mr. AGUILAR. Thank you. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Mr. Dent.

Mr. DENT. Thank you, Mr. Chairman, and thanks for putting on this hearing.

Dr. Kalra, a small business in my district, Royal Truck and Equipment, has developed the world's first autonomous truck-mounted attenuator, or ATMA. You see them on the backs of trucks, if an errant vehicle crashes into it, so not to hurt the construction workers. You see them in the work zones, they are placed in the construction zone to absorb the impact of that errant vehicle.

Currently, these vehicles must have a driver who is understandably placed in a dangerous situation. By developing an autonomous version of this vehicle the driver can be taken out of harm's way. The technology is being tested in London. It will be tested next month for use in Colorado by their DOT.

Given the dangerous environment that these TMA truck drivers operate in, it seems to me that making such operations autonomous could help save lives while still performing the important tasks that those trucks carry out for construction crews. Would you agree with that? And if so, what do you see are the biggest impediments toward further exploring and implementing such technologies?

You have seen them on the backs of trucks, you have seen them on highways, they make them in my district. But they want to have an autonomous vehicle because the guy who is driving that truck obviously is there to take the impact of the errant vehicle. It seems like this technology might make sense. But you see them on the roads.

Ms. KALRA. I hope you will forgive me, but I am simply not familiar enough with either the problem or the solution that is being proposed to have an informed opinion. So, anyone else.

Mr. DENT. Okay. Maybe Mr. Strickland or somebody who is familiar with it.

Mr. STRICKLAND. I am familiar with it, but just basically as an adjunct to improve crash protection on commercial heavy-duty trucks. I think the bottom line being for the entire heavy-duty and medium-duty fleet any technology that, frankly, helps reduce this driver error issue, number one, but also, frankly, makes it more protective for others when you are in the eventuality of a crash is always a good thing.

And, you know, there are a number of technologies that are, frankly, being put on the trucks now, such as Electronic Stability Control for heavy-duty systems, things of that nature. So, yes, I am familiar with it and, yes, it would be an improvement.

Mr. DENT. I have been seeing these demonstrations. I see them on the highways and I thought, well, this would be great. You put a driver in one of those trucks, and to take the impact, well, that would be a great use for a driverless vehicle. So, okay. Well, thanks. Maybe we will follow up with you on that.

Professor Kochenderfer, I am supportive of the UAS Traffic Management, UTM, work being carried out by NASA and the FAA, and I would like to see how those initiatives move forward in a manner that allows for the safe, efficient integration of the UAS as soon as possible. The recently enacted fiscal year 2017 Appropriations bill provided additional funds for NASA's UTM efforts to help ensure the safe integration of UAS into the national airspace system.

Looking at our current work on fiscal year 2018, do you feel that a continued emphasis on promoting UTM will help to fulfill the goals of establishing a system that safely manages diverse UAS operations in the airspace in both suburban and urban areas in a timely manner?

Mr. KOCHENDERFER. Yes, it is definitely helpful. As you know, there are a number of challenges that need to be addressed in the near term, and those dollars will be extremely helpful in addressing things like communication and data challenges. It will be important in hiring the right people with the right areas of expertise. It will help in terms of transitioning the UTM to a deployable system.

I think another priority is continuing with these pilot programs. As I mentioned before, this needs to be an incremental process, and this will be another important area of research over the next few years.

Mr. DENT. If I could follow up, I understand there are many individuals, both in the government and the general public, who would view UAS more as a threat to public safety than as an innovative technology to generate positive change.

What are some of the most effective initiatives that the UAS industry has undertaken to help alleviate some of those concerns, and how can Congress help to facilitate further collaboration and cooperation between the FAA, NASA, and UAS industry and other Federal agencies, like DHS and FBI?

Mr. WYNNE. Actually, in those conversations, very immediately we have a meeting on Monday to discuss this as well with many of the key law enforcement agencies.

I think a simple example, sir, is right now, most of the drones are flying somewhat anonymously, as it were. We need remote identification technologies, and our organization put out a call for papers on that on behalf of the FAA, and we got almost 50 papers back from some very sophisticated organizations inside of 2 weeks.

This technology needed to be developed. It is in the concept of operations for UTM. We just moved it up very, very quickly, and are working on that, and we are doing that with DHS, with members of the Department of Defense, et cetera, and with the Department of Justice.

Again, industry collaboration while we are bringing the solutions to the table.

Mr. DENT. Thank you.

Mr. DIAZ-BALART. Mr. Joyce.

Mr. JOYCE. Thank you, Mr. Chairman. Thank you all for being here today. Mr. Strickland, I would like to ask you, since you have some expertise in NHTSA, being familiar with the research centers the agency utilizes, including the Transportation Research Center in Ohio, what role have these sites played in helping develop HAV technologies, and how can Congress assist these centers to expedite the deployment of HAVs onto our roadways?

Mr. STRICKLAND. Well, you gave me a moment to brag about my old staff. They really are some of the best and brightest in the world in terms of automotive research and especially in the safety space.

The TRC in East Liberty, Ohio, is a fantastic facility, but I believe they would be helpful in deployment if they had more resources to address a number of these issues, specifically their ability for simulation training—simulation testing, I should say.

I think also their work in battery research would be very essential because there seems to be a strong nexus with having automated vehicles have a high level of electrification, but it is not necessarily individually set. You could have a regular internal combustion engine and the car would also be an AV.

I think an important aspect of resources is, frankly, of all the not sexy things, is the Counsel's Office. They are a fantastic group of lawyers, but, frankly, thinking about the evaluation of exceptions, a number of these other issues that are going to be coming to the office making decisions about testing, they need more resources there to help expedite these requests across a variety of things, but specifically for automated vehicles. Being able to get these decisions out quicker would help get thoughtful decisions being made and get these vehicles deployed quicker.

Mr. JOYCE. You may not be aware, but the State of Ohio has also recently put money into that center.

Mr. STRICKLAND. I know very well.

Mr. JOYCE. Since the time you left. We would like to continue to see some of the testing done there, and any expertise you could lend to that would be quite helpful.

Mr. STRICKLAND. Mr. Joyce, I would be happy to help in any way I can.

Mr. JOYCE. Great. Thank you very much. Nothing further, Mr. Chairman.

Mr. DIAZ-BALART. Mr. Joyce never misses an opportunity to push for Ohio. Mr. Young.

Mr. YOUNG. Thank you, Mr. Chairman. This issue goes out to anybody who wants to try to dive into it. I have asked my colleagues to think about this as well. As we are talking about within Congress, infrastructure and making some serious investments in our infrastructure, roads and bridges, should we be looking at roads and bridges in traditional transportation systems in a new way when we are looking at unmanned and autonomous vehicles?

If we are entering that new age and new dawn of mobility in traveling and delivery, what considerations or applications should we take into account when we are making those serious investments to ensure that this new age of transportation is fluid, it fits, it is functional, it is safe?

Does it run parallel with sensor towers, some kind of grid relay system, new materials in the roadways, or what I believe to be traditional roadways, some kind of positioning system?

What should we be looking into as we go forward with this infrastructure bill? What considerations would you be wanting to see possibly included as we dip our toe into this new world here?

Mr. STRICKLAND. Mr. Young, I am just going to make a general statement about vehicle safety, which would include AVs. Better infrastructure helps everyone. Better road design helps everyone.

For automated vehicles, once again, I am going to go into the realm of unsexy and talk about more resources for Counsel's Office at NITSA, the real fantastic unsexy for road work, better line paint. That would be a huge, huge deal for automated vehicles.

The bottom line being the manufacturers are building a vehicle for the road environment today. They are not building vehicles anticipating needed road improvements in the future. Frankly, the most rudimentary improvements to road safety and road building would, frankly, benefit not only AVs, but it would benefit all drivers.

The one thing I would suggest, it is not necessary, but thinking for road efficiency in the future, better communication between the road and vehicles in the future has shown huge benefits, and in this work that was done by the Department of Transportation and my old agency.

It would be beneficial, not necessarily for automated vehicles, but I think making those investments and having the infrastructure communicate to vehicles and being able to collect data for a better understanding of congestion and how to mitigate it, I think benefits us all.

Mr. YOUNG. That is the point I kind of wanted to dive into, having the infrastructure communicate to vehicles, and what is needed to do that. I do not know.

Mr. STRICKLAND. Mr. Young, I am happy to get back to you on that. There are a number of things that could be done, all the way to right now the National Highway Traffic Safety Administration has a pending proposed rule for having DSRC, dedicated short-range communications, chipsets being placed in every vehicle, so that vehicles can communicate with each other transmitting safety messages. Somebody has run a light, you should slow down, all these other types of things, ultimately tying the infrastructure being able to communicate with vehicles so you can let road users know of changes for congestion, being warned about hazards, being able to pre-plan or even providing a benefit.

You are driving home late at night and there is no oncoming traffic, and you are sitting at a red light and nobody is coming. You could actually have the vehicle being communicated to by the road saying, well, since there is nobody coming, we are going to automatically change the degree so you can keep moving.

There are a variety of things that the Department is working on, and I could circle back on some of the things that we know internally, but certainly connect you to the folks at NITSA as well that can give you a longer explanation than that.

Mr. YOUNG. Thank you.

Ms. KALRA. If I could add just briefly, I completely agree with David that basic stuff, lane stripes, better signage, these things will improve safety for absolutely everyone.

I think it is too soon to begin investing in vehicle-to-infrastructure communication on a large scale because if it is going to take, let us say, 10 years for there to be widespread vehicle-to-infrastructure communication, in 10 years, so much happens in the communication industry, if we think back 10 years ago, we were on like 2Gs or something. Even now there is a debate about whether DSRC is correct or 5G or something else.

It may be, in my view, premature for the public sector to make massive investments in vehicle to infrastructure communication, but to monitor and know this may be something that is needed in the future, I think, would be the right move at this time.

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

Mr. DIAZ-BALART. Thank you. Mr. Wynne, a couple of things. I can envision, and that is why today has been so interesting, we are potentially looking at a different world, and not in 50 years, but in relatively short order.

Does the FAA have the right level of engagement with the industry to ensure that this is a public-private partnership, for example? Is the organizational structure appropriate at the FAA for the task of integrating UASs?

Mr. WYNNE. I think so. They have been evolving very, very quickly. As you know, the UAS Integration Office only became a line of business at the end of last year, I think. They have been building that process, and now they are getting properly funded.

It is difficult, even the question Mr. Young asked about, how do you future proof? UTM, in some respects, is a future infrastructure that we are building, but we are building it a piece at a time, as it were, very rapidly. We are reiterating very, very rapidly.

There is a vision now for how do we do that, and I would say if the FAA was not able to keep up with that, we would be in a lot of trouble. And for a while, I think that was the case, but I think they have now gotten caught up, and now they are trying to get ready for that future.

Just to add an interesting part between these two, the automated vehicles on the ground and the automated vehicles in the sky, as it were, we have Uber Elevate, which had a meeting 3 weeks ago in Dallas, where they had some of the stalwarts of both the electric vehicle community as well as the aviation community coming together to develop this "Jetsons" vision, as it were, of people being able to dial up a device on their phone that they would be able to get into and fly from one place to another. As a 25-year pilot, that got my attention.

That, I think, is going to continue to push this envelope, but there again, good representatives from the FAA, Wes Ryan from the Small Airplane Directorate was there, they are paying attention. They are looking for how do we support this into the future?

Mr. DIAZ-BALART. Mr. Wynne, again, we tend to think of the FAA as air traffic, big airplanes, small airplanes, going from one airport to another. We are now potentially looking at something totally different. We are looking at, in essence, airspace, not only



being in the corridors we are used to, but, frankly, over urban areas and over rural areas.

Do you think the FAA is the right setup to deal with all that?

Mr. WYNNE. Well, again, it is difficult to future proof. What I have seen from the FAA, Mr. Chairman, is not only are they bringing some of the highest, the best talent into the Unmanned Office, but I think they are reaching into every element of every department, every office of the FAA, and it is a very, very large organization, as you know, with many different tasks and many different responsibilities. So I think there has been a serious effort from the top down to develop collaboration with industry and to communicate throughout the organization and pull resources and quality thinking from all elements of the agency. By no means have we figured it all out yet.

Mr. DIAZ-BALART. The concept, for example, of segregating, one of the main aspects, this is now totally different and separate from the FAA. Separate from parts of the FAA, just from what I have heard today, it would seem to me that would be kind of just the opposite of what we want to hear.

I keep hearing you all talk about integration and communication as opposed to just the opposite. Am I wrong there?

Mr. WYNNE. It is an excellent point. I view it as we have been working on the air side, we have been working for accommodations in the airspace. Eventually, that will start to become integration into the airspace, and then ultimately the evolutionary part is, is that interoperable with the ATC?

Air traffic controllers are not standing still either. They are in the process of moving forward with NextGen. How do those things move in parallel? These are very, very active discussions right now between the industry and the regulators.

Mr. DIAZ-BALART. Thank you. Mr. Price?

Mr. PRICE. We will just continue in this vein because we are dealing with a mind-bending reality here. I do not know how far along we are toward the day when human-piloted flights are a minority of air traffic, but we are surely going to get there. Is that correct? And that would seem to have profound implications for how we do air traffic control, the kind of areas we are covering with what kind of technology, what kind of techniques, and also the human factors involved here, major adaptation, retraining required for pilots, controllers.

So, let me just bring it back to the previous line of discussion with the account—the rather optimistic account, I would say both of you were giving—about the UTM development thus far. I think, Professor, you talked about the baby steps that have been taken, but you described it, basically, an incremental process that you felt was on track. Can you say more about that and about—this cannot be incremental forever. There will be points at which we are doing what, certainly, would now look like radical changes in the way we manage air traffic, airspace, the kind of personnel we deploy, with what kinds of training, and, for that matter, the implications for pilots as well, the human beings who are now operating in the airspace.

So, I am basically just giving an opportunity to talk further about this UTM process. Any kind of counsel you have as we go forward as to what that should look like?

Mr. KOCHENDERFER. Yes. So, actually, in preparation for this hearing, I spoke with a number of members of industry—from FAA, from NASA—and one of the themes that emerged in these discussions is that the FAA will, just due to scalability issues, mean to delegate some of their authority for certification. You also see this inherent in NASA's prototype and vision of UTM with these UAS service suppliers, which would be run by industry members, but, of course, with oversight and so forth by FAA.

Mr. PRICE. All right. That does elaborate. It is not terribly conclusive in terms of the specifics we might be looking for as we oversee this process and evaluate it.

Mr. Wynne, you have anything to add?

Mr. WYNNE. Well, I would start with where we are. Where we are today is the FAA has provided us with rules that allow us to fly with very little risk in the airspace that already improve safety on the ground; that improve our ability, actually, to look at bridges and do bridge inspections when we get around to addressing the infrastructure challenges that are before us. And there have been some great examples of using a drone to survey a bridge and decide we do not need to spend \$20 million on rebuilding that bridge, we just need to handle these particular parts of the roadway that are deficient for a much less amount of money.

I say nothing of the people who no longer have to hang from harnesses doing that bridge inspection and other kinds of vertical infrastructure where, essentially, we are providing people with tools that allow them to do things more safely. To get to more complex operations, we need to work collaboratively with NASA, with the FAA, and build these things in such a way that in stark contrast to the carnage on the ground, we have extremely high safety rates in the air and we need to maintain those. Clearly, we want to use unmanned systems and automated technologies to improve the safety record on the ground as well; and, I think, the part that is fascinating to me is that, ultimately, some of these technologies, like near-field collision technologies or collision avoidance technologies, will scale across these domains. So, there is a lot of learning that will be gained from efforts on both sides of this equation.

Mr. PRICE. Thank you. My time has expired. Let me just flag, though, for future reference, a related question that if you have thoughts you might supply to the committee, and that has to do with the implications of all of this for the NextGen program. We know that it is integrated; we know that it is implicated. As you well know, the NextGen program is under intense scrutiny from both the appropriators and authorizers up here, so this, for me, and I think for other members, is a relevant issue. Is this being adequately addressed amid the myriad of other issues that are on the table?

Mr. DIAZ-BALART. Mr. Dent.

Mr. DENT. Thank you, Mr. Chairman. I just have one question for Mr. Wynne. As this hearing has demonstrated, the committee holds a great deal of interest in supporting efforts that will allow the United States to gain and maintain a lead in the research, de-

velopment, and the eventual integration of UAS. This sentiment is shared by a number of our colleagues on the authorizing side in the Transportation and Infrastructure and also on the Science, Space, and Technology Committees. In light of such broad congressional support for these efforts, do you feel that UAS issues in the FAA's UAS integration office are receiving sufficient attention and support from within the FAA?

Mr. WYNNE. I do. I do, sir, and I appreciate the question. And, yes, there has been phenomenal support here on Capitol Hill, and we are grateful for that and I think with good reason. I think the challenge, of course, is the FAA has an extremely important job to do. This is adding to their burden as well. And as you point out, we need to stay along, in addition to just addressing the potential safety issues if we do not regulate properly—and industry and government are working to make sure that we get those regulations done properly—we will miss a trick or two as an economy if we do not take advantage of this technology. So, I think, it is worth leaning in, and I appreciate, again, the leadership of this committee in investing in this particular technology and all unmanned system technologies.

Mr. DENT. Thank you.

Mr. DIAZ-BALART. Ms. Clark.

Ms. CLARK. Thank you, Mr. Chairman. Mr. Wynne, this drone technology really has the potential to revolutionize the way we move goods, maybe even in our "Jetson"-like fashion move people someday. But since coming to Congress, I have worked a lot on technologies and their unintended consequences: the cellphone app that allows an abuser to secretly track their victim; the Twitter game that allowed people to own social media profiles of people that then became a target of harassment; the webcam that can be appropriated remotely by someone else. None of these technologies was invented for nefarious purposes and yet that is what the result was. And I loved the imagery that you used, that you cannot think about privacy and law enforcement afterwards and sort of shrink-wrap it around a product.

So, I am hoping you can share with me what the industry is looking at as far as taking steps to address and work with law enforcement in the development of this technology before its widespread adoption. And, specifically, do you see a need to be developed to identify the operator of a drone that is used for criminal purpose? Are you thinking about putting those sorts of protections in?

Mr. WYNNE. Indeed. I think you have put your finger on an extremely important thing. For me, personally, over the last, I think, 8 months, this has been one of my top priorities. Law enforcement, public safety officials, generally, really wants to benefit from this technology. They see tremendous benefits from this technology to do things as simple as an accident investigation on a busy highway or fire fighters, or search and rescue, et cetera.

So, the law enforcement community is a great partner for the industry, and we are working with them very, very closely to figure out what are the standards that need to be done, and how do we help them do their jobs, not just with the technology, but in enforcing the laws that might be violated with the technology.

Ms. CLARK. Right.

Mr. WYNNE. And let us be clear, most of the laws pertain to this technology whether it is specific to this technology or not. So, all laws pertaining to privacy also pertain to drones. You cannot use a drone any more than you can use a telescope to, you know, to spy on someone. So, I think that is really important.

A specific example, tomorrow I will be up working with the folks that are in charge of law enforcement or safety at the Tappan Zee Bridge project in New York. They are using drones to build that, to do that multibillion dollar construction project. Very, very important that they be able to do that for safety reasons and for efficiency. But they need to be able to—the law enforcement need to know that those are authorized drones.

Ms. CLARK. Right.

Mr. WYNNE. So, I am not a fan anymore of no-drone zones because we use drones in many different places. But I am a big fan, increasingly, of authorized drones only. And so, that begs the question that you are raising, how do we remotely identify the people that are flying that? I leaned in on the registration process. I personally supported that with former Secretary Foxx when he gave the administrator of the FAA the task to get that done inside of about 2 months before Christmas of 2016, and we did it. The FAA did it with the collaboration of industry. Now we need to take the next step of how do we remotely identify—and, once again, industry is leaning in here to provide those technologies.

Ms. CLARK. That is great. I wondered, specifically, we have Federal law right now that criminalizes video voyeurism only within special jurisdictions in the United States where State laws do not apply: national parks, Federal government buildings. Do you believe we should extend similar technologically-neutral criminal statutes to the rest of the United States in anticipation of more widespread drones?

Mr. WYNNE. I am not familiar with that, ma'am, so, I would not be able to take a position on that, but I would be happy to provide an answer for the record.

Ms. CLARK. Thank you. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Mr. Young.

Mr. YOUNG. Thank you, Mr. Chairman. Public transit—and we have been kind of talking a lot in our minds thinking about personal use of these autonomous vehicles in deliveries—you know, commercial applications—but public transportation, are you engaging at all with any transit authorities? I know that Des Moines, which is in my district, the regional transit authority is really excited about trying to get engaged on this to do some kind of pilot project and is working with the Department of Transportation on this. How do you see this fitting into the public transportation?

Mr. STRICKLAND. Oh, Mr. Young, once again, I have an interesting intersection in my career.

Mr. YOUNG. Do tell, David.

Mr. STRICKLAND. I know. I am one of the Federal voting members for WABATA. So, in addition to—so I think about this personally a lot, but, frankly, I think that the self-driving industry, in addition to thinking about the way that self-driving can help support the disabled and the elderly, which is a hugely underserved com-

munity which relies upon public transit, it is the opportunity for automated vehicles, and a variety of types, too, frankly, to be an extension of public transit and help support it. So, I think, as for having last-mile solutions as being part of it, being able to have the 36 million people that are disabled, and the 20 million of them that are of working age, being able to have solutions that are more tailored in order to be able to get to public transit pipelines.

So, yes, I think there are a lot of folks that are thinking about this individually, and I know that I have had a number of conversations through APTA and others about how we better work together. But I think you are right. I think, once again, as I think that both of us stated earlier, this is the opportunity to think ahead so that we build a system that is thoughtfully integrated so that we can have automated driving help support public transit and increase those efficiencies.

Mr. YOUNG. And do you view this in the context, and differently, I would imagine, in between rural transportation needs and urban transportation needs as well? Because I have a very rural district in some areas, and there are some unique transportation needs that are needed there in public transit.

Mr. STRICKLAND. That is absolutely right. I think that is a reason why thinking about, again, last-mile issues. I think, especially in rural communities, that is a big issue, making public transportation more efficient. One of the keys to it is because the configuration of rural communities, it is really tough to be able to get those efficiencies of scale. Automation could help build those efficiencies because you can have last-mile solutions to get to the main trunks for bus lines, and et cetera.

So, I think you are absolutely right, Mr. Young, in thinking about this prospectively that this is not just simply an urban solution. I think that automation could be supportive of public transportation in a variety of aspects in our communities across the country and I think it is a real opportunity for all of us.

Mr. YOUNG. Mm-hmm, and then you just mentioned on your own, and I was going to touch on this, that the opportunities that this can bring for our folks with disabilities and who are kind of homebound sometimes and not able to get out to where they need to be sometimes. Are you taking into account working with the disability community to make sure that there is access, and that there is safety, you know, and confidence in that system, too, to allow them to participate in this as well?

Mr. STRICKLAND. Mr. Young, actually we have a number of partners in our coalition that represent folks that are disabled. But, more specifically, and Ms. Kara mentioned this earlier, is that—you know, one of the things when you think about economic opportunity, the one thing that automated vehicles, self-driving could do is those 20 million folks that are disabled that have the capability to work, but may not have the possibility to do so because of their transportation choices, one of the great things that we can look at is having those people being involved in the economy, being able to work because we have solutions for them.

So, the short answer is, yes, we are working very hard with those communities and thinking about making sure vehicles that are being designed in the beginning to support people that are dis-

abled, not thinking about retrofitting vehicles that are already in assistance, which is very expensive for those communities, which I know that you are aware of.

Mr. YOUNG. Well, thank you for engaging with them because there is a lot of opportunity there in the folks with disabilities, and then just making sure that there is confidence with that community and those people because, you know, something new like this, you know, you think about vulnerabilities in these systems, and anything that you can do to just really keep that pipeline open in communication, and alleviate and bring confidence to that system for them, it will be awesome. Thank you.

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

Mr. YOUNG. Thank you, Mr. Chair.

Mr. DIAZ-BALART. Those 20 seconds that you have, if I may take them.

Mr. YOUNG. Take them, 18, 17.

Mr. DIAZ-BALART. You know, some of these projects that we fund are 20 years out; massive transit projects. Are we funding, in essence, the equivalent of the horse and buggy as opposed to is there a possibility that some of what you all are looking at could replace those large systems?

Mr. STRICKLAND. I do not think you are talking about horse and buggy. I think you are thinking about spoke and wheel. I think that, frankly, public transportation is still necessary in a centerpiece, but I think what you really think about in terms of automation is how we can make those transit systems more efficient and thinking about, as I said to Mr. Young, how do we have an efficient usage of last-mile solutions? And I think that is where automation comes in.

Mr. AGUILAR. Mr. Chairman, do you need any more time? Okay. For Mr. Wynne and Mr. Kochenderfer, Mr. Wynne first, you talked about the registry. We know the importance of training and educational play in the UAS system. The educational component requires for the registry only an acknowledgment of bullets of safety guidance. I understand that there are six UAS test sites throughout the United States meant to collect data to help inform decisions on how to integrate the systems. What role do these test sites provide in developing educational programming for operators? Additionally, is industry playing a role in the development of training for the UAS operators and, if so, how? Are there ways that we can work better with FAA and the industry to help on the training and education side?

Mr. WYNNE. Yeah, that is a very big topic right now. AUVSI recently launched a Remote Pilots Council since the advent of part 107, we now have certificated operators under part 107 and we have just finished I call it a whistle stop tour, where we had nine meetings around the country gathering those folks together in a room with the FAA in many instances. Actually, in all instances, we had an FAA representative talking about what they saw as the needs from a training perspective to make certain that remote pilots maintain the highest levels of airmanship and standards of operations.

So we are in the process of figuring out what that is going to require and backing up to how do we at least get an alignment on

that, because I think that is one more thing that industry can do that we do not necessarily need to burden the FAA with today. As far as everyone else that is flying out there, the people that are not necessarily commercial operators, which requires a part 107 certificate, hobbyists as it were, AUVSI has been pressing forward with the Academy of Model Aeronautics and the FAA and a hundred now plus supporters with our Know Before You Fly campaign, which is information that is increasingly right in the boxes for a device. So if you walk into an electronics store and walk out with a drone to fly, and we love people doing that, you know, people love things that fly. They have the information at the ready hand to know, you know, how to get the information, the latest app, et cetera, to know am I flying in the right place, am I flying responsibly.

Mr. KOCHENDERFER. Yes, so I would have to applaud the efforts of AUVSI and AMA and FAA on the Know Before You Fly program and the success in the registration. So you mentioned that they only had to demonstrate knowledge in a limited area. But keeping that test simple for the hobbyists, I think, was critical in the success of the registration. So the required registration started February 2016 and then by June 495,000 registered. And if you increase the burden of that training, I think that would decrease the registration. But, of course, you do, for the commercial operators under 107, they do need to take a much more comprehensive FAA exam. And I feel that is appropriate.

Mr. AGUILAR. And the test sites discussion, are we doing enough?

Mr. WYNNE. Yes, the test sites I think are extremely important and one that I am aware of, for example, one of the largest broadcasting organizations in the country, Sinclair, does all of the training of their pilots to capture news at one of the test sites. So that is an easy, that is one of many examples of how the test sites are being used. Probably more appropriately, the test sites are set up to do more advanced things and collect data on flying beyond visual line of sight and such, things that we are trying to prove out with more complex operations with additional risks.

Mr. AGUILAR. Thanks, I will yield back, Mr. Chairman, give you some more time.

Mr. DIAZ-BALART. Thank you. I think we can do one more round, if that is all right and you all are willing. Thank you. Obviously, we have a lot of interest in this committee. Ms. Kalra, and kind of what I was asking before is, this subcommittee allocates funds for projects that not only take years to build, but are supposed to be there for decades and decades. And so, looking ahead, how disruptive potentially is the AV technology going to be? When should the transportation planners start factoring in this disruption or this addition, whatever you want to call it, for these large-scale, expensive, long-term projects?

Ms. KALRA. You know, it would not be an overstatement to say that it will be as disruptive as the automobile was for the horse and buggy. But similarly, it is also as uncertain. I do not think anyone who is riding around in their buggy could say, oh, the car is coming, here is what it is going to look like in 50 years. So it is extremely important for transportation planners to think now about the changes that are coming. But that is extremely difficult

to do because there is deep uncertainty about what those changes will mean. And so I think attention needs to be paid to identify investments, investments that are vulnerable to making no sense in a particular future or that cannot be repurposed, readapted, you know, the designs are fixed.

Mr. DIAZ-BALART. Well, for example, let us look at something like hard rail, you know, rail?

Ms. KALRA. Yes.

Mr. DIAZ-BALART. Which is exceedingly expensive, it is inflexible, you know. Is that something that we should now be looking at? Are there different alternatives? Should it be an alternative that can later be transferred over to, unmanned vehicles, I mean that kind of thing?

Ms. KALRA. Rail has, you know, but rail also has enormous advantages. And so the question needs to become is a particular project vulnerable to changes, and I do not think there can be wholesale dismissal, I think this is important. But certainly to say okay, we are going to, even if we think of light rail, we are going to build an extension from point A to point B, to think does that make sense in the future that may have people with better last-mile connectivity, it may become even more important actually in a world where there is last-mile connectivity. So the question I do not see as being asked enough because it is a difficult question to answer, but I think it needs to be asked now.

Mr. DIAZ-BALART. Yes, sir?

Mr. STRICKLAND. Mr. Chairman, I will say the one thing that I think is a certainty is that we will always be capacity constrained on the ground. You cannot build your way out of a congestion problem. The more roads you build, the more capacity you build, the more people use it. So ultimately transit and rail are always going to be important components of, frankly, our transportation system. I think that Ms. Kalra made a fantastic point is really sort of looking at the individualized project level about whether or not that particular investment in this specific macro point works. But I do think that in general, the specific continued investment in transit, frankly, it future proofs us for a number of things, not only congestion, but who knows what the cost of fuel is going to be in the future, and all those other types of things which we, frankly, face every single day.

And I think automation has a real opportunity, if done right to help public transit. But I do not think that this is an offset to transit or an offset to rail. We just have to be much smarter about where we invest it and how.

Mr. DIAZ-BALART. Let me talk a little about how it has been on the forefront of helping consumers make decisions right, better, and whether it is things like seatbelts. So, I do not know who wants to deal with this or what we should be doing to make sure that drivers understand what their cars either do, and the technology that is already here and that is already coming and, more importantly, maybe what they do not do. And are there opportunities for NHTSA to educate consumers through traditional awareness campaigns or product reviews? Anybody looked at that and thought about that?



Mr. STRICKLAND. I have thought about this for a long time, and when I was administrator and even post my service. The issue of consumer education is not only a governmental function. Frankly, it has to be fully participatory of everybody in the industry, especially when you are talking about those that are at points of sale, the folks that are selling you the car. Right now, I will just be blunt because I purchased a new car recently. Most dealerships do a very poor job in describing active safety technologies that are on the road today because they do not understand them. It is not something that is visible, too, because it is usually—it intervenes when you are about to have a crash, so nobody really sees it. There are some manufacturers that work very hard and try to get their dealerships trained up.

I think the New Car Assessment Program has been a wild success in incentivizing manufacturers to raise the bar of safety, which ultimately they go and try to sell and educate the consumers. I think thinking about a more robust effort as part of the new car assessment in the future to help teach people about if you have an automated vehicle, what it can and cannot do. But I think it is incumbent upon, frankly, the private sector and those at points of sale, and then continuing efforts to make sure people truly understand what environments this vehicle can and cannot operate in.

Ms. KALRA. I completely agree, but I will.

Mr. DIAZ-BALART. My time is up.

Ms. KALRA. Oh, I am sorry.

Mr. DIAZ-BALART. But it is good to be chairman. Go ahead. No, please, please proceed.

Ms. KALRA. I think that is absolutely right and the one thing we want to avoid is using engineering terminology to communicate to the public. And we have adaptive cruise control, smart cruise, there is a million ways, and consumers are confused. And I think that is a role for NHTSA to play.

Mr. DIAZ-BALART. Mr. Price, thank you.

Mr. PRICE. Well, these last exchanges have opened up a really important set of questions, I think, having to do with congestion and capacity. And I would think this is an important consideration in both areas. I would like to have our UAS folks comment on this. But I first want to go to the more obvious questions maybe about transit and about the implications of what you are saying.

We have had, I would say it is fair to say this morning, we have had a rather expansive view of the possibilities of both of these technologies and it will improve our lives. And as far as the need for some kind of regulatory regime is concerned, it has been overwhelmingly focused on safety. That is appropriate. But I would think that the collective good questions apply in this area as they do in all areas, and that there are questions about how much of a good thing we can deal with and what is the capacity, what are the tradeoffs in terms of congestion and how do we deal with that. And I am especially impressed by what you say, Mr. Strickland, about transit.

You know, one can imagine roads just as clogged with autonomous vehicles as they are clogged with ordinary vehicles, and the solution of simply putting on more lanes would be equally probably

counterproductive. So one can readily appreciate the need for mass transit for all sorts of reasons.

But I think what you are saying is really exciting as well, though, because that last-mile problem is really a problem, connecting the shut in, the people in rural areas, the people with special needs, collecting those folks to transit is a huge issue. And then you think about the future of Park and Ride, and we would not need huge tracks of land in valuable areas devoted to Park and Ride, maybe remote parking becomes much more feasible. I think there are lots of implications. So I think we really need to think this through, and I appreciate any further comments you have about this, about that set of issues, congestion and capacity, and how we can anticipate and deal with this.

Mr. STRICKLAND. I will touch on it very quickly, Ranking Member, is that the ability to have automated vehicles to be a mixture in the fleet really does give us a number of models on opportunities. As you said, car share, ride share, where you have a resource, which is an owned car, which sits 90, 95 percent of the day, is only utilized for a small percent of the day to actually have increased utilization of vehicles so that you would need fewer of them, could be an implication which happens in the future and helps address congestion.

And the other issue which I think you touched upon greatly is how do you re-reclaim living space, green space, from the roadway? And I think that thinking about capacity issues and self-driving could impact of how cities are thinking about it. The city of Beverly Hills in California is very aggressive right now in thinking about its future, about possibly having Beverly Hills being an AV city, where they can reclaim the parking and turn it into retail, they can turn that into housing, they could turn it, they can free green space and more pedestrian space.

So I think that is very much, I think, the larger, broader thinking, but it does take long-reach thinkers as well.

Ms. KALRA. I would add that I think for parts of our transit, which we normally think of like large buses, fixed routes, there is an opportunity to reimagine that, because many of the goals of transit include it is public, it is sustainable, it reduces congestion, it reduces air pollution, it is equitable. Some of these goals can be achieved in portions of our current transit system more efficiently with autonomous vehicles that are better sized and more convenient on demand, so that instead of just, well, do we have private vehicles connecting us to main transit hubs, we reimagine how we can meet the goals of transit more efficiently and with greater effectiveness.

But the other side of it, any time the cost of driving goes down, people drive more. There is a latent demand. And so I think these cost reductions that we hope to see need to be offset by policies like congestion pricing that send the right market signals, that internalize the externalities that we currently largely ignore in our transportation system.

Mr. PRICE. Mr. Chairman, can we ask our aviation guests to chime in briefly?

Mr. WYNNE. If I might, yes, thank you, Mr. Price. I think, we think of Washington airspace, for example, as very congested. It is

complicated airspace for a whole bunch of reasons, security being among them. But, you know, all large metropolitan areas generally are—the airspace is dominated by airports, we have many here. But that airspace is almost empty at night for noise abatement reasons alone; that airspace is available at night.

I go back to my milkman analogy years and years ago. The milkman would come in the dead of night and bring you your milk. There are a lot of opportunities for us to use what we normally think of as very congested, complex airspace at night to do deliveries that are currently being done in the middle of the day. And that is a good example of how capacity, this world of the way we think about congestion and capacity, can change very radically with this technology.

Mr. KOCHENDERFER. And just to add to that, our national airspace is a national resource and it is important that it be used efficiently. On the drone side, you can imagine a contention for some areas of the airspace, especially as we begin to have drone operations in urban environments where maybe both Google and Amazon want to deliver to the same areas, and resolving those kinds of conflicts is something that UTM is poised to do.

Mr. YOUNG. Thank you, Mr. Chairman and Ranking Member, a privilege to be with you today. This is a very exciting issue and we have had a good two or three of these kind of issues hearings. And so you are obviously experts on your issue, and obviously, you probably are looking around the world at what other countries are up to and are we on par. When we are looking at the world right now, and the United States, are we on par with the other countries, are we ahead of them, are we behind them? And is our testing and operating this framework ready to launch compared to other countries? And then as well, where are we in terms of the public acceptance of the reality that this is coming and to get ready for it?

And please, each one of you, I would like hear where you think we are in regards to our peers around the world.

Mr. KOCHENDERFER. So maybe I can start. So, Stanford is pretty much adjacent to Google, so we see the Waymo vehicles on our streets all the time.

In terms of drones, for a long time, many of the drone startups and companies would do their testing in other countries with more flexible airspace regulations. But I think we are starting to catch up and we have the potential to be a leader in this area.

Mr. WYNNE. I agree. I think part 107 was an enormous step forward and many of our colleagues internationally are paying attention to that; UTM, which we have been discussing today. ICAO has just announced an initiative on—that is the International Civil Aviation Organization in Montreal. Again, they are inviting NASA and the FAA to come, because a number of the member States of ICAO do not want to have to try and figure this out for themselves, and as an industry, we are very much in favor of harmonization around the world.

So I think we are in very, very good shape. I think we could easily lose that lead quickly. The advantage that we always have in America, of course, is that we have the largest market and many of the technologies are going to be pulled through here by the huge numbers of vertical sectors that are going to use this technology.

So I think we have that advantage if we can keep up from a regulatory standpoint.

Mr. YOUNG. So when you say lose the lead, it is because of the regulatory standards that we have not met yet or are not out there for us to meet?

Mr. WYNNE. That is the potential that we worry about.

Mr. YOUNG. Okay. Please.

Ms. KALRA. You know, I think from a technological standpoint, I would argue that we are ahead and I think we have the intellectual and investment powerhouse, you know, whether it is in Silicon Valley or Detroit or really in many parts of our country. I will leave it to David to speak about what the deployment is happening abroad. But in terms of public acceptance, people are becoming—particularly if you diversify by age, the public is very interested in this technology and particularly younger people. They do not want to drive. They are looking forward to this technology. Many of them do not know how to drive. I think particularly if the benefits of this technology in terms of safety and convenience are truly realized, I do not really see this as being a problem in the same way that we do not need regulations to encourage people to, like, buy an iPhone or buy another gadget that makes their lives better or more fun. I think this could be one of those technologies where we do not need to encourage the public to adopt it too much.

Mr. YOUNG. Thank you.

Mr. STRICKLAND. I absolutely concur in terms of our technological capacity. I think that as a country, I think that we are very much in the lead because of the diversity of manufacturers and Silicon Valley companies. But I literally just got back from Korea yesterday, and I will say that I think both our AUV folks captured it. We have a technological advantage, but we have regulatory uncertainty which, frankly, certain countries do not have, like the People's Republic of China. If they want something to happen, it just happens. And we do not have that flexibility here.

And so my biggest concern is that we may lose our advantages in terms of development and capacity and technology to, frankly, a country that could just simply just put a rubber stamp and then it is free open season for any manufacturer that wants to deploy. I think that that has probably always been our concern. Consumer acceptance, I think, talking back to the chairman's question about what can be done to help consumer acceptance, people are very interested in technology, but I do think there are questions because people have concerns about automation, and they have a greater sense of their own ability to drive. I am a great driver, everybody else stinks. And that is a problem and I think ultimately for us to be able to encourage people to use and try the technology is going to be a long reach effort, it is going to take lots of effort to make sure that we get this done right.

Mr. YOUNG. Thank you for educating us and thank you for helping us navigate our way to this new world. And so, Mr. Chairman and Ranking Member, thank you very much for the opportunity.

Mr. DIAZ-BALART. Thank you. Mr. Young closed it out marvelously well. Thank you all very much, it has been exceedingly interesting. Thank you very much.

THURSDAY, JUNE 8, 2017.

**DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

**WITNESS**

**HON. BEN CARSON, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT**

Mr. DIAZ-BALART. We will now call the subcommittee to order. Good morning, everyone. Today we welcome Secretary Ben Carson from the Department of Housing and Urban Development to discuss the fiscal year 2018 budget request.

Mr. Secretary, I know that I do not have to tell you that you have one of the most difficult and important jobs in Washington. You have said several times that HUD can and should provide a ladder of opportunity to those hardworking families that can obtain social and economic upward mobility and pursue the American dream. HUD's mission is to create strong, sustainable, inclusive communities and, frankly, quality, affordable homes for folks. Achieving this mission is an ambitious challenge.

HUD has many diverse programs, thousands of entities that carry out the programs, and millions of citizens who have received benefits and who, in many cases, depend on HUD. And frankly, HUD is a very large financial institution as well. Ginnie Mae and the Federal Housing Administration together hold a portfolio of \$3 trillion. And safeguarding the financial health of these institutions is essential for, frankly, our national economic health.

HUD is requesting a total of 40.7 billion and new budgetary resources in fiscal year 2018 which is 15 percent below 2017. The budget request proposes to eliminate a number of programs that are important to our mayors, and I am sure you have heard and will hear from them as well, cities, towns, and, for example, community development block grant programs, the HOME Investment Partnership programs, in particular are some of those. So I am sure, Mr. Secretary, that we are going to have a robust conversation and discussion about these programs and many other things. And again this is a long process that I look forward to, all of us look forward to working with you on.

In addition, the budget includes cost-saving proposals and reforms across its rental assistance programs. Now, however, most of those reforms are outside this committee's jurisdiction and must be addressed first by the authorizing committee. Some of the reforms are to provide public housing authorities benefits such as flexibilities and regulatory relief from administrative burdens. The budget would also set a mandatory minimum rent and increase tenant rent contributions, and it would suspend rent increases for private-owned units.

Mr. Secretary, your budget states that these policies would result in additional resources that would allow more homes to be available to more households. You know, Mr. Secretary, because you were recently in the district that I am privileged to represent, that I represent low-income and urban areas, and I support the spirit of HUD's mission and the desire to operate more efficiently obviously and to do more. My mayors, my city council, my community leaders, and constituents, all rely on HUD programs and this is why it is so important that we work together to explore the implications of any reforms and cost-saving proposals in our communities. It is not the intent to impose additional undue burdens onto our most at-risk populations or to reduce our affordable housing stocks or its conditions. That said, I agree that it is critical that HUD be a good steward of its resources as nearly all of what HUD oversees helps the most vulnerable in our society.

So yet I continue to receive reports that HUD has tremendous difficulty with basic management. The number of and seriousness of those negative inspector general reports is astonishing, and I know that you share that concern. Poor financial controls, possible Antideficiency Act violations, lax program oversight, major risks to IT systems, gaps in cybersecurity, the list goes on and on. These core management challenges have plagued HUD now for 24 years, a quarter of a century.

The HUD IG has indicated that the problem boils down to lack of leadership or management attention issues and, unfortunately, those are challenges, Mr. Secretary, that you are inheriting. And so we are grateful that you have decided to take on this very difficult task. So, Mr. Secretary, I ask you to take a fresh look at these core issues and prioritize them. I know you are interested in doing that. I want to work with you, with the administration, to make HUD the high-quality, high-functioning organization, you know, that it has to be to oversee these crucially important programs.

Mr. Secretary, you know, you have come from humble beginnings and are exceedingly sensitive to people who are experiencing poverty and hardship. Together, we have to work together to strive to make HUD programs more effective, more efficient for the American people. I look forward to working with you, sir, as we make the hard choices, and they are hard choices, necessary to meet our Nation's housing and economic development needs, all while obviously being accountable to the taxpayer.

Before we get to your opening statement, Mr. Secretary, I want to recognize the ranking member of this subcommittee. The gentleman from North Carolina and I have developed a great relationship.

So with that, Mr. Price, you are recognized for your opening statement.

Mr. PRICE. Thank you, Mr. Chairman. I, too, look forward to working with you as we navigate this challenging budget cycle. And I want to join you in welcoming our Secretary of Housing and Urban Development, Dr. Ben Carson. Welcome, sir, to our subcommittee.

Nearly all of HUD's affordable housing and community development programs are at this moment underfunded and have been un-

derfunded compared to demonstrated need. I think we have to honestly acknowledge that at the outset. These are programs that serve some of the most vulnerable people in our country: the elderly, the disabled, children, veterans, single parents trying to make ends meet.

It is not an exaggeration to say that America, the most prosperous nation in the world, is in the midst of an affordable housing crisis. More and more families are struggling to pay rent; meanwhile, only one of four people eligible for Federal rental assistance can actually receive it because of funding constraints. We should not be comfortable with this reality. In fact, it should force us to ask tough questions about our values and priorities.

Unfortunately, the Department's fiscal 2018 budget request before us today would make these daunting problems even worse. The request includes \$36.3 billion in funding offset by 9½ billion in receipts. The total budget authority provided in the request would be lower than last year's level by about \$7½ billion, 17 percent.

Since more than three-quarters of HUD's budget is devoted towards simply maintaining current resident and housing cuts of this magnitude will disproportionately affect a community development and other targeted housing programs, for example, community development. Let's look at that, a flexible source of funding of hundreds of urban and rural communities to help meet the needs of low- and moderate-income people, a program that is remarkable for its bipartisan support over many years. That program is proposed for complete elimination. The home program, complete elimination. That is the largest Federal block grant to State and local governments designed exclusively to produce affordable housing for low-income families.

My colleagues and I have heard from hundreds of local elected officials and housing practitioners that these programs play a critical role. They are the most flexible programs in your portfolio. They play a critical role in helping address affordable housing shortages and other pressing community needs.

Mr. Secretary, in your Senate confirmation you spoke about addressing housing instability and poverty in what you called a comprehensive manner. And that would include providing greater access to healthcare, economic opportunity, so that there is a kind of comprehensive approach with people in need. And I think it is fair to say that we widely share those goals, but I, for the life of me, cannot find in this budget any evidence of taking that vision seriously.

It is especially troubling that your budget would eliminate the Choice Neighborhoods Initiative. This program helps transform aging public housing developments into vibrant, mixed-income communities, and it does leverage non-Federal funding to promote small businesses, to bring other services into the community. It is the very epitome of a comprehensive approach, the best example in your portfolio, yet you are proposing to totally eliminate it, totally eliminate choice neighborhoods.

Even the Self-Help Home Ownership Opportunity Program, SHOP, and Section 4 capacity-building would be zeroed out. SHOP is used by Habitat for Humanity, other nonprofits to help create af-

fordable housing. It has a huge multiplier effect in the kind of funding and the kind of support it brings forward. They use the sweat equity model in Habitat. But any Habitat local or national leader will tell you that SHOP is essential, essential seed money for what they are doing; same for Section 4, which expands their capabilities and their technical expertise.

Finally the National Housing Trust Fund, that does not even constitute discretionary budget authority, yet you are proposing that it be eliminated. This is a real head scratcher because these are mandatory funds, they are derived from contributions by Fannie Mae and Freddie Mac. The Housing Trust Fund has only recently been tapped by the States, but it is already being used to finance the development and rehab of affordable housing for low-income people. Why would we want to see that go away?

These sweeping program eliminations, I must say, fail to demonstrate the surgical precision, if I may say so, that we might expect from you. They are the equivalent of taking a meat axe to the HUD budget, which has already faced steep reductions in recent years. This budget request says that State and local governments should pick up the slack, but how? How? It is incomprehensible, it is unacceptable.

And there are many reductions as opposed to outright eliminations. There are many, many damaging reductions in this budget. I will not go into them in detail except just to note that tenant-based Section 8 is cut by 5 percent. We are talking here about 265,000 people nationwide back out onto the streets, public housing cut across the boards, massive cuts: housing opportunities for people with AIDS, 7 percent cut; homeless assistance grants, 6 percent cut; housing counseling, 15 percent. The list goes on. Without sustained increases in funding commensurate with need, people will lose housing and they will lose the supporting services that they rely upon.

I would also want to register my concerns with the Department's so-called rent reforms, which would essentially shift HUD programs' costs onto residents, raising minimum rents, eliminating utility allowance reimbursements, ending higher payments for new enhanced vouchers. These could have serious repercussions for people who rely on housing assistance. If changes are needed here that is best left to the authorizing committees, they should not be loaded onto a budget proposal.

And why on Earth roll out these reforms first in places like project-based rental assistance? The 202 housing program, rental housing program for the elderly, 811 program for the disabled. Why on Earth start there? These are programs that serve vulnerable, elderly, and disabled individuals. It just sounds counterintuitive at best and just terribly mistaken at worst.

As I said at the beginning the current state of housing in America should force us to ask tough questions. Unfortunately, looking at this budget proposal raises many unsettling questions. Does this administration care about the most vulnerable among us? And have you been appointed, do you find yourself in this position only to preside over the demise of HUD? I think that is not too severe a question to pose.



Before I close I want to remind my colleagues that although in the beginning of June we still have no budget resolution, no top line spending number, no subcommittee allocations, and the debt limit is rapidly approaching.

So without another bipartisan budget deal, we will also be forced to cope with the devastating return of sequestration and, of course, the numbers proposed in the Trump budget are below sequestration for HUD and for other critical agencies. In the past years we know this has been a recipe for disaster. It is simply a formula for not being able to appropriate and having a crisis at the end of the fiscal year. We do not need, our country does not need this kind of breakdown this year. We should anticipate this. We should do a budget deal. We should have a more comprehensive approach that will let us write our appropriations bills on budget and on time.

Mr. Secretary, I look forward to hearing your testimony today. We have some really important questions to explore. We have got to work together to ensure that vital housing and community development programs are adequately funded and continue to rest the crying needs that we see in our communities.

I thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Mr. Price. Now it is a deep honor for me to be able to recognize the leader of this committee, the chairman of the full committee, the gentleman from New Jersey, Chairman Frelinghuysen.

Mr. FRELINGHUYSEN. Well, thank you, Chairman Diaz-Balart, and Mr. Price and Ms. Lowey and I, we all welcome you here to the appropriations process. Today's hearing is an important part of the oversight duties of the committee now that we have formally received the administration's budget request, yours in particular, this committee will undergo, given a thorough analysis. Today's hearing is part of the process we follow to determine the best use of taxpayers' dollars after all the power of the purse lies in this building. It is the constitutional duty of Congress to make these types of spending decisions.

As the chairman said, HUD provides critical resources to some of our most vulnerable populations in our country in need of housing, including seniors, homeless veterans, and those with disabilities and those with very limited incomes. I am sure you would agree, Mr. Secretary, it is completely unacceptable that even one veteran in our country should be reduced to homelessness as they struggle with post-traumatic stress syndrome or drug and alcohol abuse or a lot of other things.

In my neck of the woods we have an incredible facility at the Lyons VA Hospital in northern New Jersey which provides 62 affordable housing units to homeless and at-risk vets. Of these 62 units, 50 are supported by HUD-VASH vouchers, so we need to take a look at that, make sure that we make the right decisions on their behalf.

Throughout my time in Congress, I have been a strong advocate for those with disabilities. As has been said by others on the panel here, your budget proposal calls for cutting housing for persons with disabilities, the Section 811 program, by 18 percent. I think we are all curious to understand how the Department plans to

serve those families given such a cut. And like others I am concerned about the proposed cut of a billion dollars to Section 8 tenant-based rental assistance and would like to know how the Department plans to honor all existing vouchers with such a sharp reduction.

And lastly, I join with my colleagues in being concerned about, and we are all concerned about, waste, fraud, and abuse, but the fate of the community development block grants. These have had, I think you know well, bipartisan support for decades. In fact, they were created under President Nixon's administration to give power back to the people to make decisions locally to focus on community needs. So I share with my colleagues my concern about a lot of the programs you are reducing and I look forward to hearing your answers. And may I say I will be working very closely with the chairman and the ranking member to make sure we get a budget across the finish line for all of our departments that meets the needs of the American people.

Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Mr. Chairman. It is also a privilege to be able to now recognize the ranking member of the full committee, the gentlewoman from New York, Mrs. Lowey.

Mrs. LOWEY. Thank you, Mr. Chairman. And I would like to thank Chairman Diaz-Balart and Ranking Member Price for holding this hearing, and, Secretary Carson, thank you so much for joining us.

Simply put, Mr. Secretary, your budget is inadequate at best and unconscionable at worst. It would eliminate community development block grants which Congress funded at more than \$3 billion in the recently passed bipartisan fiscal year 2017 Omnibus, the HOME Investment Partnerships, which leverages Federal funding to build affordable housing and receive bipartisan support for a \$950 million investment.

Your budget would also cause great suffering and harm, including cutting housing opportunities for persons with AIDS by \$26 million; increase homelessness by slashing homeless assistance grants by \$130 million and rental assistance by \$64.9 million; decrease lead hazardous control, a program that I have been working on for a very long time, but the need is still clear to most everyone. It keeps our children safe from lead-based paint and other hazards in their home. That was a cut of \$15 million.

Secretary Carson, there is no justification for this drastic approach. And given your public statements, I have really serious doubts about your grasp of the difficulties that millions of Americans face and the resources available to give people a hand up. I say that because when I worked in the State with Mario Cuomo a long time ago, I ran the anti-poverty program and most people want a hand up. They do not want a hand out. So cutting these programs is just unconscionable.

You have suggested that the government has made things too comfortable for people living in public housing and that poverty is merely "a state of mind." In fact, I visit all our public housing and one of the major problems we have, people are there too long because there is not enough affordable housing so in many instances

we cannot move people out of public housing into affordable housing, not enough resources to do that either.

Perhaps you have not really studied the people your Department is assisting to realize that this budget would result in millions of Americans, many of whom are senior citizens, veterans, children, people with disabilities, and the working poor, living in homeless shelters or on the streets. These cuts, Mr. Secretary, do not exist in a vacuum and would end up costing taxpayers even more than if we invest now in the very types of assistance you propose to severely cut or entirely eliminate.

Housing must play a big role in strengthening and growing the middle class, empowering hardworking Americans, providing economic opportunity for all Americans, providing economic opportunity for all Americans.

And I just want to say, Mr. Secretary, I know you just assumed these responsibilities, I really look forward to a productive discussion. I hope we can have it today and I hope we will continue the discussion, because we are people, Democrats, Republicans, and on Appropriations we really try to work together.

So, I hope you will be listening to our concerns, which come really from the bottom of our hearts and based on the experience many of us have had in our communities, and I do hope that working together, we can make some changes.

Thank you and thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Mrs. Lowey.

Mr. Secretary, your full testimony will be included in the record. We look forward now to hearing from you, and so, sir, you are recognized for 5 minutes.

Secretary CARSON. I am delighted to hear the passion and the compassion from all the speakers, because that means that it will be much easier to work with you. Thank you for inviting me to discuss the Department of Housing and Human Development proposed budget for fiscal year 2018.

The first Secretary of HUD, Robert C. Weaver, said that we must look for human solutions, not just policies and programs. I want our efforts to assist those in need, but also to support a path to self-sufficiency. At the same time, we are keenly focused on efficiency throughout the agency with a mindset of doing more with less.

Of course we continue our mission. The budget reflects the President's commitment to support HUD's critical functions, such as to provide rental assistance to low-income and vulnerable households; to promote decent, safe, and affordable housing for Americans, and to have access to home ownership; and to help work-eligible families achieve independence, freedom from regulations and bureaucracy, and the ability to govern themselves.

The President's 2018 budget also continues to provide rental assistance for 4.6 million households, while recognizing a greater role for State and local governments and the private sector to address community and economic needs.

We also support borrowers through the FHA on their path to home ownership. This is very important for first-time home buyers and those on limited incomes. But again, it is a part of the path

forward to wealth creation through investments, equity, and responsibility.

For 2018, the budget proposes a set of policies in its core rental assistance programs to reduce cost. At the same time, we continue to assist current residents, encourage work, and promote self-sufficiency. The budget also seeks to provide administrative flexibilities and to streamline the complex and administratively burdensome calculation of income and rent.

I am particularly interested in creating healthy homes. Now, as a physician I can tell you any amount of lead in our children is too much. The budget promotes healthy and lead-safe homes by providing \$130 million for the mitigation of lead-based paint and other hazards in low-income homes, especially those in which children reside. We also fund enforcement education and research activities to further support this goal, all of which contributes to lower health care costs and increased productivity.

Turning to community development and the homeless population, this is where our humanity must be evident and our commitment steadfast. Our programs must reach out and so must our hearts. We must be compassionate, yet wise. HUD's homeless assistant grants serve vulnerable individuals and families who are homeless or at risk of becoming homeless through a wide variety of service and housing interventions, including homelessness prevention, emergency shelter, rapid rehousing, transitional housing, and permanent supportive housing.

These programs are the vehicles used by HUD to promote evidence-based approaches leading to more effective use of resources. The budget would provide \$2.25 billion for homeless assistance grants and supports the renewal of over 240,000 beds.

HUD will continue to work closely with our State, local, and non-profit partners who are close to this issue to help continue to find efficiencies and to work to end homelessness. We continue to make progress in eliminating chronic homelessness.

The American housing market must remain stable, secure, and safe, FHA mortgage insurance programs, along with the mortgage-backed security guarantee Ginnie Mae, will continue as a path for responsible home buyers to have access to credit so they can build wealth through ownership.

The budget includes 400 billion in loan guarantee authority for FHA mortgage, insurance programs, and 500 billion in authority for Ginnie Mae's secondary market guarantees. These programs would generate approximately \$9.5 billion in receipts in 2018.

In summary, the President's budget is fiscally responsible and meets the requirements of my Department. It reflects commitment to fiscal responsibility while supporting critical functions. It also administers programs to help low-income and vulnerable households. It helps work-eligible families achieve self-sufficiency and supports a path for borrowers to upward mobility.

Thank you for your time today, and I look forward to answering your questions, and most importantly working with this committee to find appropriate solutions.

[The information follows:]

**WRITTEN TESTIMONY  
DR. BEN CARSON  
SECRETARY OF  
HOUSING AND URBAN DEVELOPMENT  
BEFORE THE  
HOUSE APPROPRIATIONS COMMITTEE  
SUBCOMMITTEE ON TRANSPORTATION, HOUSING AND URBAN  
DEVELOPMENT, AND RELATED AGENCIES  
THURSDAY, JUNE 8, 2017**

**Introduction**

Chairman Diaz-Balart, Ranking Member Price, members of the Subcommittee — thank you for inviting me to discuss the Department of Housing and Urban Development's (HUD's) Proposed Budget for Fiscal Year (FY) 2018.

The first Secretary of HUD, Robert Weaver, said that we must look for “human solutions,” not just policies and programs. I want our efforts to assist those in need and to support a path to self-sufficiency. At the same time, we are keenly focused on efficiency throughout the agency with the mindset of doing more with less.

Of course, we continue our mission. The Budget reflects the President's commitment to support HUD's critical functions, such as providing rental assistance to low-income and vulnerable households; promoting decent, safe, and affordable housing for Americans; supporting access to homeownership; and helping work-able families achieve independence, freedom from regulations and bureaucracy, and the ability to govern themselves.

The President's 2018 Budget requests \$40.7 billion in gross discretionary funding for HUD, a \$7.4 billion, or 15 percent decrease from the 2017 enacted level. The Budget request reflects the Administration's commitment to fiscal responsibility, careful and prudent spending, targeted funding to continue HUD's core support of our most vulnerable households, and cutting back on funding for programs that have not consistently demonstrated results or are ancillary to HUD's core mission.

This Budget is aligned around three principles: First, serve the most vulnerable while expecting work from those able to work. Second, find the proper role for the federal government in housing and community development. Finally, operate efficiently and effectively without displacing families.

The President's 2018 Budget continues to provide rental assistance for over 4.5 million households, while recognizing a greater role for State and local governments and the private sector to address community and economic development needs.

Through the Federal Housing Administration (FHA), we support borrowers on their path to homeownership. This support is very important for first-time home buyers and those on limited incomes. This is part of the path forward to wealth creation through investment, equity, and developing and maintaining sound household financial practices.

### **Rental Reform**

An examination of the Budget demonstrates our important efforts at rental reform. Approximately 80 percent of HUD's budget authority is dedicated to rental assistance. We need to get rental assistance right. For years, we have heard our renters question aspects of the program. The time has come for all of us to take a hard look at how rental assistance is provided. We must ask ourselves: Does it help or hurt? In what situations? Is it fair? Is it well targeted to the most vulnerable? How much should the Federal government contribute versus State and local governments? Could we make the subsidy programs less complex? Can we make rent policies that encourage rather than discourage work? With this Budget, we are proposing greater tenant contributions and greater flexibility while we begin a discussion with Congress on these larger policy questions.

The Budget provides \$35.2 billion for HUD's rental assistance programs and proposes reforms that reduce costs while continuing to assist low-income households. These reforms cover Tenant-Based Rental Assistance, Public Housing Operating Fund, Public Housing Capital Fund, Project Based Rental Assistance, Housing for the Elderly (Sec. 202), and Housing for Persons with Disabilities (Sec. 811).

As we reduce costs, we continue to assist current residents, encourage work, and promote self-sufficiency. The Budget also seeks to provide administrative flexibilities, and to streamline the complex and administratively burdensome rent and income calculations. The Budget also asks tenants to contribute more for their housing. We look forward to working with the Congress on proposals to determine what is the fair and compassionate amount tenants should pay across its rental assistance programs.

Over the past several decades, program funds have not been sufficient to provide long-term sustainability. The Administration's 2018 Budget provides funding flexibilities and reduces the burden on PHAs administering the program. It encourages PHAs to seek private, state, and local partnerships to leverage opportunities for additional investment and to transition these properties to more sustainable funding platforms.

I am again reminded of a comment by Secretary Robert Weaver. He said we *must* find local solutions to local problems. Public/Private Partnerships can be extremely effective in addressing the complexity and variations of local needs. That is our measurement of policies: do they work?

So often there is too much bureaucracy, too many unhelpful hands, and too much unnecessary regulation, which drains our fiscal resources. The 2018 Budget includes general provisions that would provide administrative relief to PHAs, including waiver authority that would allow HUD and PHAs to reduce or eliminate annual requirements that are administratively burdensome. It also proposes flexibility in how PHAs can utilize their Capital and Operating Funds so that

PHAs could use their funds, regardless of funding account, for any eligible public housing purpose, and target those funds to their highest priorities.

HUD continues to support the Rental Assistance Demonstration (RAD) Program, which permits PHAs to transition public housing to a more sustainable funding and rational regulatory environment that permits debt and promotes other non-Federal leveraging. The RAD program relies on significant leverage of every dollar of HUD funding. It has leveraged more than \$4 billion in capital investment in order to make critical repairs and improvements to this segment of the nation's affordable housing stock.

### **Protecting Vulnerable Populations, and Promoting Healthy, Lead-Safe Homes**

I am particularly interested in creating healthy homes. For example, as a doctor, I can tell you that lead exposure for children has serious effects and I know how important it is to prevent exposure and to act quickly once it has been identified. HUD issued a new rule to align its standards to the CDC's recommendation of response when a child has a blood-lead level of five micrograms per deciliter or more in January 2017. This standard is beyond what most State and local health departments have implemented, and I am proud that HUD has now set a consistent Federal standard for requiring an environmental investigation for elevated blood lead levels in children living in its public and assisted housing.

The Budget promotes healthy and lead-safe homes by providing \$130 million for the mitigation of lead-based paint and other hazards in low-income homes, especially those in which children reside. We also fund enforcement, education, and research activities to further support this goal, all of which contribute to lower healthcare costs and increased productivity.

I also want to thank you for your continued support for this program to help us mitigate the risk and support healthy, lead-free housing for our most vulnerable. The additional grant funds provided in FY 2017 for the Office of Lead Hazard Control and Healthy Homes will be put toward the elimination of lead-based paint hazards and protect the health of unassisted, low-income homes.

Also, we look forward to implementing and evaluating the results of the \$25 million provided for competitive grants to address lead-based hazards in public housing.

I now turn to the Budget's funding for homeless citizens. This is where our humanity must be evident and our commitment steadfast. Our programs must reach out; so must our hearts. We must be compassionate, yet wise. HUD's homeless assistance grants serve vulnerable individuals and families who are homeless or at-risk of homelessness through a wide variety of service and housing interventions. These include homelessness prevention, emergency shelter, rapid re-housing, transitional housing, and permanent supportive housing.

These programs are the vehicle used by HUD to promote evidence-based approaches, leading to a more effective use of resources. The Budget would provide \$2.25 billion for Homeless Assistance Grants, and supports the renewal of over 240,000 beds. HUD will continue to work closely with our State, local, and non-profit partners who are close to this issue to help continue

to find efficiencies, and work to address homelessness. I am particularly anxious that we continue to make progress in eliminating chronic homelessness.

Last year's changes to the formula for Housing Opportunities for Persons with AIDS (HOPWA) was a great step towards efficiency, shifting funding to areas with higher numbers of HIV/AIDS cases, rather than historical incidents. This is the kind of targeted efficiency that will help us do the most with limited Federal resources. We provide a phased-in approach to the new formula to provide communities time to adjust. The additional funding in 2017 also will help provide communities more time to adjust to the new formula. The 2018 Budget provides \$330 million for HOPWA.

### **Homeownership**

Stability in the American housing market is important. Federal Housing Administration mortgage insurance programs, along with the mortgage-backed security guarantee of Ginnie Mae, will continue as a path for responsible homebuyers to have access to credit so they can build wealth through homeownership. The Budget includes \$400 billion in loan guarantee authority for the FHA Mutual Mortgage Insurance programs, and \$500 billion in authority for Ginnie Mae secondary market guarantees. These programs will generate approximately \$9.5 billion in receipts in 2018.

The Mutual Mortgage Insurance program plays a critical role in supporting homeownership—serving over 3.3 million families over the past three fiscal years. There is over \$1.1 trillion in outstanding loan guarantees, which are subject to economic risk and uncertainty. I take the responsibility for financial stewardship seriously. This is one of the reasons the Administration decided to halt the proposed reduction in insurance premiums earlier this year in order to assess the current conditions and risk management needs.

I look forward to bringing on an FHA Commissioner to get their perspective on the state of the Fund. Additional actions may be warranted so that we can put households on a path to success and provide upward mobility for borrowers.

### **Program Eliminations**

The Administration's Budget reflects tough choices—eliminating or reducing funding for certain programs, and applying funds to other priorities. However, HUD's overarching mission remains the same: that all Americans have access to decent and safe housing. We will use lessons learned from eliminated programs and look to work with State and local governments and other partners to further economic development goals and support households on their path to sustainability.

The Budget does not include new funding for the Community Development Block Grant (CDBG) or HOME programs in 2018. The CDBG program is not well-targeted to the poorest populations and has not demonstrated a measurable impact on communities. While the HOME program has played a part in affordable housing production, the Budget recognizes a greater role for State and local governments. The Department is committed to making the most of existing funding, consistent with the goals of these two programs.



The Budget also does not include funding for the Housing Trust Fund, Choice Neighborhoods, the Self-Help Homeownership Opportunity Program, or Capacity Building (also known as Section 4). The Department looks forward to working with our State, local, and private partners to support them in playing a greater role in local community and economic development.

### **Efficient and Effective Operations**

The Department has had public management challenges over the years that make it difficult to make the most of our resources and deliver on our mission in a transparent manner. The Budget recognizes that strong operations play a critical role in effective program delivery, with some initial steps to generate efficiencies in operations as we work towards the longer-term plan under the Administration's Executive Orders designed to streamline regulations and restructure agencies.

There are several current managerial and operational issues that our Inspector General and the Government Accountability Office have identified, as well as opportunities for efficiencies found in our own internal reviews. We are aware that these important issues need to be addressed and we are undertaking steps to lay out a path to address them. Many of the findings cannot be corrected by simply putting them into operational, financial and technological categories, but instead each requires an integrated solution to ensure that we are implementing the fix that is most efficient and effective, and avoids recurrence of the same problem.

I am building a leadership team with financial, operational and technological expertise that will work collaboratively to solve tough problems. I believe this integrated approach will put the Agency on a strong managerial and operational track. The 2018 request will support the agency's modernization and restructuring to align our core mission and policy priorities.

Modernizing the Department's IT is critical to finding efficiencies that will allow us to more effectively deliver on our mission and we need to take steps towards replacing legacy systems with secure and reliable functionality. Achieving these efficiencies is about more than just the IT platform. We also need to transform service delivery and retool the HUD workforce to support these modernization efforts. To that end, the Budget includes the Working Capital Fund fee-for-service model that was fully enacted this year. The Budget also requests administrative flexibilities, so that we can target funding to the right blend of IT systems, human capital, and business processes to achieve our goals.

### **Summary**

In summary, the President's Budget is fiscally responsible and reflects a commitment to supporting critical functions. It also administers programs to help low-income and vulnerable households. Further, this Budget incentivizes work-able families to achieve self-sufficiency and supports a path for borrowers to upward mobility. I look forward to working with this Committee to build programs to support these goals.

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Mr. DIAZ-BALART. Thank you very much, Mr. Secretary. Mr. Secretary, as I mentioned before, and as you mentioned, your budget represents a 15 percent reduction from fiscal year 2017, the enacted level, and it bases that funding level in part on rental reforms that depend on changes to statute, which, by the way, as I mentioned before, that is outside the subcommittee's jurisdiction. So it is going to depend on the authorizers working with you and buying in on these issues.

So just what is your plan to engage with the appropriate committees of jurisdiction? If you have any idea of timelines for these reforms to receive full consideration and being implemented.

And because here is my concern, and let us assume for argument's sake that if some of those things are not done, you know, would that require modification of your budget, or what alternatives then would you be willing to look at? To just kind of throw that in your direction.

Secretary CARSON. All right. Well, thank you, Mr. Chairman. And thank you for the incredible work that you have been doing in your district. I have had a chance to visit there with you, and really appreciate that.

The authorizers have, in fact, requested that we meet with them, and we are extremely happy to do that and making arrangements to do so. You know, this is very much a collaborative process, and, you know, in the multitude of counselors is safety.

#### COMMUNITY DEVELOPMENT BLOCK GRANT

Mr. DIAZ-BALART. Let me go now to the Community Development Block Grant issue, and also the HOME issue. We are obviously hearing great concerns from local leaders on the proposed elimination of CDBG and HOME programs. Is the administration contemplating ways to address the loss of that reduction of community or loss of community development in affordable housing funding?

For example, will there be a potential housing and community development funding portion in the infrastructure proposal? You know, this subcommittee deals with both infrastructure and housing. So, you know, how would you respond to that, and what do you think the administration is looking at?

Secretary CARSON. Well, certainly we have been advocating for housing to be included in the infrastructure bill, and things do seem to be moving in that direction. But obviously I cannot comment on that because it has not been formulated yet. You know, the community development block grant program, in its original intent, was really to provide flexibility to State and local governments to be able to use Federal fundings in the way that they saw most appropriate for the community development in their particular area. And that was a good mission; particularly worked well with the mission of HUD to provide safe and affordable housing with a particular focus on those individuals of low income.

Over the course of time there has been significant mission creep, and only about 20 percent of CDBG dollars are used for housing. It does not mean that the other things are not good things, but, you know, about 15 percent is used for State and local administrative purposes.

And we have to say within the budgetary constraints that we have what is critical. We have to prioritize very much like a family, who discovers that there are 12 major problems with their house that they only have enough money to fix six of them. How are they going to prioritize? You know, it is really hard to say to the other six, well, you are going to have to wait.

But the fact of the matter is, the main purpose here is to be able to provide safe and appropriate shelter for millions and millions of American households and, therefore, that goes to the top of our priority list. And again, that does not mean that other things are not important, but it is critical that we be able to do that.

It is also important to recognize that there is over \$8 billion in the CDBG pipeline, 3 billion of which was appropriated for the 2017 cycle. We are looking at ways to make sure that that money will be used in the most efficient and effective way, as we are with all the pipeline monies for the different programs.

Mr. DIAZ-BALART. Mr. Secretary, I try to lead by example. My time is up. So now I will recognize Mr. Price.

#### OVERSIGHT

Mr. PRICE. Mr. Secretary, there have been reports, I am sure you are aware, that the White House has ordered agencies, including yours, to ignore Democratic oversight requests. Now, the administration seems to be saying that Democratic oversight has no legitimacy, that oversight is only the prerogative of the majority party. That seems to be the position. And if so, it is a new level of partisanship that is unprecedented, totally unacceptable, and can only worsen our gridlock.

So, I want to ask you some questions about this, so the way it affects you. What is the policy of your Department with respect to responses to congressional inquiries? More specifically, do you have policy or do you have guidance that would prohibit or delay responses to ranking members of congressional committees or subcommittees with jurisdiction?

Thirdly, is there a policy or guidance that would prohibit or delay responses to Democratic members of Congress?

And finally, if such policies or guidance are in place to prohibit or delay responses to ranking members or to all Democratic members, was such a policy developed in consultation with the White House or the Office of Management and Budget?

Secretary CARSON. Thank you, Mr. Ranking Member, and particularly for your extreme concern about your constituents. As far as transparency is concerned with the operations at HUD, as far as I am concerned, that is high priority, and has nothing to do with the person's political party. I would be extremely opposed to withholding information based on party. And, you know, one of the reasons that I accepted this position is because I was horrified by the level of partisanship that exists in our country.

You know, a house divided against itself cannot stand. And the problems that the poor in our country face are not partisan issues, and I am delighted that many have expressed the desire to work together, and I will certainly be doing that and will not be withholding any information.

Mr. PRICE. Thank you. I am glad to hear you say that. I was glad to hear your colleague, Secretary John Kelly, make a similar declaration yesterday. I want to ask you to be a bit more specific, though.

Of course we appreciate the offer of cooperation. We are talking here, though, about inquiries, requests, that sometimes take a very specific form and that require extensive follow up, that require a timely response. Are you saying that when those responses come from the minority side, as well as the majority side, that you would give them equal priority? In other words, you would not honor what the administration seems to be saying about the oversight being only a majority prerogative?

Secretary CARSON. Yes. I hope that is a misinterpretation of what the administration is saying, but I can tell you at HUD, we will treat all inquiries equally.

Mr. PRICE. Have you had any directives to the contrary?

Secretary CARSON. I have not had any such directives.

Mr. PRICE. All right. I will take you at your word. And we appreciate that commitment. Thank you, Mr. Chairman.

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

Mr. FRELINGHUYSEN. Thank you, Mr. Chairman. I suspect I am the only one on the panel that actually has ever met Secretary Weaver. He was a friend of my late father's and I ran into him on several occasions. And he often said, I would be happy to come up to your congressional district to be helpful or stay away from your congressional district if it would not be helpful. But he was a good man, and he was committed to the same endeavor you are here.

#### SECTION 811

I would like to—and I am concerned about the fate of people with disabilities in your budget proposal. Certainly, Section 811, I am particularly concerned about Section 8. Those who are nonelderly oftentimes in the Section 8 program, older Americans, I won't say crowd out those with disabilities, developmental disabilities, mental disabilities. I want to make sure, and may I just say for the record, you may not know it, but in that nonelderly area, there is actually something called housing vouchers, and I have an amount of pride in making sure that people with a variety of disabilities continue to get the services they need and the housing they need.

Would you talk more about your commitment, your Department's commitment, to those with a variety of disabilities? There is a broad spectrum, but certainly the optics of cutting a billion dollars here and the 18 percent out of Section 811, those are not very good optics.

Secretary CARSON. Well, thank you. Thank you for particularly your concern about the disabled. As you know, I spent 36 years in medicine, most of that as a neurosurgeon and most of that as a pediatric neurosurgeon, and had to deal with a lot of disability and—

Mr. FRELINGHUYSEN. That is exactly why I am—knowing of your background, it is important for you to—

Secretary CARSON. So, obviously I am going to fight for that group of people. I am going to fight for everybody, but with particular interest. What we have discovered, and particularly in the

whole rental reform package, is that we are able to find a lot of inefficiencies and improve the way that services are rendered. And in continual care for permanent supportive housing we are getting basically 14.8 percent more households per dollar spent on that program, just through examining what was going on with waste and inefficiencies. That is being applied to virtually all of the programs.

And again, for those families or those individuals who have particular hardships, we have waivers available for them, so any changes to the program that adversely affect them in a way that would impact upon their ability to maintain our goal of safe housing and secure housing, we have waivers.

Mr. FRELINGHUYSEN. Well, respectfully, and I know my time is limited, individuals with disabilities, families with disabilities, I am sure we are all focused on inefficiencies, but in many of their cases, the potential for sharp reductions would put those families and individuals in a very bad position.

I hope that as we move towards a completion of this bill, that you will, hopefully, be working with both the ranking member and the chairman to address the needs of this very diverse and important community.

Secretary CARSON. We will not allow that community to be adversely affected.

Mr. DIAZ-BALART. Mrs. Lowey.

Mrs. LOWEY. Thank you, Mr. Chairman. Mr. Secretary, while thousands in Flint were tragically exposed to lead through drinking water, historically paint has been the most prevalent source of lead exposure, and much of the success we have had in reducing the exposure to lead has come from a partnership between HUD, the EPA, and the CDC, each providing expertise and resources. In the fiscal year 2017 Omnibus, Congress provided an increase to \$145 million, and just a month later we received your proposal to cut that bipartisan investment by \$15 million.

#### LEAD

Your own budget estimates that similar lead hazard control programs have a return on investment of at least 17-to-1 at a value of over \$30 billion. Given the tremendous needs, why do you propose this cut? And at the current levels, how many grant applications are turned away due to the lack of funding?

Secretary CARSON. Okay. Thank you for your concern about lead. That is something that, obviously, I am very concerned about having worked for 36 years in Baltimore and seeing the effects of that lead exposure. It is approximately 310,000 children per year are adversely affected, and those are the ones that we know about.

You know, we have altered the considerations for lead action to make them consistent with the CDC at 5 micrograms per deciliter, helping to establish a national standard for the first time.

In terms of the funding, based on the previous two cycles we suggested a \$20 million increase, so from \$110 million up to \$130 million. At that time we did not know that you would recommend \$145 million, which we will happily accept, but we did not have the ability to do that at the time of the budget. So that does not reflect

disconcert. It reflects just the opposite and we feel very strongly about that.

#### SHOP

Mrs. LOWEY. Well, that is good news. Thank you very, very much and I look forward to working with you on that.

In the couple of minutes I have left I wanted to talk about the SHOP program, which awards grants to national and regional non-profits to purchase home sites and develop or improve housing for those with low incomes.

It is a really good program because I have visited them. The home owners are required to put in sweat equity towards the construction or rehabilitation of their homes, and in fiscal year 2017 Congress funded SHOP at \$10 million. We have heard from advocacy groups who would like to see the program funded at \$15 million, not eliminated.

Mr. Secretary, you have spoken about the importance of home ownership to our country and our economy, so why should we eliminate a program that increases home ownership among the low-income and first-time home buyers?

And I also want to say SHOP grantees have raised a significant amount of private leverage, bringing in more than \$2 billion of investment into communities. So when you take away the Federal dollars, you take away that ability to leverage and create these investments. I am hoping that we can work together on this program as well.

Secretary CARSON. Well, I would be delighted to work with you on the whole concept of home ownership. It is so critical and it is the principle mechanism whereby family wealth is generated in this country.

Again, we have to work within the constraints of what we have, but I am always happy to work with you on that.

Mrs. LOWEY. Well, I thank you so much. I will even give you back 45 seconds. Working with you on these programs would really be a privilege, so I thank you—

Secretary CARSON. Thank you.

Mrs. LOWEY [continuing]. Very much for your commitment. Thank you.

Mr. DIAZ-BALART. Mr. Dent, you are recognized.

Mr. DENT. Thank you, Mr. Chairman, and good morning. Mr. Secretary, thank you for your service to our country.

Secretary CARSON. Thank you.

#### CDBG AND HOME

Mr. DENT. Just a few things. As others have already mentioned here on this panel, the President's budget does call for eliminating both the CDBG program and the HOME program, among others. In the communities that I represent I have seen the importance of affordable housing developments and other programs that have been made possible for leveraging both the CDBG and HOME funds.

Just earlier this week, on Monday actually, before I came down I attended the grand opening of an affordable senior living center in Allentown, Pennsylvania, my home town, that made use of home

funds and Federal housing vouchers to bring in private capital to finance this particular project. As demonstrated by the project, Federal funds can serve as a real catalyst and leverage private investment for development.

Its justification for eliminating funding for CDBG and HOME programs the administration stated, in part, that it recognized that State and local governments are better positioned to address overall economic development needs, and that evolving affordable housing activities to State and local governments would be a more appropriate solution to addressing these challenges.

While certainly I agree that the State and local stakeholders should have the most control possible over their needs and decision making, eliminating these Federal funds would seriously eliminate their ability to bring capital, to bring in private and State and local government investment for these important projects. So these funds will be eliminated.

How does the administration expect that the States and localities would be able to attract the needed private investment for affordable housing and other projects? And while the budget states that State and local governments should be the ones to address these challenges, it does not provide any sort assistance relief or other mechanism to replace the programs taken away.

Secretary CARSON. Thank you, sir. I would draw your attention to RAD.

RAD

Mr. DENT. To what? I am sorry.

Secretary CARSON. RAD, Rental Assistance Demonstration—

Mr. DENT. Yes.

Secretary CARSON. Here is a program that does a tremendous amount of leveraging of public dollars at a national average of about 19-to-1, and is able to rehabilitate many of these multifamily public housing situations, convert others. And those are the kind of things that we are very much behind.

And, again, I do not want to give people the impression that I do not like the things that have been done before. I think that the effort that people have put into these and some of the benefits are very laudable.

But we are working within a different framework here, and I know it has been talked about for years and years, fiscal responsibility. We have to get on track, but compassion, I think, also involves thinking about future generations and what we are doing to them if we just continue to think about what is going on in the here and now.

So I am very happy to work with people on ways that we can use the funding that we do have. But it is absolutely essential that we do not allow the most vulnerable people in our society to be discarded and thrown out on the streets as we look at all the other programs.

Mr. DENT. I would agree, Secretary. I just want to convey to you the concerns that I have heard from the leaders in cities like Allentown, Bethlehem, and Lebanon, Pennsylvania, Republican and Democrat, that these two programs in particular have real value to them.

## HCAP

Another issue, too, that I am very concerned about is the Housing Counseling Assistance Program, and that provides housing counseling services to home owners and tenants, both pre and post purchasing, and can help struggling home owners prevent foreclosure and assist them in avoiding difficulties in the first place.

In the case of pre-purchase counseling, these services are able to teach a person to fish, so to speak, instead of only providing a single instance of monetary assistance. And the services have had a demonstrable, positive impact for those who participated.

In the wake of the national housing and foreclosure crisis, Congress created the National Foreclosure Mitigation Counseling Program in 2007, to provide counseling to struggling home owners. Many entities that made use of these housing counseling funds also then received funding from the NFMFC.

And as the country has obviously recovered quite a bit from the housing crisis, the NFMFC has been phased out. Bottom line is I was encouraged to see that they finally had requested level funding with the Further Continuing Appropriations Act of 2017 for the Housing Counseling Assistance Program. Could you please elaborate a little bit on the administration's decision to support funding for this particular program?

And finally, do you think it may be prudent to increase funding for this program in light of the NFMFC's winding down, so that buyers are prepared for the responsibilities of home ownership and divert a future crisis?

Mr. DIAZ-BALART. Mr. Secretary and Mr. Dent, I fear that we are going to have to get to that question later. I apologize to Mr. Dent.

Mr. DENT. Well, I will ask it in the second round.

Secretary CARSON. I had a dynamite answer for it.

Mr. DIAZ-BALART. There you go.

Mr. DENT. I am here for the second round. Yield back.

Mr. DIAZ-BALART. Thank you, Mr. Dent. Mr. Quigley.

Mr. QUIGLEY. Thank you, Mr. Chairman. Thank you, Mr. Secretary. Speaking as someone well-acquainted with the medical issues, Doctor, I appreciate you being here.

## HOPWA

The HOPWA program, Housing Opportunities for Persons with HIV/AIDS, is facing a 7 percent cut. Your reaction to that just given the understanding of what the program means for Americans living with HIV.

In Chicago, about 23,000 people were living with HIV in 2015. The viral suppression rate for others, that means the viral load is so low that the person cannot transmit HIV, was 48 percent in Chicagoans. That is about 18 percent higher than the national average. We have worked hard to achieve this rate.

It is interesting, a sample of persons who lived in HOPWA housing in Chicago, 66 percent were virally suppressed. That is much higher as well. You seem to be today merging passion, compassion, and efficiencies. The HOPWA program seems to be doing all those as well. Your reaction given that to the proposed cut?



Secretary CARSON. Sure. First of all, I am, along with you, happy to see the tremendous progress that has been made in the treatment of HIV/AIDS. And many people are able to lead completely normal lives now, so things are changing for the better in that sense.

I had an opportunity on my listening tour to visit a HOPWA facility. It was beautiful. The people there were extraordinarily happy. And one of the things that impressed me the most was the executors who were telling me that at first there was a lot of opposition, and now they have reached a point where they almost have to turn away people in the community who are trying to help. And that facility was built through public-private partnerships.

Those are the kinds of things that represent sort of the new model. The old model was the government came in with a whole bunch of money and said build this facility for people with AIDS, build this facility for low-income people in this area, et cetera. The new model is the government sees a program and then facilitates public-private partnerships by creating win-win situations. And I think that is going to provide much better footing for allowing people to develop to their full potential, so that we do not actually need so much aid for people. But we have to lay the foundation to do that.

Mr. QUIGLEY. Well, according to your own agency there are about 390,000 people eligible for HOPWA through this program that can currently only service about 60,000 households, and a 7 percent cut only makes that worse.

Secretary CARSON. And the same can be said about affordable housing in general. We have three to four times as many people in need of it as we are able to provide. But if we continue along the same kinds of ways that we have been doing it for the last several years, we are treading water.

Mr. QUIGLEY. Well, you mentioned——

Secretary CARSON. We need to do something that——

Mr. QUIGLEY. Respectfully——

Secretary CARSON [continuing]. Will expand.

Mr. QUIGLEY. Respectfully, though, you talked about priorities being those most vulnerable. Every study I have seen indicates that one of the most important factors in suppressing the viral load of HIV-positive Americans is stable housing, as you would imagine, for a variety of reasons.

So, to your earlier point, this seems to be working against helping those most vulnerable, most exposed from a passion, compassion point of view, but clearly from a dollars point of view. Because people who are HIV-positive go off their medication, they are going to be an extraordinary cost as well given that their treatment is upset and they are going to get sick.

Secretary CARSON. I do not——

Mr. QUIGLEY. And they are going to potentially make others sick.

Secretary CARSON. I do not disagree with you. But, again, the pie is only so big. We need to make the pie bigger. If we can make the pie bigger, we can make more slices.

Mr. QUIGLEY. Well, now we are talking the same thing, making the pie bigger. Thank you.

Secretary CARSON. Okay.

Mr. DIAZ-BALART. Thank you, sir. Mr. Vice Chairman, Mr. Joyce, you are recognized.

Mr. JOYCE. Thank you, Mr. Chairman, and Mr. Secretary, pleasure to see you today. Thank you for being here. As you are well aware, many of our districts still see the effects of the housing crisis, and they are still struggling to cope with the aftermath a decade later.

#### FORECLOSURES

A particular concern in my district is home foreclosures and, subsequently, vacant properties that have caused blight throughout once thriving communities. Cities end up owning a large percentage of these properties and, therefore, have the responsibility of maintaining or demolishing them, but this has proven overly burdensome, so these abandoned properties often remain vacant and in a dilapidated state. Consequently, they are devaluing nearby homes and serving as sanctuaries for criminal activity.

Does your Department have any plans to complement the initiative taken by the Department of Treasury through the Hardest Hit Fund, refurbish these communities? And secondly, do you have any recommendations as to how the fund can operate more effectively and efficiently?

Secretary CARSON. Well, I am glad you brought that up. Thank you. Yes, we are working hand-in-hand with Treasury and with several of the departments, quite frankly. The blight issue is severe because a lot of those houses are used for criminal activity, and they promote disease as well. So the long-term cost of them is quite significant.

And we are looking for ways to better use all the dollars and to more rampantly authorize the demolition of these kinds of facilities. There has been previously a lot of red tape involved in getting that done, and we are trying to reduce that very significantly so we can quickly move to take care of that program.

Mr. JOYCE. I would like to help you to that extent, but the other part, obviously, is when these abandoned homes become city property, they have to be boarded up. Boarding up is a telltale sign to a criminal that here is a place that you can continue to do your criminal activity, whatever that may be.

There is a clear boarding requirement in lieu of plywood for vacant and abandoned properties that have been expanding across the Nation through Fannie Mae, Freddie Mac, and the VA. They have begun reimbursing for the full cost of clear boarding given its cost efficiency and its long-term benefits.

Has your Department done any recent assessments on the benefits of clear boarding technology in preserving vacant and abandoned homes?

Secretary CARSON. I believe that is something that is being looked at, but I have not been given a full appraisal on that yet. We will look into that.

Mr. JOYCE. Please. It is something that as you go through these neighborhoods you would have no idea which—

Secretary CARSON. It makes sense.

Mr. JOYCE [continuing]. One is a residence. Yes. Thank you.

Secondly, I will move on quickly since I see I have a little bit of time remaining here, as you know, earlier this spring our subcommittee had the pleasure of meeting with Inspector General Montoya.

Secretary CARSON. Yes.

Mr. JOYCE. His testimony is insightful and I appreciate the work that both of you are doing to ensure the efficient and proper use of our taxpayer dollars.

#### HUMAN CAPITAL

I would like the opportunity to follow up on an issue that he raised during the hearing that is an ongoing concern to me, and that is HUD's human capital. A 2015 survey by HUD stated that fewer than half of HUD employees felt their training needs have been addressed. A July 2016 GAO report further echoed those findings.

Can you please elaborate on the initiatives HUD is currently carrying out to better equip its employees, and has the Department implemented a new strategy for its hiring authority to better target qualified candidates for employment?

Secretary CARSON. Yes. Our Department of Human Capital is in the process of being beefed up, so to speak, as are several of our departments. Many of the findings that Inspector General Montoya found, there were 11 material weaknesses, very, very legitimate. I have looked at it, I have talked to him about him, and we are going to address all of them, but want to really do it in a more holistic manner rather than just pinpoint things at a time. So we have hired a COO because you need an operator. That is one of the things that I have discovered in my many years in the corporate world, and we are going to be nominating a CFO and a CIO.

And we will be able to really merge our effort to solve each of those 11 material weaknesses.

Mr. JOYCE. Well, I wish you Godspeed to that end. Thank you, Mr. Chairman. I have no further questions at this time.

Mr. DIAZ-BALART. Thank you, sir. Congresswoman Clark, you are recognized.

Ms. CLARK. Thank you, Mr. Chairman, and thank you, Mr. Secretary, for being with us today. I was struck by some things in your testimony. One was your statement that we must be compassionate, but wise, and also that as you are looking to reduce costs, you would assist current residents, encourage work, and promote self-sufficiency.

#### HOUSING VOUCHERS

So I am hoping you can help me put together those goals with a quarter of a million Section 8 vouchers that would be lost under this budget proposal. I am sure you are aware the vast majority of rental assistance in this country goes to households that are composed of children, elderly, and the disabled.

Secretary CARSON. Yes.

Ms. CLARK. And by "vast majority" I mean in Massachusetts, that is 90 percent of the households that receive Federal rental assistance. In the chairman's home State of Florida, that is 91 percent. In the ranking member's home State of North Carolina that

is 92 percent. So a vulnerable population makes up, overwhelmingly, closing in on 100 percent of the assistance recipients.

And I want to tell you about a constituent in my district. She is 76 years old. She has a gross income from Social Security of \$18,025 a year. She receives a \$5,000 deduction for her medical expenses, which means under the current formula using adjusted income she pays \$188 per month in rent.

Under your reforms she would pay \$450 a month. That is an increase of over \$3,100 a year or 17 percent of her entire gross income. Never mind the vouchers that we are just going to lose, that every housing group, whether at home or nationally, has said there is absolutely no way attrition can make up for that.

So, how does this square? I have been thinking, like, how does this square with your statements about being compassionate and wise and taking care of our current residents and self-sufficiency?

And when you say the pie needs to be bigger, I guess my question to you, is it ultimately you are being held to constraints by this administration, that you are forced to make these sort of draconian and heartless cuts that are so damaging?

Secretary CARSON. Well, it is a back-and-forth process to try to reach a compromise on where things should be. Obviously, you know, my goal is to use with the great efficiency anything that we have. As far as the specific example of the woman you gave, there are cutoffs in terms of the formula that is used so that people do not experience what you said she is going to experience.

If that, in fact, is happening, there is a problem, and we also have hardship exemptions, particularly for the elderly and for the disabled.

Ms. CLARK. I am curious about that statement with the hardship waivers because as these programs already do not have sufficient funding, they are serving the very lowest income people in our country. So the idea of a hardship waiver around that seems to beg the point, I just do not see the efficiency that we are gaining in this when we are cutting off a quarter of a million vouchers that are such a lifeline for such a vulnerable population.

Secretary CARSON. Okay.

Ms. CLARK. And if we are looking at that like building that path, as you said, to self-sufficiency, but then we are taking away the community development block grants, the Choice Program, the SHOP program, in fact, every incentive that helps create robust, public-private partnerships. Where are those incentives in this budget?

Secretary CARSON. Well, I do understand what you are saying and do recognize that we have carefully looked at who would be impacted to make sure that we did not displace any of those most vulnerable people.

Ms. CLARK. How are you going to choose who losses their voucher?

Secretary CARSON. People who already have vouchers and who are already sheltered—when you talk about 250,000 people losing, you are talking about people who are on a waiting list. You are not talking about people who are already being sheltered. That is a different population.

Ms. CLARK. Well, that is not my understanding from my housing communities, but I see my time has expired.

Mr. DIAZ-BALART. Thank you, very much. Mr. Culberson, you are recognized, sir.

Mr. CULBERSON. Thank you, Mr. Chairman. Mr. Secretary, thank you for your service to the country. I admire you immensely and the work that you have done throughout your life.

Mr. Price, our ranking member, pointed out quite correctly that we need to have a more comprehensive approach to appropriations when we look at the Federal budget, and I wanted to give you an opportunity to talk about that bigger picture and the more comprehensive approach because as many of the folks in this panel have been talking about their concern about recommended reductions in different programs that do a great deal to help people that are most in need. And obviously, we have to have a safety net for people that are the most fragile and in need.

#### BALANCING THE BUDGET

But in order to do so, I wanted to give you an opportunity to talk about the urgency of balancing the Federal budget and the bigger problem, and that is that 70 cents out of every Federal dollar that comes in, every one of our taxpayers' very precious, scarce, and hard-earned tax dollars, 70 cents immediately goes out the door to the automatic pilot mandatory spending programs: Social Security, Medicare, Medicaid, the Affordable Care Act, veterans benefits, principal on the debt and interest on the debt, which leaves the annual operating expenses of the Federal Government under the jurisdiction of appropriations 30 cents on the dollar. Yet 15 of that 30 cents goes to the Defense Department, which has been so badly underfunded that half of the Marine Corps planes—excuse me, half of the Navy planes cannot fly for lack of spare parts. Seventy percent of our young men and women in the Marine Corps, the airplanes, 70 percent of their planes cannot fly because of a lack of spare parts.

We face great threats around the world. We are going to need to dramatically increase defense spending. So we are left with the 15 cents on the dollar to try to spread around all the other vital functions of the Federal Government.

Now, you were very eloquent during the presidential campaign in talking about the urgency of balancing the Federal budget. Would you talk to us a little bit about the need for members of Congress to be honest with our constituents and tell them how urgent it is that we rescue Medicare and Social Security for insolvency, and the amount of money that will free up while ensuring that Americans that paid into those programs received the benefits that they have paid for.

Secretary CARSON. Well, thank you. I cannot tell you how refreshing it is to know that somebody actually cares about this. I mean \$20 trillion in national debt, just back it back to \$18 trillion, if you tried to pay that off at a rate of \$10 million a day, 365 days a year, it would take over 5,000 years. And this is what we are putting on the backs of our citizens. Every one of those thousands of babies that are born today will come with a debt of \$60,000 on

their head. This does not go away. So we have to work within that reality.

Almost every society had an opportunity to do this. You go back to 17th century Spain, 18th century France, 19th century Great Britain, ancient Egypt, ancient Rome. Every one of them knew that there was a problem. They did nothing about it and they collapsed. Are we going to face the same thing or are we going to be smart enough to learn from their examples?

And again, I want to emphasize the programs that we are talking about, the things that have been done, they are wonderful things. And if we had the funding, we should do them all; we should do them, take care of everybody. It would be a wonderful thing. But we cannot. Therefore, we have to do the most responsible things that we can do and we have to try to lay the groundwork for, you know, economic growth and to be able to take care of people. If we destroy these programs because we are fiscally irresponsible, we won't be able to take care of anybody.

Mr. CULBERSON. Absolutely. And is it possible, logically, to even begin to balance the budget by only looking at 15 cents on every Federal dollar?

Secretary CARSON. I do not think so.

Mr. CULBERSON. Impossible. So I really welcome the help of my Democratic colleagues. I know my Republican colleagues are committed to paying off that national debt, which is a terrible thing to pass on to our children and grandchildren.

Secretary CARSON. But we can still do it if we start now.

Mr. CULBERSON. But we can still do it. If we start right now, people who are 45 years of age or younger, Social Security will not be there for them. If you are 54 years of age or younger, Mr. Secretary, the Medicare hospital fund can only pay 50 cents on the dollar. These are hard realities that we in Congress, the Republican majority—this is why I believe Donald Trump was elected, because people are sick and tired of the debt, of the deficit, of the inaction, the refusal of the Congress and the President to deal with reality. The country expects us to get her done and balance the budget and accomplish these things so that you have the money that you need to take care of the most vulnerable and fragile in our society. Would you agree?

Secretary CARSON. I would agree and I thank you for your willingness to talk about it. I think a lot of people, of your colleagues, actually understand this, but it is not a popular thing to say.

Mr. DIAZ-BALART. Thank you, Mr. Culberson. Mr. Young.

Mr. YOUNG. Thank you, Mr. Chairman. Secretary Carson, thank you for being here today.

Secretary CARSON. Thank you.

Mr. YOUNG. I am just going to have a conversation with you. There are a lot of challenges that you are going to be facing with this Department and you have probably already realized a lot of that.

Secretary CARSON. Yes.

Mr. YOUNG. Why did you accept this job?

Secretary CARSON. Well, you know, I spent my entire professional career trying to give children a second chance, only to see many of them go back into an environment that was not healthy.

And this is an opportunity to try to do everything I can to improve that environment for them, so it is a continuation of my work.

Mr. YOUNG. Do you have just a handful of real goals that you want to accomplish with this Department? To leave it not necessarily as a legacy with your name on it, but we are talking about the people that are impacted within the programs of this Department. What kind of goals do you have for them?

#### HUMAN CAPITAL

Secretary CARSON. Well, the real goals for me are to recognize that our people, all of them, are human capital. And when it comes to our Nation and the future, we have to compete with China and India, nations that have three to four times as many people as we do, which means if we do not develop our people, we will not be able to compete into the future. So, I want to see us take a much more holistic look at the problems that we have rather than pinpointing things and having our little special groups. We need to take a holistic view of America and what we must do in order to stay strong into the future.

Mr. YOUNG. And speaking of America, I urge you to spend as much time as possible outside of the district, being on the ground in our neighborhoods, in our communities, not just in urban areas, but as well in some of our very rural areas. I represent a district that is very rural and very urban at the same time. I represent Des Moines and then 16 very rural counties, parts of those. And so with the challenges, though, that you have, there are two things I think could be a hurdle. But if you hire the right people and have the right accountability, I am hoping that you can get to where you want to get.

And you talked about hiring a Chief Information Officer and a Chief Financial Officer. We have had some hearings in this committee when we have had the Inspector General before us and talking about the real challenges with the different networks, technology networks and systems that you have at HUD.

Secretary CARSON. Yes.

Mr. YOUNG. And if some of them went now, there would not be anybody who was trained to replace some of the parts, or that software would not even be available today, and also really getting a grasp on the financial management of the Department as well. I hope you really challenge your employees to make those goals, just so that the Department can run better, and also you have got to have accountability for the taxpayer.

Secretary CARSON. Yes.

Mr. YOUNG. Make sure that the hardworking folks in America, the taxpayer dollars they send out here, they are used in a good manner.

Secretary CARSON. That is a huge goal, basically, to run it like a business. And, you know, I have spent 18 years on Kellogg's board and 16 years on Costco's board as well as started a national nonprofit and I have had, despite what the media will tell you, a great deal of experience in business and how to do things. And I have already seen enormous savings that can be realized by doing things in a rational way.

Mr. YOUNG. Well, I want you to know that many of us here on the committee, we want to work with you for the benefit of the American people and to help those who are struggling to get that opportunity to just reach that higher ladder of self-worth and economic worth as well, and to be able to give back to this great country some day. Thank you.

Mr. DIAZ-BALART. Thank you, sir. Mr. Valadao.

Mr. VALADAO. Thank you, Chairman. Thank you, Secretary, for your time today and your testimony.

#### REGULATIONS

In your testimony, you highlighted that HUD is weighed down by too much bureaucracy and unnecessary regulations. This is evident in my district where a public housing agency was awarded a grant of over \$3 million last December. Six months have passed since the announcement of this award and the agency is still yet to see those funds. How are you proposing to reduce regulation and bureaucracy in order to ensure your Department is able to appropriately and efficiently direct these funds to the individuals who are desperately in need?

Secretary CARSON. Thank you so much for that question. That has been a pet peeve of mine for a long time, bureaucracy. And, you know, I define bureaucracy as people who care more about the rules than the goals. But we have appointed a task force, as has been asked for by the President in Executive Order 13777, and we are looking at every single regulation. And also, we have open comment period and during my national tour, which will be continuing, listening particularly to our local HUD employees and to the people who administer the programs, finding out from them what are the things that keep you from being able to move efficiently and effectively, and dealing with those directly.

#### COMMUNITY PROGRAM CUTS

Mr. VALADAO. All right. And then in my district, my district has many small communities with a very limited tax base. These communities depend on Federal community development funding for housing, infrastructure, community facilities. For example, in unincorporated areas, like Del Rey, Earlimart, Richgrove, and Lamont, all within my district there in California, developers of affordable rental housing utilize a combination of funding sources in addition to the private equity they raise through the low-income tax credit, especially in small towns or rural areas. Very often, these include key HUD funding programs like HOME and Community Development Block Grant. And I know you touched on it a little bit earlier with the chairman's questions, but I did not really hear a substitute. So I would like to know what your substitute—or what do you propose to keep these projects viable for low and very low-income wage earners?

Secretary CARSON. Okay. Well, first of all, keep in mind that many of those projects that have been set in motion through some of those grants will be continuing. The CDBG funding is not really meant to take care of the debt service. It is more like collateral. And the effect of those projects will extend, in many cases, for dec-



ades and will generate funds which can then be used for the debt service.

But in terms of the public-private partnerships, the use of things like the low-income tax credits, you know, we are working with the Treasury Department and across multiple silos to make sure that no matter how we end up we will have programs that encourage the public-private partnerships because there is so much more money in the private sector than there is the government, particularly considering the conversation that we just had about national debt.

#### RURAL COMMUNITIES

Mr. VALADAO. I guess I have got time for just one more. HUD is tasked with supporting housing needs across America in urban, suburban, and rural communities alike. However, the previous administration and Federal policymakers and Congress often overlooked the needs of rural America, including the rural communities like my district and many of those represented up here. How much of HUD's funding goes toward supporting housing needs specifically in rural communities and how can HUD programs be improved to make the most of those funds and ensure consistent practical support is provided to rural communities?

Secretary CARSON. Well, obviously, we are very concerned about the rural communities and of working with the Agriculture Department. We have combined programs to deal with housing needs in the rural communities.

But the other thing about rural communities I think is incredibly important is the use of internet. In many cases, it is nonexistent. I have went into a lot of places when I was campaigning, I was absolutely shocked about the communication. And of course, that makes a big difference for the opportunities that are available for those young people. And now that we have reached the point in our society where a lot of work can be done from home, it makes it even more important.

So, yes, we are paying attention to that, very much so.

Mr. VALADAO. Well, I appreciate that and I appreciate you bringing up the internet, too. So, thank you, Chairman, my time is up.

#### PACE LOANS

Mr. DIAZ-BALART. Thank you, sir. Mr. Secretary, last summer HUD began allowing FHA to ensure mortgages on properties with what is known as PACE loans, property assessed clean energy loans, on them, which potentially puts them in a second lien position. The second lien position potentially increases the risk for the MMI funds and taxpayers. Now, the MMI fund was forced to draw \$1.7 billion from Treasury 4 years ago to cover the projected losses on loans that are guarantees, and it reached its statutory research level just 2 years ago. The Federal Housing Finance Agency prohibits Fannie Mae and Freddie Mac from insuring properties with PACE loans. Do you believe, Mr. Secretary, that a second lien position actually could create a greater risk to the MMI fund and to taxpayers?

Secretary CARSON. Well, I think it is a potential problem and one that I had a number of conversations with some of your colleagues

in Congress and one which we are looking at very carefully. A lot of the people who get involved in those PACE loans do not really understand them. They do not understand what they are getting involved with. And at the very least, there has to be mandatory counseling before someone gets into something like that, but it does create real problems.

Mr. DIAZ-BALART. So you are going to be looking; I am assuming and I am hoping, that you are going to be reevaluating.

Secretary CARSON. Absolutely.

Mr. DIAZ-BALART. Reevaluating the policy?

Secretary CARSON. Absolutely.

Mr. DIAZ-BALART. And I do not know if you have had a chance to see there is a bill, the PACE Act, Protecting Americans from Credit Exploitation.

Secretary CARSON. Yes.

Mr. DIAZ-BALART. All right. So you are looking at that as well?

Secretary CARSON. Yes.

Mr. DIAZ-BALART. Great, I am glad to hear that, Mr. Secretary. Let me change the subject.

#### VOUCHER FLEXIBILITIES

Over 7½ million Americans depend on either public housing or private vouchers to afford a place to live, and I am speaking quickly. I always speak quickly, and I am doing it quicker now because I have got a lot of questions. And obviously, helping these people remain in stable housing is one of HUD's fundamental commitments, and so I appreciate you taking a hard look at these programs, Mr. Secretary.

We obviously have to do everything that we can to address unnecessary costs. You have spoken about that. The budget requests a broad authority, a broad authority to provide waivers and other flexibilities to the PHAs, public housing authorities, to cut costs. Can you provide some specifics on what some of these flexibilities might mean and how much potentially they could save?

Secretary CARSON. Well, you know, the PHAs right now have their hands tied when it comes to operating funds versus capital funds. If they just had the ability to shift money from one to the other as needed, it would take care of a lot of the problems that they have, that one thing.

Mr. DIAZ-BALART. And I know that you have visited a lot of locals and so I am assuming that you have gotten some feedback, potentially some good feedback, right, as to some of the things that they need to be helpful?

Secretary CARSON. It has been actually quite wonderful to sit not only with the HUD employees, and most HUD employees are outside of Washington, D.C., by the way, but also to talk with the tenants, the beneficiaries. And one of the things that has been very enlightening is that those communities that have tenant associations tend to do much better, tend to work much better with the people who manage, and tend to have a much higher quality of life. So we are encouraging the establishment of those in all of the units.

## NEGATIVE RENTS

Mr. DIAZ-BALART. Thank you, Mr. Secretary. I do not have a lot of time, so I had a question which I am going to have to kind of reword. The issue of what is known as negative rent payments, which, you know, some people say that it is, well, it is, you know, you are paying people to live in public housing, but I would tell you that obviously I believe that certain costs like electricity, et cetera, I know that those are real costs. Your budget makes some proposals and I just look forward to working with you because I believe we should probably not be treating folks whose utilities are not paid in HUD programs differently than those that are because obviously those are real costs. And I just had some questions, but I just wanted to throw that your way as an issue of concern and something that I look forward to continue to working with you.

Secretary CARSON. It is a big issue of concern for a lot of the tenants, also, and people who are on the waiting list and who are looking for some equity and some fairness. So I look forward to working with you to make sure that we do things in a fair and equitable way.

Mr. DIAZ-BALART. Thank you, Mr. Secretary. One of the reasons I get such great cooperation from the members of the subcommittee to keeping on time because I try to do the same thing. So anyways, Mr. Price.

## PUBLIC/PRIVATE PARTNERSHIP

Mr. PRICE. All right. Thank you, Mr. Chairman. Mr. Secretary, you have referred to your listening tour, glad to see you doing that, going around the country to communities and HUD field offices. I know you went to your native Detroit, you went to Jacksonville, Miami, Columbus, Ohio, other places. You have said some things along the way and I want to know about how they relate to this budget proposal. You said you want a housing policy that delivers more bang for the buck, partly by encouraging, leveraging more State and local support as well as private sector investment. You also have spoken often of partnerships, one of the best tools we have to revitalize the communities, public-private partnerships, partnerships among levels of government. And I am going to say that is music to our ears in the Research Triangle area of North Carolina. That has been our stock in trade.

I am not sure the notion of partnership, though, and of leveraging is brought out by this budget. And so I do want to ask you, on your tour did anybody suggest that it was a good idea to totally eliminate the seed money? Did anybody suggest it was a good idea to totally eliminate community development block grants, for example, or did anybody suggest that we should get rid of the HOME program or did anyone suggest we should get rid of the SHOP program? You know, it is one thing to have Federal seed money, it is one thing to make sure Federal money leverages other monies. But how does that work if the Federal money is totally eliminated?

Secretary CARSON. Well, the Federal—

Mr. PRICE. And let me just zero in a little bit more on SHOP because it has been mentioned here this morning. One example of the

kind of partnership that presumably you are talking about is the kind of work we do with Habitat for Humanity. The first time, I am sure you do not remember this, the first time I met you was in Raleigh, North Carolina, at a meeting involving Habitat for Humanity. There are three pillars for Habitat, three sources of the partnership that the Federal Government has with Habitat: CDBG, which often does the infrastructure for these communities; SHOP; and the section for capacity building. Every one of those programs is eliminated in this budget. So did anyone suggest that? Did anyone suggest that that is the way to an effective kind of catalytic role for the Federal Government?

Secretary CARSON. What has been suggested in all of these places that I go is that we do everything that we can to facilitate the public-private partnerships and working across silos with other departments, including Treasury. We are looking for ways to do that. I very much believe in Habitat for Humanity. I very much believe in self-sufficiency. But there are ways to do that and we are going to be working on those ways.

Mr. PRICE. Well, the Habitat folks that I am talking to are just baffled by this because you know what else this budget does is eliminate AmeriCorps. Who do you think organizes those Saturday morning builds that bring all these volunteers in and makes sure that goes in an orderly way? AmeriCorps, national service. I just do not get it. I certainly get the idea of partnership and seed money. I mean, that is really the best way to spend Federal funds, not just total Federal financing of these efforts. But when you totally remove the core funding, that just seems like a formula for making these things go away.

Secretary CARSON. Well, do keep in mind that there is billions of dollars in the pipeline already in these programs as we work on ways to effectively and efficiently utilize the money and with the principle in mind that public-private partnerships are the way to go. So that is all on the plate for things that we are proceeding to do.

Mr. PRICE. Well, presumably, that means future budgets would not be as destructive in this respect.

I just have a minute left here, but, you know, you have talked about hard choices, you have talked about the kind of things we want to give more emphasis to, knowing we cannot do everything. But I, for the life of me, do not see what is strengthened in this budget. One thing I thought we might see would be, for example, bringing back the kinds of partnerships we used to have with religious communities.

#### SECTION 202

My district is peppered with 202 housing for the elderly: St. Joseph's AME in Durham, First Baptist in Chapel Hill, Cosmopolitan Baptist in Raleigh. These are congregations that took on the formation of, you know, an NGO and worked with HUD to build rental housing for the elderly, and those are wonderful communities. Is that the sort of thing you might want to bring back? I mean, what are we strengthening in this?

Secretary CARSON. Well, you know, there are probably a lot of things you do not see in the budget that do not necessarily reflect what we are going to be doing.

Mr. PRICE. That is why I am asking you.

Secretary CARSON. You know, for instance—

Mr. DIAZ-BALART. Mr. Secretary, I apologize, but I am going to have to cut both of you off.

Secretary CARSON. Okay.

Mr. DIAZ-BALART. But we will, hopefully, get back to that. Mr. Valadao?

#### MANAGEMENT CHALLENGES

Mr. VALADAO. Mr. Secretary, the Inspector General states that your key management and performance challenges are so interconnected that it is difficult to remedy one without first correcting the other. One significant challenge is to establish and implement effective and required financial management governance. HUD has not had a clean opinion on its financial statements in 3 years, and HUD has not had a CFO for 2 years running. Financial leadership starts at the top. Where are you in the process of filling the CFO position you mentioned earlier and can you give us a timetable of when you expect to have a CFO?

Secretary CARSON. Yes. Obviously addressing these issues, as I said before, holistically, is important and you have to have a CFO in order to do that because many of the material weaknesses dealt with financial weaknesses. We have been doing a diligent search looking for people who are highly qualified. We have a number of them and we are just in the process right now of paring that list down and presenting it to Congress.

#### HUD FINANCIAL STATEMENTS

Mr. VALADAO. The IG has noted that HUD's key financial staff do not have the appropriate skills or background to oversee the financial statements. The most significant example was rounding to the nearest billion or hundred billion in the fiscal year 2016 financial statements. What is your plan to address the lack of financial knowledge at HUD and not only ensure that you are hiring people with the right skill sets?

Secretary CARSON. We have already addressed that issue. We are already staffing up with the people who have the requisite knowledge to deal with that. That has been a big concern of mine from the first week I was there.

#### HOUSING SERVICES

Mr. VALADAO. All right. And then there are nonprofits in my district that provide a variety of home ownership services to low- and moderate-income home buyers, including housing counseling and education for purchase and resale of HUD homes, providing essential secondary financing to enable families to purchase their first home in a sustainable fashion. These nonprofits provide a valuable service by building stable home owners who have become an important part of the infrastructure in their communities. Routinely these nonprofits complain about the onerous nature of the HUD

certification process to provide such services, creating bureaucratic and sometimes invasive oversight that adds cost and complication to the organizations who should actually be treated as trusted partners. What will you do to streamline such processes?

Secretary CARSON. We have recently undertaken a comprehensive program to review that very issue and are making very significant and rapid progress on that. There is 2,100, you know, such organizations around the country. We are looking at that and moving rapidly.

Mr. VALADAO. All right, thank you. Chairman, I yield back.

Mr. DIAZ-BALART. Thank you. Mr. Quigley, you are recognized, sir.

Mr. QUIGLEY. Thanks again. Thanks again, Mr. Secretary. Let's talk about something that does not cost any money.

Secretary CARSON. All right.

#### LGBTQ

Mr. QUIGLEY. Complying with existing law of rules and regulations. When Senator Brown asked you a question during the confirmation process, she asked if you believed that HUD currently provides, and I will quote, "extra rights to the LGBTQ people," I am quoting, "that need to be withdrawn." I believe your answer was that you did not. But either in the last couple weeks or months, the Department has purged at least six documents that involved training to emergency shelters and other housing that keep particularly sensitive teenagers, transgender teenagers, from getting kicked out on the street, how to comply with these things. The timing seems odd and why would they be removed without being replaced with substantially the same, if you felt they needed to be better or something, materials?

Secretary CARSON. Well, you may be referring to the survey that was pulled back dealing with LGBT youth homelessness.

Mr. QUIGLEY. No, I am sure this is just training materials given to these facilities so that the staff at the emergency shelters and the housing facilities can make sure that they are not discriminating against LGBTQ and particularly transgender youth.

Secretary CARSON. We have a policy of making sure that no one is discriminated against and are looking at all of our policies across the board for everybody when it comes to discrimination.

Mr. QUIGLEY. Well, not everybody is discriminated against. There are particular groups that have been discriminated against more than others obviously and that is why you have the training materials. That is why you have these materials available so that these shelters can comply with the rules. So why would you remove anything if your goal is not to discriminate against anyone?

Secretary CARSON. The only reason that we would remove anything is so that we can look at it and determine whether its effective in turn. And some of the things, we have discovered, were not effective and were not providing good data. We want to make all of our decisions based on evidence, not on ideology.

Mr. QUIGLEY. I go back to my original point, though. If these shelters, if these facilities need to know how to comply, just removing the existing instructions does not help. I mean, at the best of circumstance, when would you tell me that they would—are they

going to be replaced and are they going to be designed to protect LGBTQ?

Secretary CARSON. All the policies will be designed to protect LGBQ and everybody else.

Mr. QUIGLEY. Why would you remove these and not replace them at the same time or at least wait until you have got a suitable replacement, if indeed there is a suitable replacement?

Secretary CARSON. As I have said, if anything has been removed, it is being removed in order to be looked at and improved.

Mr. QUIGLEY. And what would your timeline be to be replaced?

Secretary CARSON. Well, I need a specific——

Mr. QUIGLEY. On those six materials that were purged from the website?

Secretary CARSON. As soon as possible.

Mr. QUIGLEY. Well, I guess the bigger picture here no one has really gotten into it, your discussion, and I guess maybe this is germane, of poverty, and I am sure your words were different, being a state of mind. Let me just ask if your sense of poverty being a state of mind applies to particular groups or excludes particular groups given that about 14.5 million Americans live in poverty that are under the age of 18 and about 10 percent, 4.2 million, are over the age of 65. And clearly those were all groups that live in CHA housing. Would those be included in those where poverty is a state of mind?

Secretary CARSON. Well, I appreciate you asking that question. Because, first of all, I said partly, so it is a part——

Mr. QUIGLEY. Well, I will let you——

Secretary CARSON [continuing]. Of the state of mind.

Mr. QUIGLEY [continuing]. Draw the parameters.

Secretary CARSON. And secondly, recognize that the human brain is extraordinarily complex and it is programmed throughout the course of a person's life, and that programming determines how a person faces things. For instance, if you are a minor league baseball player, you come up for the first time at bat and you see Nolan Ryan, you say, oh, no, Nolan Ryan. He has got a 100 mile an hour fastball and I am probably never even going to see the ball. You are probably going to approach it differently than another minor leaguer who comes up and says Nolan Ryan, he is an old man, I am going to knock the cover off this ball.

So the way that one approaches things makes a very big difference, and I think everybody knows that. Some people always, you know, take advantage of a situation to distort the meaning, but the fact of the matter is America is a very special place. And I know there was a New York Times article last week that said, you know, it is just the other way around in terms of the mindset and that America is the most difficult place for anybody to rise. And if that were the case, why would so many people be risking life and limb to get here? We have something very special. We need to preserve it. And the can-do attitude is a big part of what made America a great Nation.

Mr. DIAZ-BALART. On that note, Mr. Quigley, I hate to interrupt you, but I think we should have time for another quick round. And so, Mr. Dent.

## HOUSING COUNSELING

Mr. DENT. Yes, thank you, Mr. Chairman, and the Secretary. You did not get a chance to give me your blockbuster answer that you said you were going to give me on housing counseling, on the question that I had posed to you earlier. You know, we were talking about how, you know, housing counseling assistance was important and that obviously there is still a demonstrated need for services, particularly for people before they buy homes. But you were going to give me an answer, as I had mentioned, level funding, you know, for the housing counseling assistance program and feel free to answer.

Secretary CARSON. Well, I think I have already answered it with one of your colleagues, but we have placed an enormous amount of emphasis on this, recognizing that, you know, there used to be a time when people in this country actually knew about housing. Everybody when I was a kid growing up knew that you do not pay more than two and a half times your annual income for a house. That kind of information has been lost and that makes counseling ever more important at this time. So we have concentrated a great deal of effort on all of those housing counseling centers, all 2,100 of them, to try to bring consistency and to educate the people who are actually doing the counseling.

But also, we are looking at the use of the internet to create tutorials for people because it has to be done at different levels. People operate at so many different levels in this country and the average American operates at about the 8th to 9th grade level. But a lot of the material is not at that level so we need to have it at various levels so that people can use it at their own pace, in addition to taking advantage of the housing counselors.

Mr. DENT. Well, thank you. I have seen some real value to the housing counseling programs in my community. I saw it during the financial crisis and I have seen it since, so I just wanted to put a plug in for that.

## VASH PROGRAM

And I am just going to return to another issue that Chairman Frelinghuysen had discussed as it related to the VASH program, the HUD Veterans Supportive Housing program. My staff tells me that these programs have been very effective in reducing homelessness among veterans. In fact, in my community we have the Street Medicine Program, which you might actually find interesting, run by one of the hospitals, where we actually go out on the streets with medical professionals and, you know, sit on the streets down by the railroad tracks, along the river, you know, where people are living. A really impressive program and it is not just treating veterans, but all sorts of folks.

Secretary CARSON. Sure. No, I have seen it.

Mr. DENT. And, well, I invite you to come up to our community in Allentown, it is really impressive.

Secretary CARSON. Can I do neurosurgery on the street?

Mr. DENT. Well, I would never try to tell you where you can and cannot do surgery, Doctor. But just so my main question is the budget request seeks additional support, as you know, for the



HUD-VASH program. If HUD awards all of the potential new vouchers, I believe the HUD-VASH program would be supporting a total of approximately 93,000 vouchers as of late 2017.

Secretary CARSON. That is correct.

Mr. DENT. And then the VA cannot move forward with providing social services for a veteran's housing with HUD vouchers until in 2018 without new HUD vouchers, which the budget request appears to propose stopping the issuance of. And as you know, these vouchers are used to provide rental assistance for homeless veterans along with case management, and clinical services provided by the VA at the medical centers and clinics.

Should I assume from your budget request that you intend to support the 93,000 vouchers that will be in place at the end of this year, but that you do not intend to add additional vouchers in the coming year?

Secretary CARSON. All the vouchers will be supported. As you correctly mentioned there is about 90,000, a little under that. About 8,000 of those are not being utilized and the \$40 million that was added in the 2017 budget brings that to 13,000. That is an adequate number to take care of the needs currently, but we will—this has been a very important alliance between the Veterans Administration and HUD. And we feel extremely strongly about this and recognize that the HUD-VASH program has been at the leading edge of what is responsible for reducing homelessness in veterans by 47 percent. That is not good enough, obviously. We want to get it to 0 percent, but we will continue to work on that.

Mr. DENT. So I will take that answer as a yes.

Secretary CARSON. Yes, absolutely.

Mr. DENT. And if you would like to elaborate further on your rationale for, you know, what appears to be cuts to the HUD-VASH program and your plans to assist the homeless veterans population, feel free.

Secretary CARSON. We will always provide what is necessary, but, as I said, we have got 13,000 unused vouchers at this stage.

Mr. DENT. Okay. Thank you. I yield back.

Mr. DIAZ-BALART. Thank you, sir. Thank you, Mr. Secretary.

Mr. DENT. Seven seconds to go.

Mr. DIAZ-BALART. Ms. Clark, you are recognized.

#### HEALTHY HOMES

Ms. CLARK. Thank you, Mr. Chairman. Mr. Secretary, you have said you are particularly interested in creating healthy houses and healthy homes. In 2010, your Department estimated nationwide there was a deferred maintenance backlog of 26 billion and that was going to grow 3.4 billion a year. But in this budget you are proposing to cut funding to address this maintenance backlog by a combined 1.8 billion. Practically speaking, these cuts are really going to harm efforts that are underway to not only modernize, but address existing health hazards.

One example that has been getting some press recently are the Red Hook houses in New York, where the mold levels, the asthma rates are three times that of surrounding communities. How is the New York City Housing Authority, and around the country, how

are we going to remediate that particular health hazard and maintain our public housing with these funding cuts?

Secretary CARSON. Thank you, that is a very good question. The Rental Assistance Demonstration program has been able to leverage Federal dollars and bring in an additional \$4 billion recently. And if we lift the cap on that RAD program and allow it to expand even further, the incentives are already there to bring in those public-private partnerships. We find that those are remediating these kinds of problems much faster than the capital funds ever did.

Ms. CLARK. So is that the solution that you see expansion of the RAD, lifting the \$185,000 cap? Because—

Secretary CARSON. That appears to be working.

Ms. CLARK [continuing]. One of my concerns is that I think that RAD has been a valuable option. It certainly has been in Cambridge housing in my district. They have taken advantage of it, but I have never seen it used without having corresponding CDBG funds. Ever. Do you have an example where that has ever happened?

Secretary CARSON. I can supply you with some examples for that. We can send them over to you.

Ms. CLARK. That would be great. Because, you know, it is of grave concern that these programs work as an ecosystem.

Secretary CARSON. Yes.

#### ELIMINATIONS

Ms. CLARK. And as we take out CDBG, if we take out SHOP, HOME, the HOME program alone, every dollar leverages \$4.20 in local and private funds.

Secretary CARSON. You are speaking to the choir on that and we would never do anything to harm what we see as something that is the solution. The solution is the public-private partnerships and we are going to be working assiduously to make sure that we actually expand on those regardless—

Ms. CLARK. So then why are you eliminating them?

Secretary CARSON [continuing]. Regardless of under what name we do it.

Ms. CLARK. Well, I am getting more puzzled as we go. If you agree and I am preaching to the choir, why are you wholesale eliminating HOME, Choice, SHOP? I am confused.

Secretary CARSON. I again go back to my initial statement. We have a certain amount of pie and we have a number of people who are very much depending on a large portion of that pie in order to stay sheltered. If we do some peripheral things, a lot of those people will lose their housing.

Ms. CLARK. So I think this brings me back to the discussion you were having around the deficit. The best way to address the deficit and the best way to—you know, is to build a robust economy.

Secretary CARSON. Right.

Ms. CLARK. And to make sure that we are getting people to work and that we are investing—

Secretary CARSON. Agreed.

Ms. CLARK [continuing]. But that comes with investments. And as I look across this entire administration's budget, we are seeing

dramatic cuts in work training programs—we just met with Secretary of Labor yesterday—in apprenticeships, in vocational schools, and career and technical education, afterschool programs, college affordability student loans. This budget as a whole is a recipe for killing our economy. And when you are saying I get the importance of leveraging private dollars to help us solve our housing crisis, but you are taking away all the incentives necessary to leverage those dollars, I am baffled at how you think—

Secretary CARSON. I think it depends—

Ms. CLARK [continuing]. This is going to work.

Secretary CARSON. I think it depends on which set of data you want to look at in terms of what is happening with the economy, whether it is improving or whether it is getting worse.

Ms. CLARK. Well, there will be no pipeline of ideas, innovation, or an educated work force if we put this budget in place. And I think we can look at any data that we want and you will find that that is the dangerous truth for the American people with your budget and the rest of the administration's budget.

Secretary CARSON. Well, the only thing I can assure you is that we are going to work extremely hard to use every dollar in this budget to get the biggest bang for the buck, and we are happy to work with all of you to make sure that that happens.

Mr. DIAZ-BALART. Thank you. We do not have a lot of time, so what I would like to do then, Mr. Price, is I am going to be very brief. We will go to you and maybe with that we end it. Is that all right, Mr. Price?

#### HOMELESS ASSISTENCE PROGRAMS

Okay. Mr. Secretary, again, since I do not have a lot of time, let me talk. This committee has been really supportive of HUD's performance-based focus on homeless assistance programs. As I am sure you know, the Department shifted its emphasis from a transitional housing approach to a housing first approach. And by the way, I need to thank some of your team, your staff, who have worked with, for example, Miami providers, and you were there.

Secretary CARSON. Right.

Mr. DIAZ-BALART. And I think some great progress has been made. But it goes without saying that this shift, you know, there are some growing pains and some folks and some areas have been hit. We recognize that in our 2017 bill and provide resources to communities that lost some funding through this approach. And I do not know, I do not expect you have it with you, but it would be great if you could provide us with a status of additional emergency solution grant funding provided in—of that 2017 funding for communities that lost funding in the grant application, you know, the status of some of that. It would be great and I do not know if you would happen to have it there, I doubt it, but if not—

Secretary CARSON. I do not have it with me at this moment.

Mr. DIAZ-BALART. All right. Any idea of how you would envision some of those resources would be used to move homeless providers towards more performance-driven programs? Because that is key.

Secretary CARSON. Yes.

Mr. DIAZ-BALART. The performance is key.

Secretary CARSON. Well, yes, homelessness is a big issue. Over the last few years it has gone from 800,000 to just over 500,000 so, you know, a lot of progress has been made in that area. And a lot of the things that we have been doing have helped with that, but it is an interagency issue and there has been a lot of private people who have been interested in it, too.

I think the whole housing first concept is a good concept in the sense that if you leave somebody sleeping out under the bridge, they are going to end up in the emergency room and frequently end up getting admitted. A week of admission costs more than a year of shelter, you know. We have to, you know, look at the numbers and do things wisely for that reason, but I do not think we should stop at housing first. We should then move on to housing second and housing third. Housing second is diagnosing why they are in that condition and housing and third is treating it. Because if we truly want to be compassionate, then we do everything we can to put people back on their feet.

#### HOMELESS ASSISTANCE GRANTS

Mr. DIAZ-BALART. Mr. Secretary, I wanted to bring up, and, again, I am sensitive to the time constraints, I have concerns about the budget, the reduction of funds for homeless assistance grants, but it is something that we will have ample opportunity to speak about in the future. And with that, and thanking everybody for being cooperative with me on the time issues, let me recognize the ranking member to finish up.

Mr. PRICE. Thank you, Mr. Chairman. Mr. Secretary, I do want to give you a chance to finish your answer if there is more to say beyond what you said in response to the other members, about what the positive side of these hard choices looks like. In other words, that hard choices are being made, it implies that some things are being cut, but others are being strengthened, that there are tradeoffs. I do not see much other than just indiscriminate meat axe cutting, to tell you the truth. And we were talking about maybe some things that were not immediately evident just for the budget numbers, so I want to give you a chance to respond on that.

#### BUDGET CUTS

I also want to say something, though, about the broader budget situation we face. And what I would think is a kind of all-purpose explanation we want to avoid.

We know that we need to get our country's fiscal house in order and most people I think know that that requires a comprehensive approach. We have two examples from the 1990s about balancing the budget, about paying off a good chunk of the national debt. It is not too hard to know how that was achieved, but it did involve some political pain. It involved some tax increases, it involved some entitlement reductions, and it involved discipline in discretionary spending. We, for reasons that are very well known, cannot seem to get back to that today. But I tell you just simply saying we are under fiscal constraints and we simply have to whack away at the discretionary domestic budget, there are two things wrong with that. It is the worst of both worlds.

Number one, you will never balance the budget that way. We can eliminate your budget entirely and still have a fiscal problem, so it is fraudulent as a formula for achieving fiscal discipline.

And number two, it is destructive in terms of the things a great country must do to build its economy and to build its future. It is a formula for disinvestment across the entire Federal Government. So worst of both worlds and it gives us the budget that is before us today.

So I will take a back seat to no one in terms of wanting to confront that larger fiscal picture, but I do not accept that the HUD budget before us is a necessary product of fiscal responsibility. Far from it. It really is a disinvestment budget without redeeming features that are evident to me.

I hope we can do better, I hope we can work with you and with the administration to, first of all, get the overall budget numbers in a better place and then within those numbers write a housing bill that really addresses our country's needs. But you were cut off in mid-answer and I want to give you a chance to—

Secretary CARSON. Sure.

Mr. PRICE [continuing]. Give us a little more, a glimmer of hope, if you will.

Secretary CARSON. Well, tell us how you really feel about it. But no, I was saying that there was some things that are not in the budget that are very important. For instance, the concept of our vision/opportunity centers that we want to put in the proximity of all public housing. These are places usually that are boarded up right now, but the buildings will be repurposed and we will be putting into them people who can help the people have a vision about what actually goes on in the world.

#### COMMUNITY OUTREACH

If you go to a lot of disadvantaged communities, you ask the kids what do you want to do when you grow up, you get about five answers. But there is 1,000. We need somebody to expose them to the other 995 and talk about how to get there.

We need to have daycare. And the reason that that is so important is because a lot of women who have babies out of wedlock, their education stopped at that first baby, and they need a safe place to put that baby so they can get their GED or their associate's degree or their bachelor's or their master's and learn how to take care of themselves and, more importantly, teach that to their children. That is the only way you break those cycles.

And also, mentorship programs have been demonstrated to have a profound positive effect in terms of people being able to finish high school. Why is that important? You look at the Brookings study on poverty. It said that there were three things that a person could do that would reduce their likelihood of living in poverty to 2 percent or less: number one, finish high school; number two, get married; number three, wait until you are married to have children. So things that we can do to sort of address the data, not the ideology, so that we can get people moving in the right direction. Those are things that will be sponsored completely by the private sector.

I have already talked to people in the business world. They are very happy to sponsor these just like you sponsor stadiums all over the country because we live in a country of people who actually are very compassionate. And it has been very different from other parts of the world and we need to take advantage of that.

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

Mr. DIAZ-BALART. Thank you, Mr. Secretary. Mr. Secretary, again, let me first thank you for your time and your staff. I would ask the Secretary to—the committee staff will be in contact with your budget officer regarding questions for the record. I know that I have some questions and I know that other members will also submit those questions as well. If you would please ask OMB to return the information for the record to the subcommittee within 30 days from Friday, that would allow us to publish the transcripts of today's hearing and make obviously informed decisions when we are crafting the fiscal year 2018.

Mr. Secretary, as you saw today, you have in this subcommittee folks who are knowledgeable and interested in these issues and, frankly, to a great degree, even to the details, and I know you have had the opportunity to see that. And obviously it is also clear that a lot of us, including I, have a lot of concerns about and disagreements with your budget, but there is no disagreement or concern on my part as to why it is that you are doing what you are doing and your service to the country, and so that makes me feel good.

I am comforted in the fact that you have volunteered for this job and we know that it is a very difficult job in the fact that you are giving up a lot to do this, so just know that and I think all of us look forward to working very closely with you.

Secretary CARSON. It is going to be a pleasure to work with all of you. I appreciate that.

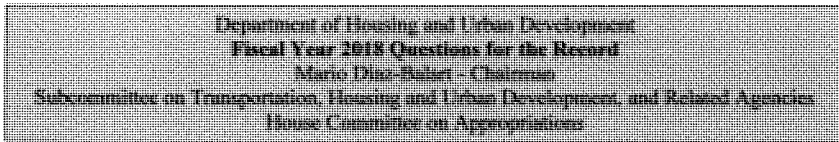
Mr. DIAZ-BALART. Thank you, Mr. Secretary. Mr. Price, any closing thoughts?

Mr. PRICE. Thank you, Mr. Secretary and Mr. Chairman. Look forward to the weeks ahead. We have some serious challenges. We are ready to take them on.

Secretary CARSON. Amen.

Mr. DIAZ-BALART. Thank you. With that the meeting is adjourned.

Secretary CARSON. Okay.



### **Chairman Diaz-Balart**

#### **Chairman Diaz-Balart #1: Rental Reform - Project-Based Rental Assistance**

Your budget proposes to freeze operating cost adjustment factors and budget based adjustment increases for private owners that participate in HUD assisted housing programs. This means that building owners would not be able to make adjustment to reflect operating or budget-based increases. More and more of project-based contracts have moved to the 1-year contract renewal cycle, and these owners can leave the PBRA program more easily.

**Question:** What effect with this policy have on the stability of the PBRA program?

**Answer:** HUD is requesting one-year authority to freeze operating cost adjustment factors and budget-based adjustments for PBRA properties as it works towards a long-term goal of consistent rent reform across all HUD rental assistance programs. This approach will provide HUD leadership the opportunity to examine if current rent adjustment policies are effective in compensating owners for increased annual costs. The overall Rental Reforms proposed for PBRA provide shared sacrifice for owners and residents.

**Question:** What effect will this policy of freezing the OCAF and budget based adjustment have on the maintenance of properties? Will it be harder for owners to keep their properties in good repair?

**Answer:** Owners should already be projecting and reserving funds for their property's capital needs and can utilize owner-level reserves for replacement funds as a source to keep projects well maintained and in good repair.

### **Chairman Diaz-Balart #2: Rental Reform Proposal - Negative Rent**

Mr. Secretary, one of your rental reforms eliminates what is called the "negative rent" payments. Some have said that negative rent payments equate to "paying people to live in public housing", but in reality, it is assistance for utility costs (heat, air, and water).

**Question:** Would you elaborate on your justification of the negative rent proposal, and what implication will this have on HUD's vulnerable populations?

**Answer:** In all of HUD's rental assistance programs, due to rent and utility inflation, the cost to assist roughly the same number of households increases each year. Without reforms to slow the growth, these programs will require more and more Federal resources over time. To slow the growth in the program and to ensure that PHAs and owners have adequate resources to operate their programs, HUD is proposing to undertake several rental reforms, including the elimination of utilities reimbursement payments. However, to ensure that impacts on vulnerable populations are minimized, hardship exemptions will be available to assist households facing difficult situations.

**Question:** Do you believe this proposed change will create an inconsistency – treating tenants differently by eliminating utility subsidies for households where utilities are not included as part of the rent and are tenant-paid?

**Answer:** This provision, were it to be enacted, would establish consistent rules across HUD's programs regarding the rent paid by families in HUD's rental assistance programs. However, the outcome of this provision on different families will vary depending on several factors including the types of utilities paid by the family, the location and characteristics of the unit, and the income of the family. Further, hardship exemptions will be available to assist households facing difficult situations.

**Question:** It seems to me that this policy could hurt the poorest of the poor, especially those that live areas with the largest utility bills, like the northern and southern parts of the country. Is this the case?

**Answer:** The outcome of this provision on different families will vary depending on several factors including the types of utilities paid by the family, the location and characteristics of the unit, and the income of the family. Further, HUD is proposing a hardship exemption for this provision for any family that is unable to afford utilities payments due to the elimination of the reimbursement from HUD. HUD's analysis shows that this proposal would largely impact non-elderly, non-disabled tenants. Approximately 10 percent of households affected would be headed by an elderly or disabled person.

**Question:** How much does HUD pay in negative rent per year?



**Answer:** Approximately \$390 million is paid to approximately 460,000 households in the form of "negative rent" each year.

### **Chairman Diaz-Balart #3: HUD Information Technology**

Many of the financial challenges and risks were exacerbated by the Department's Information Technology systems. Since 1991, the IG has reported that HUD lacks an integrated financial management system. Since 2003, HUD has been working to replace its current core financial management system, with minimal amounts of success. HUD spent \$96.2 million to move to a New Core financial system maintained by Treasury. This effort only accomplished 4 of the 14 financial management systems capabilities when it ended the project in 2016.

**Question:** What are your plans to build a modern IT infrastructure at HUD?

**Answer:** HUD is in the process of implementing a unified vision to support improved outcomes for HUD's mission. The vision includes tying our financial, operational and technological outcomes into a comprehensive actionable plan, with the office of the COO, CIO, and CFO all working together to identify improved solutions that draw on technology, improved business operations, and human capital together, to address HUD challenges, and execute in an efficient manner.

Specifically, HUD has initiated major infrastructure improvement initiatives to develop enterprise wide solutions that address legacy and aging IT systems and technology. HUD has been transitioning its IT infrastructure since fiscal year 2014, to a more agile, modern, mobile-friendly environment that utilizes a federal shared service provider. This transformation effort is known as the HUD Enterprise and Architecture Transformation (HEAT) initiative and is scheduled to be completed in fiscal year 2018. HEAT is extensive and includes five key areas:

#### **Cloud Migration**

Cloud computing is a more flexible, cost-effective, sustainable and secure than traditional methods. The migration to the cloud will increase reliability, reduce expensive "on premise" hardware, offer greater mobility capabilities and automatically update applications to the latest versions.

#### **Mobile Services**

HUD has initiated a project to move HUD from Blackberries to more capable smartphones to improve functionality, reduce costs, strengthen security and enhanced mobility as well as institute multifactor authentication that will allow users to safely connect to the HUD network from any mobile device or personal computer at any time.

#### **Network Operations**

Leveraging the GSA Network contract vehicle for all network operations will make it easier to move, add and change HUD network services. This benefits HUD by eliminating the "middleman" and establishing a direct relationship with the network provider.

#### **Data Center**

The Office of Management and Budget's Data Center Optimization Initiative requires agencies to consolidate data centers and transition to more efficient infrastructure, such as the cloud and shared services. As HUD moves to a shared, multitenant data center and reduces the number of centers from four to two, we'll see direct benefits: savings from reduced hardware and software costs, significantly less environmental impact, and a more robust disaster recovery and backup strategy.

**System Integrator/End User**

Business needs are ever-evolving and rapidly changing, so HUD needs a modern, agile, and flexible platform to adequately address all its IT needs. HUD will benefit from an enhanced Help Desk experience with the ability to get quick, accurate answers via phone, chat, or email.

HEAT has successfully completed transition to enterprise software agreements and FedRamp cloud solutions; implementation of GSA strategic sourcing contracts that include Networkx and FSSI for Mobile Services; migration of HUD Data Centers into two multitenant shared data centers; and migration of enterprise applications to the cloud. These efforts have resulted in a cost-effective IT environment that is delivering enhanced security, augmented internal monitoring and management capabilities, and optimized IT Infrastructure services.

***Completed Activities Timeline:***

Mobile Services – March 2016

Office 2016 – June 2016

Skype for Business – September 2016

Email Archive Migration – October 2016

Data Center Migration – November 2016

The benefits that HUD has experienced with the HEAT implementation includes reduced data center footprint, reduced O&M costs, improved operational efficiency and more robust disaster recovery and continuity of operations strategy.

The transformation of HUD's IT infrastructure will continue. HUD is conducting the final phases of the HEAT initiative to transition from the current end user support contract to a new enterprise System Integration and End User contract. In addition, the HEAT project will conduct a thorough analysis of all HUD's IT systems and applications, including a cloud compatibility assessment. Its goal is to provide valuable and actionable insights to reduce operating costs, optimize existing IT assets, modernize applications, and provide better IT service capabilities.

**Question:** How will you ensure the implementation will be successful and that the dollars this Committee provides you will be well spent?

**Answer:** With the team of the COO, CIO, and once confirmed the CFO, HUD's model for operations management is focused on coordinating across siloes to identify and implement business solutions, including IT. HUD is developing a holistic IT Management (ITM) Framework that will establish a means for evaluating progress toward institutionalizing integrated management and control of its IT investments. The ITM Framework will promote uniform handling of similar activities and ensure quicker decisions. HUD will ensure institutionalization by measuring over

time to help provide continuous assurance that the objectives of the Framework are being met. The ITM Framework is planned for completion by the end of FY 2017.

Additionally, HUD has taken additional steps to institutionalize management and control of its IT investments by implementing a solution, HUD's Portfolio and Project Lifecycle Utilization Solution (HUD PLUS) that integrates information in a single repository used to analyze and inform management decisions, and monitor performance of IT investments. HUD PLUS is the source to capture information related to business needs and business cases, project and investment decisions, and oversight of project and investment risk and performance. HUD PLUS is planned to serve as a one-stop source for IT investment portfolio information.

Further, HUD has tiered governance in place for IT investment management. The governance encompasses the structures, policies, procedures, standards, and guidelines that guide IT management decision making within HUD. The governance includes the roles and responsibilities of various HUD IT governance boards, including the Executive Operations Council (EOC), the Customer Care Committee (CCC), the Investment Review Committee (IRC), and the Technical Review Sub-Committee (TRC). In addition to the governance, HUD conducts Project Health Assessments to monitor and evaluate the health of project performance.

#### **Chairman Diaz-Balart #4: Government National Mortgage Association**

Ginnie Mae's portfolio is \$1.7 trillion, and by the end of the year it will be \$2 trillion. It continues to face challenges in its financial management accountability managing counterparty risk and monitoring nonbank issuers, which now represent a majority of its book of business.

**Question:** How can we make sure Ginnie Mae as an organization is up to the task of managing this portfolio?

**Answer:** Ginnie Mae has a robust process for managing its \$1.8 trillion portfolio of guaranteed MBS, which includes managing counterparty risk and monitoring bank and nonbank issuers, the entities that issue the Ginnie Mae guaranteed MBS and service the underlying loans. Ginnie Mae manages the associated risks by enforcing strict financial and operational standards and actively monitoring and evaluating the credit quality, financial strength, and performance of its approved issuers. Ginnie Mae has the authority and clearly defined policies and procedures to effect orderly transfers of loan servicing from a troubled Issuer to a stronger servicing counterparty, without market disruption and at minimal cost, which works to effectively reduce exposure to any issuer failure.

Once entities are approved to issue Ginnie Mae backed securities, their continued participation in the program is contingent upon ongoing evaluation and approval, which most issuers undergo several times a year. Issuers are evaluated and graded against their peers according to an operational metrics scorecard and financial analytic tools. In-house financial reviews are supplemented by rating agency reports, subscription service material, and issuer-supplied data. Higher risk profiles are categorized to receive greater attention from account management specialists. Servicing portfolio transfers and certain other financing transactions are subject to Ginnie Mae review and approval, which will consider the financial health of the parties involved in the deal. To ensure Ginnie Mae evolves with the market, it continually reviews and refines its resolution process to manage cases where troubled issuers threaten the Ginnie Mae guaranty.

These ongoing efforts require an experienced and expert workforce, supplemented by contractors, who oversee and manage the risks to Ginnie Mae's guaranty, which is backed by the full faith and credit of the U.S. taxpayer. The president's budget proposes an increase of \$2.4 million to cover working capital fees, and add approximately nine new permanent staff for Ginnie Mae to further the work that Ginnie Mae is doing to improve financial management and oversight. With additional staff, strong training, and strategic use of attrition, Ginnie Mae is working to make sure it has the appropriate depth of skill sets in critical areas.

**Question:** How many contractors are working for Ginnie Mae? How much are total contractor costs per year?

**Answer:** Per a 2016 study on Ginnie Mae staffing and operations completed by KPMG, contractor utilization across all business offices totaled 718.8 Full Time Equivalent staff. Total cost for contractors and program expenses was \$166.2 million in FY16.

HUD continues to evaluate the activities outsourced and will diligently monitor the work of contracting partners. Over time, while Ginnie Mae may bring more activities in-house, there are some activities that are cost effective and best fulfilled by outside parties. Ginnie Mae's contractors generally fall into two categories. The first are those that provide onsite or virtual consultative and advisory services, many of which could be performed internally by Ginnie Mae, if determined to be the best use of resources. The second are those that perform highly technical, behind the scenes processing and fiduciary functions. These are well-developed, efficient, and effective functions in the private sector and may be challenging, overly costly, and unnecessary to in-source.

**Question:** What are your thoughts on a different pay scale for some GNMA staff?

**Answer:** This is something that the Administration will evaluate. Ginnie Mae does have challenges attracting and retaining staff due, in part, to the competition posed from both the private sector and its counterparts within the federal government that are exempt from the GS pay scale; however, this is not unique to Ginnie Mae. In other areas of the Federal sector, particularly for large credit programs, agencies face the same challenges. HUD, including Ginnie Mae, plans to take a holistic approach to reviewing these human capital challenges, recruiting on strengths, and working together with the Administration to find ways to best attract, hire, and retain the highly-specialized staff needed to most effectively run its business.

Ginnie Mae will also be looking at other creative options to potentially help build a talent pipeline, such as partnering with business schools or other academic programs to develop a targeted PMF like program to attract young talent.

**Question:** Would a different pay scale have any effects on FHA or other parts of HUD?

**Answer:** The Federal pay scale is a complex issue that requires close analysis to understand the implications. HUD plans to look at staffing holistically to ensure any proposed solutions are effective at addressing the hiring and retention problems faced by Ginnie Mae and do not lead to negative impacts. As the new Ginnie Mae President and FHA Commissioner are confirmed by the Senate and brought on board, this will be an important issue for their attention, consideration, and discussion.

**Question:** Are there any management reforms you are considering for Ginnie Mae?

**Answer:** Yes. Ginnie Mae is working to identify and implement efficiencies in a variety of areas.

#### Counterparty Issuer Monitoring Initiative

Ginnie Mae is re-engineering how it manages its relationship with Issuers, to support their participation in the MBS program and prevent problems from arising within the Ginnie Mae Mortgage Backed-Securities (MBS) portfolio. The goal of this work is to better align operations to business needs, improve Ginnie Mae efficiency, and improve Ginnie Mae's capacity to identify and address risk and other Issuer-related issues effectively.

Ginnie Mae is also re-engineering how it manages segments of the Mortgage Servicing Rights (MSR) portfolio where problems have occurred, to ensure that servicing is performed by capable institutions and losses are avoided/minimized, with a goal to minimize disruptions and losses resulting from troubled portfolios. This includes clarifying roles and responsibilities of troubled asset management, and building the appropriate infrastructure for improved decision making and accountability.

On the IT front, Ginnie Mae is partnering with HUD OCIO to pursue a strategy of collapsing its IT infrastructure and migrating approved platforms to a cloud hosting environment to increase IT agility, scalability, control costs and align with Federal Government mandates and direction. Currently, Ginnie Mae has technology infrastructure, services, and operations deployed and supported across multiple contracts, which hamper the organization's ability to add new IT capability when needed or otherwise adjust when current IT capacity is not sufficient to meet user demands.

### **Chairman Diaz-Balart #5: Staffing**

In May 2015, GAO issued a report on HUD's human capital where more than 43% of career permanent employees onboard as of September 30, 2014 would be eligible to retire by 2019. We are quickly approaching this date

**Question:** What is HUD doing to ensure it retains proper staffing levels in order to fulfill its missions?

**Answer:** The appropriate staffing level is more than about the number of staff, it is about making sure that there are the right skill sets in place, with appropriate technology and other resources. This is why the Department is building a very strong operations leadership team, with a new COO and CIO on board, and working to nominate a strong CFO. Together, these leaders will work together to identify holistic solutions that truly address the Department's challenges while allowing the Department to operate in an efficient and effective manner.

Specifically, with respect to staffing, the Department is evaluating the skill sets of HUD's current team and needed skill sets to modernize HUD and fulfill its mission in an effective and efficient manner. There are multiple aspects to this effort. First, HUD is looking very strategically at hiring. As there is attrition, rather than just backfill, the Department senior leaders are identifying critical priorities and filling those positions first. HUD is working with our shared service providers to make sure there are quality candidates for these hires—with both the needed technical skills, and the soft skills for strong communication and coordination across the Department. HUD is also looking at the staff on board and making sure they have the right training and development opportunities, and strong performance management in place to create the right incentives, and deal with poor performers effectively. This will help retain and make the best use of the talent. Also, HUD can utilize phased retirement to allow time for experienced senior members to pass along their knowledge to the rest of the team.

In addition to these strategic approaches, the Department is requesting \$6.5 million for management data reporting—to provide timely, automated reports and inform data-driven, proactive management so HUD can better respond to emerging risks and take advantage of opportunities.

**Question:** Is HUD in a good position to prepare for a significant number of potential retirements in 2019?

**Answer:** HUD's aging workforce does pose risks for the Department, and the Department is taking steps to prepare as part of its Workforce Planning. Further, HUD has implemented programs aimed at promoting knowledge management and minimizing the risk of loss of legacy knowledge, which include a mentoring program, Rotational Assignment Program, Phased Retirement Program, and piloting the knowledge management technology.

**Question:** Your budget request reduces total staffing by about 200 FTE – how do you plan on implementing these reductions?



**Answer:** HUD will manage the reduction of the 200 FTE through attrition. Historically, HUD has experienced an attrition rate of approximately eight percent of staffing each year. Based on this rate, HUD expects approximately 575 personnel to leave the Department in fiscal year 2018, which would equate to approximately 290 FTE. The Budget would allow for targeted hiring in mission critical areas. HUD is strategically managing attrition, prioritizing critical needs and skill sets for new hires instead of direct backfill. The Department is also working on a workforce restructuring plan consistent with the Presidential Executive Order on a Comprehensive Plan for Reorganizing the Executive Branch, which will inform future requests and strategies.

**Chairman Diaz-Balart #6: Manufactured Housing**

**Question:** Mr. Secretary, given your personal connection and understanding of the need to increase home ownership in America -- is manufactured housing a priority in your work at HUD? How will you ensure that manufactured housing has a seat at the table at HUD in discussions about affordable housing? For example, are there any plans to elevate manufactured housing to the level of an Assistant Deputy Secretary at HUD?

**Answer:** Manufactured Housing is the largest source of unsubsidized affordable housing in America and a critical component of housing rural America. The importance of Manufactured Housing will certainly be taken into account when considering any reorganization.

Department of Housing and Urban Development  
**Fiscal Year 2018 Questions for the Record**  
 David Price – Ranking Member  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

## **Ranking Member Price**

### **Ranking Member Price #1: CDBG/Home**

Users of the Low-Income Housing Tax Credit have explained that the program costs far more today despite producing fewer affordable housing units. One reason for this is the cumulative cuts to CDBG and other federal programs. The funds from those programs are often used for "soft" subsidies/gap financing for affordable housing projects.

**Question:** How does the nation address a growing rental housing crisis while cutting or eliminating those programs?

**Answer:** The Administration's Budget reflects tough choices, and proposes no new funding for CDBG and HOME, to apply these funds to other priorities. However, HUD's mission remains the same, and we will support successful elements of past programs and look to work with state and local governments and other partners to further economic development goals and support households on their path to sustainability. The Department is also committed to efficient and effective use of the uncommitted HOME and CDBG funds.

The Administration's FY 2018 Budget proposals for CDBG and HOME are predicated on devolving responsibility for housing and community development activities to state, local, and private sector partners—enabling those entities at the local level that best understand the communities and their needs to drive the solutions that work for them.

Affordable housing a complex issue, and one where state and local governments and private sector partners must all play a key role in identifying the appropriate solutions for their communities. Rents are growing at a faster pace than renter income, and this problem is most severe in markets where local land use choices and regulations both limit the supply of land and increase the cost of development, leading to unsustainable market rents. The Federal government has played a large role in addressing this problem through production programs, like LIHTC, and increasing per unit subsidies for assisted tenants. However, this effort alone is not enough. HUD needs a new way of thinking about addressing the affordable housing shortage, and looks forward to working with the Congress to discuss the local, state, and federal combined strategy for addressing the needs of low-income households.

## **Ranking Member Price #2: HOME**

**Question:** The HOME program has proven effective in securing sustainable affordable housing opportunities across our country. HOME's flexibility ensures that the program is a workhorse that demonstrates ongoing measurable results, including the substantial leveraging of private resources and local public funds. Given the continued need for decent shelter for low-income persons, including seniors, veterans, those with disabilities and low-income working individuals and families, what is the Administration's justification for proposing the elimination of this established program?

**Answer:** The Budget reflects the choice to discontinue funding for HOME in favor of locally driven public-private programs with even stronger private leverage. As discussed above, HUD looks forward to working with the Congress to discuss the local, state, and federal combined strategy for addressing the needs of low-income households.

Affordable housing a complex issue, and one where state and local governments and private sector partners must all play a key role in identifying the appropriate solutions for their communities. Rents are growing at a faster pace than renter income, and this problem is most severe in markets where local land use choices and regulations both limit the supply of land and increase the cost of development, leading to unsustainable market rents. The Federal government has played a large role in addressing this problem through production programs, like LIHTC, and increasing per unit subsidies for assisted tenants. However, this effort alone is not enough. HUD needs a new way of thinking about addressing the affordable housing shortage, and looks forward to working with the Congress to discuss the local, state, and federal combined strategy for addressing the needs of low-income households.

**Question:** What alternative resources are the Administration prepared to add to ensure that the broad range of low-income individuals and families that HOME would have benefited will be served?

**Answer:** The Administration intends to seek broader involvement of faith-based and other non-profits to not only close the funding gap but to establish a more flexible framework that is highly responsive to local needs. These non-governmental resources have been underutilized in the past and HUD is prepared to work closely with them to promote opportunity in the nation's low income communities.

**Question:** Is the Administration also prepared to add resources to other programs, such as health care, that inevitably will see demand increase due to fewer sustainable housing opportunities?

**Answer:** The Administration is not proposing any expansion of HUD efforts in these areas. However, HUD will work closely with Federal, state, local, and private sector partners to leverage resources to maximize progress on policy goals.

**Question:** HOME is one of the few programs to reach Americans with incomes typically below 60% of the area median. Given that hardworking low-income working persons often do not earn sufficient wages to cover the costs of area market rents or the market repair costs to maintain

decent housing conditions, what would the Administration propose for those low-income individuals who do not meet the extremely low income eligibility criteria?

**Answer:** Low Income Housing Tax Credits will continue to provide a stable financing source for housing that is affordable to low-income individuals without requiring use of appropriated Federal dollars.

**Question:** HUD funding for programs like the HOME Investments Partnership Program often provides essential gap funding for projects in rural areas of states. These funds leverage other resources to create much-needed housing for low-income families in rural communities. In addition to addressing housing problems, the positive outcomes of these programs are that they increase the local tax base, provide jobs, and spur more economic development. Many states simply do not have the resources to fill these gaps in funding if federal funds were to be reduced. Have you studied the potential impact on rural communities of cutting these important housing assistance programs? If so, please share those impacts?

**Answer:** HUD has not studied the specific impacts of eliminating the HOME program on rural areas. While HUD recognizes that HOME has made significant contributions in rural and metro areas alike, the Administration believes that local communities are better positioned than HUD to determine their affordable housing needs. With less funding available for HUD programs, it is incumbent upon local elected officials to address these priorities in a manner that makes the most sense for those communities. HUD is committed to working together with State, local, and private sector partners to support these efforts within appropriated funding levels.

### **Ranking Member Price #3: CDBG**

**Question:** Are there specific sources of funding at the state and local level that you believe will be available to fill the gaps that would be created by cuts in CDBG? Please identify these sources and explain how they can be redeployed from their current uses without a detrimental impact.

**Answer:** The Administration's Budget reflects tough choices, and proposes no new funding for CDBG and HOME, to apply these funds to other priorities. However, HUD's mission remains the same, and we will support successful elements of past programs and look to work with state and local governments and other partners to further economic development goals and support households on their path to sustainability.

State and local governments are better positioned to serve their communities' needs. This Budget recognizes a greater role for state and local governments and the private sector in addressing affordable housing needs. Local revenues, tax abatement policies, land donation, bonds, state and local tax credits, private investment, volunteer labor, and private philanthropy are all resources available and routinely used.

**Question:** How would you measure success for a CDBG project?

**Answer:** HUD measures direct benefits from a CDBG project through counting jobs, services, facilities, or housing provided for income-qualified persons or families. However, the ultimate success of an investment depends on whether the locality meets its community development objectives and the needs described in its Consolidated Plan.

Due to the flexibility of the program, HUD's ability to measure the overall effectiveness of CDBG is limited. The Government Accountability Office found that such information was limited, and cited their previous work that identified the difficulties of evaluating the impact of block grant programs that do not have uniform activities or outcomes, and the difficulty in attributing outcomes to the program, or to other factors. (GAO 12-575R, Effectiveness of Block Grants).

**Ranking Member Price #4: Homelessness**

**Question:** Reducing the supply of affordable rental housing will create pressure on rental housing units available to families at the lowest end of the income scale. This will almost certainly push more families into homelessness. There has been measurable progress toward reducing homelessness in recent years: is the current administration prepared to see a surge in homelessness in the coming years?

**Answer:** HUD has been working closely with its public and private partners to use existing resources as efficiently as possible. As HUD is engaged in this collaboration it has encouraged communities to partner with homeless assistance and mainstream benefits providers within their communities. These relationships broaden the communities' understanding of the scope of the homeless community and what housing and services they need to end their homeless experience. At the same time, HUD has created tools and incentives to help communities shift resources from lower performing activities to those that are more cost effective and achieve better outcomes. As a result, HUD's homeless assistance programs are housing many more households per dollar than before. The end result is that individuals and families experiencing homelessness receive more tailored housing and services.

As previously discussed, State and local governments and private sector partners must all play a key role in identifying the appropriate solutions for affordable housing in their communities. The Federal government's production programs and subsidies are not enough to solve this complex issue. HUD needs a new way of thinking about addressing the affordable housing shortage, and looks forward to working with the Congress to discuss the local, state, and federal combined strategy for addressing the needs of low-income households.

**Ranking Member Price #5: 202/811**

**Question:** You have claimed publicly that the President is requesting sufficient funding to renew all existing project-based rental assistance contracts (PRACs). However, the numbers for Section 811 do not appear to add up. If Congress were to adopt the President's budget for 811, do you have a contingency plan for dealing with a shortfall in PRAC renewal funding for a full 12 months?

**Answer:** The Department is confident that there is no need for a shortfall contingency plan for Section 811. In addition to the budget request, HUD's funding plan includes currently anticipated carryover funds and residual receipt collections to support the program. These amounts, coupled with prompt implementation of rent reforms, will ensure that all 811 PRAC renewals are fully funded. Further, the Department is proposing flexibility to shift funding between 202 and 811, to ensure ability to utilize unanticipated resources to where they are most needed.

**Question:** Is the proposal in the budget to transfer up to \$35 million between 202 and 811 not an implicit concession that the Administration's budget short funds PRAC renewals across both programs?

**Answer:** No. The proposal for transfer authority does not mean there is a shortfall in either 202 or 811. The precise timing and distribution of rent reform savings between the two accounts is difficult to estimate for a variety of reasons beyond HUD's control. The transfer authority simply allows HUD to adequately support both 202 and 811, as needed, during budget execution. In addition, residual receipts and recaptures used to supplement the budgets are unpredictable, so this authority allows the Department the needed flexibility to ensure funding is available for all contract renewals and amendments on a timely basis.



### **Ranking Member Price #6: Housing Choice Vouchers**

**Question:** Your request indicates that the request for Housing Choice Vouchers assumes a reduction in the number of households assisted via attrition (i.e. not reissuing vouchers when families exit the program). How many fewer households would be assisted in 2018 under the request, relative to recent months – that is, how many vouchers would be eliminated through attrition?

**Answer:** The number of vouchers that would not be supported in 2018 is ultimately dependent on the PHAs' actual leasing and costs in calendar year (CY) 2017. If we assume PHAs spent 100 percent of the 2017 enacted funding (accounting for inflation and other adjustments), HUD projects that the funding difference between that projected cost in 2018 and the President's Budget would represent approximately 177,000 vouchers based on the estimated voucher per unit cost for 2018.

However, that does not mean that 177,000 vouchers will not be reissued upon turnover in CY 2018. The actual number will depend on several factors. For example, some PHAs will have reserves that will permit the PHA to continue to lease vouchers that turn over. The Budget also provides HUD with the authority to waive or specify alternative requirements for statutory and regulatory provisions over areas including allowable rent levels, payment standards, and reporting requirements. PHAs may utilize these flexibilities to help reduce per unit costs, which in turn will lessen the number of vouchers where reissuance upon turnover must be suspended or delayed.

**Question:** Who would be impacted by this attrition? Nearly all program participants are very low-income seniors, people with disabilities, families with children, and assisted households that have incomes of only about \$14,000 per year. Isn't it fair to say that these are the households that would lose vouchers under such an attrition plan?

**Answer:** Approximately 200,000 families leave the voucher program for a variety of reasons every year. This normal attrition is not the result of funding shortfalls, and it is reasonable to assume that families will continue to leave the program at the same rate in 2018. The savings associated with this attrition do not come from terminating existing program participants but rather from not reissuing the vouchers that are freed up when families leave the program. Unassisted families on a PHA's waiting list may face longer waits if the PHA stops or delays reissuing vouchers.

**Question:** What would be the impact of such losses in communities? Communities such as Durham, North Carolina and Los Angeles use turnover vouchers to help homeless individuals and families to move from the streets or shelters into stable homes, and such vouchers are an essential part of community plans to reduce homelessness. Wouldn't reducing vouchers via attrition result in extending the length and severity of homelessness in such communities?

**Answer:** The impact will vary from community to community. If a PHA stops reissuing turnover vouchers, that resource is not available to address housing problems by assisting families off the waiting list. However, the extent and degree to which the PHA may need to impose a freeze or delay on the reissuance of turn-over vouchers will vary from agency to agency. It will depend on

factors such as the PHA's per unit costs and available reserves, the local rental market, and the individual flexibilities that the PHA may choose to utilize under the Budget's waiver proposal, as well as existing cost savings measures that the PHA may choose to employ. Those PHAs that are still able to lease vouchers may choose to further prioritize their use to those most in need, such as by establishing a selection preference for homeless families.

**Question:** HUD's 2018 request for voucher renewals is \$771 billion below the enacted 2017 funding level. After taking into account inflation and adjustments for new vouchers issued to homeless veterans, for RAD conversions, etc., it seems likely that the request will be roughly \$2 billion below what will be needed to renew all vouchers in use. Wouldn't the request force some PHAs to terminate vouchers for large numbers of seniors, people with disabilities, and families, in addition to making cuts through attrition?

**Answer:** The Budget's objective for the Housing Choice Voucher (HCV) program is to reduce costs while continuing to assist current residents. HUD believes the budget provides the necessary cost savings, offset authority, and administrative flexibilities for public housing agencies (PHAs) to meet their budget targets without having to terminate existing families.

The Budget would provide HUD with the authority to waive or specify alternative requirements for statutory and regulatory provisions over areas including allowable rent levels, payment standards, and reporting requirements during this transition. This proposal will provide PHAs with a variety of options to help them manage their programs within their funding limits while preventing the displacement of current participants. This approach is designed to empower PHAs by giving them the flexibility to employ those relief measures that make the most sense in relation to their local needs and priorities. HUD is also proposing changes that will ensure that participating families are making modest contributions toward their share of the rent while reducing program costs. For example, families would pay a minimum rent of \$50 and utility reimbursements in the HCV program would be eliminated, except in cases where families would qualify for hardship exceptions.

HUD will also continue to deploy our Shortfall Prevention Team (SPT) to identify agencies that are at risk and work with those agencies to mitigate that risk, using existing tools such as the Housing Assistance Payment (HAP) renewal set-aside funding, PHA reserves, and cost savings measures that are available to the PHA. HUD will utilize our existing offset and reallocation authority to reallocate excess PHA reserves to other PHAs to prevent funding shortfalls. As part of this budget, HUD is asking Congress to remove the restrictions that have limited the Department's ability to apply the offset to the excess reserves held by the MTW agencies.

### **Ranking Member Price #7: Rental Reform**

The budget proposes a series of rent policy changes and justifies them by saying that the goal is to help those with the greatest need for assistance. Yet, using HUD's estimates, the proposed policy changes would increase rent burdens for assisted tenants by over \$1 billion in FY 2018 (and probably by a much larger amount in later years, after all the proposed changes were fully implemented for vouchers and public housing). And it seems likely that these rent increases would hit the poorest households hardest. For instance, the budget proposes to impose mandatory minimum rents and eliminate utility reimbursements for some assisted tenants.

**Question:** Wouldn't these changes primarily affect the poorest tenants, including people who are formerly homeless?

**Answer:** The fiscal year 2018 Budget's objective for rental reforms program is to reduce costs while continuing to assist current residents. The 2018 proposals are a first step towards a holistic rental reform package for 2019. HUD looks forward to working with Congress to ensure that we are able to provide efficient and effective support to the most vulnerable families while also helping families achieve economic self-sufficiency. HUD believes the budget provides the necessary cost savings, offset authority, and administrative flexibilities for public housing agencies (PHAs) to meet their budget targets without having to terminate assistance to families currently receiving it.

**Question:** How do you justify higher minimum rents and increased tenant contributions from non-elderly people with disabilities below 100% of the federal poverty level?

**Answer:** For the vast majority of families, this increase in rent is very small compared to the differential between their subsidized rent and the cost of renting in the private market. Households receiving housing assistance receive benefits averaging more than \$600 in subsidy per month relative to private market rents. The proposed increases in tenant contributions, averaging less than \$90 per month for households affected by the proposed change in the income calculation, still leaves most households with a monthly subsidy in excess of \$500 relative to market rents. In addition, hardship exemptions will be available to assist households facing difficult situations.

**Ranking Member Price #8: Choice Neighborhoods Initiative**

**Question:** You propose that all recaptured funds in the Choice Neighborhoods Initiative and its predecessor program HOPE VI be transferred to the Public Housing Capital Fund. Congress appropriated those funds in previous acts of legislation. Please clarify the intention of this provision. Would unobligated FY 17 funds be subject to the language of the general provision?

**Answer:** The 2018 President's Budget requests no funding for the Choice Neighborhoods program. In a General Provision, the Budget proposes that in FY 2018 all unobligated and recaptured funds in both the Choice Neighborhoods program and its predecessor program, HOPE VI, may be directed to the Public Housing Capital Fund to help address the \$25 billion capital needs backlog. Under this provision, the Department would have authority to award unobligated FY 2017 funds as Choice Neighborhoods grants, transfer them to the Public Housing Capital Fund, or a combination thereof. However, HUD is currently operating with the intent of awarding the FY 2017 Choice Neighborhoods grant funds under the Planning NOFA published on June 28, and the Implementation NOFA to be published later this summer.

**Question:** When does the HUD expect to publish the NOFA for the 2017 Choice Neighborhoods initiative program?

**Answer:** HUD published the FY 2017 Choice Neighborhoods Planning NOFA on June 28 and applications are due on August 28, 2017. HUD expects to publish the Choice Neighborhoods Implementation NOFA in late summer. With the FY 2017 appropriations, HUD expects to award 6-7 Planning Grants and 4-5 Implementation Grants.

**Question:** When does the HUD expect to obligate funds for the 2017 Choice Neighborhoods initiative program?

**Answer:** HUD expects to obligate the FY 2017 Choice Neighborhoods Planning funds in February 2018 and the FY 2017 Choice Neighborhoods Implementation funds in July 2018. For Planning grants, the application deadline will be approximately 60 days after NOFA publication, and awards are typically announced five months after application deadline. For Implementation grants, as in past years, HUD anticipates announcing finalists, conducting on-site visits with each finalist, then making grant awards. Finalists are typically selected approximately 4-5 months after application deadline, and awards are typically announced three months after finalist selection.

### **Ranking Member Price #9: Public Housing Capital Fund Backlog**

**Question:** There is a growing capital needs backlog, estimated at \$26 billion as of 2010 and increasing by an average of \$3.4 billion each year, imperiling the future of public housing. What effect will the budget request have on the public housing capital backlog and what steps will HUD take to reduce the backlog?

**Answer:** The capital needs of public housing can only be met by leveraging private funding with the available Federal funds. To that end, the Department has focused on utilizing the Rental Assistance Demonstration (RAD) as the best vehicle to address this backlog. This Administration continues to support RAD and advocates for its expansion so that RAD can address this issue to the fullest extent possible.

Even with reduced funding for the Capital and Operating Funds in fiscal year 2018, RAD can remain successful. Some existing awardees and PHAs receiving awards due to the recent 40,000-unit increase that anticipated using Capital Funds as a source in their recapitalization transactions may need to find alternative resources. In addition, lenders and investors may impose higher property reserve requirements given that the initial year funding for conversions is reliant on public housing funding levels. Upon conversion, rent levels are dependent on a property's public housing funding levels even though RAD does not receive appropriated funds. If the Capital and Operating Funds are consistently funded at the proposed fiscal year 2018 levels in the long term, it would reduce overall the number of public housing properties that could participate in and benefit from RAD. In the future, should the RAD cap be lifted, HUD looks forward to working with Congress and local governments on how to fund these future conversions.

In the absence of a RAD participation cap, HUD will be able to streamline the processing requirements of RAD transactions, eliminating the need to monitor requirements that are tied to the stewarding of scarce resources. For example, the RAD Notice currently limits the number of times a PHA can pursue competitive 9 percent LIHTC resources so that, if they don't secure a tax credit award, they are not sitting on RAD authority that others would be able to use. HUD staff spend time monitoring whether the PHA has applied for their tax credits and pressing them for their backup financing plans. In the absence of a cap on authority, HUD would eliminate the need for this kind of up-front monitoring. This is just one example, and HUD has also done significant work to standardize and streamline the RAD process already. In the last few years, HUD has dramatically increased the volume of RAD conversions each fiscal year, operating with the same staff. At some point, as production continues to increase, HUD may need to review staffing capacity and/or realigning other staff resources. Finally, the streamlining efforts in the last year have significantly clarified roles and responsibilities, including decision-making, among offices. HUD can continue this effort to streamline processes by, automating some steps, further clarifying the roles of various offices, and training and streamlining to accelerate substantive underwriting, fair housing, relocation, and environmental reviews.

**Question:** How does HUD plan to ensure resident health in public housing, for example- lead, mold, and other toxins- that are currently remediated through the Public Housing Capital Fund?

**Answer:** The Department currently requires all PHAs to first address health and safety issues in advance of any major rehabilitation in its public housing developments. This includes lead paint remediation and other health-related items.

In addition, HUD appreciates the funding provided in 2017 to mitigate lead hazards in public housing. The Department is moving expeditiously to implement the \$25 million competitive grant program—building off of existing requirements and platforms to avoid undue administrative burden and ensure timely awards in 2018, and ensure that we can apply lessons learned to such activities going forward.

**Question:** The Administration asserts that flexibility proposals contained in the budget request will enable PHAs to focus scarce funds on local priorities. Yet, an environment with scarce resources, as shown by the budget request, coupled with rolling back standards that were put in place to ensure that public housing is well run and safe could lead to unanticipated consequences. What problems do you anticipate and how would you mitigate the problems that could emerge from these flexibilities?

**Answer:** The Department does not anticipate that the flexibilities contained in the Budget will increase risk for the public housing program, primarily because HUD's budget does not seek to roll back programmatic standards. Specifically, the flexibility to use Capital and Operating Funds interchangeably is a flexibility already available to most small PHAs and HUD has not seen a discernable difference in the administration of the program by these PHAs compared to their larger counterparts. This is, in large part, because HUD has longstanding programmatic requirements and an oversight structure for these funds that were established to minimize risk. Further, the broad waiver authority included in the budget would require HUD review of such requests, so HUD will be able to tailor oversight of any changes in operations made available through an approved waiver to assure that increased risk is mitigated.

**Ranking Member Price #10: Response to Congressional Inquiries**

**Question:** What is the policy at the Department with regard to responses to congressional inquiries?

**Answer:** The Department takes the oversight responsibility of Congress seriously, and will respond to any and all inquiries in a timely manner.

**Question:** More specifically, is there a policy or guidance that would prohibit or delay responses to Ranking Members of Congressional Committees or subcommittees of jurisdiction?

**Answer:** No.

**Question:** Is there a policy or guidance that would prohibit or delay responses to Democratic Members of Congress?

**Answer:** No.

**Question:** If such policies or guidance are in place to prohibit or delay responses to Ranking Members or all Democratic Members, was such developed in consultation with the White House or the Office of Management and Budget?

**Answer:** There has been no such guidance.

**Ranking Member Price #11: Tenant-Based Rental Assistance**

**Question:** Please provide a list of all PHAs that have turned back HUD-VASH or any other special purpose vouchers in each of the past 3 fiscal years.

**Answer:** The only special purpose vouchers that have been returned to HUD in the past 3 fiscal years are HUD-VASH vouchers that were awarded through the project-based set-aside. Those set-aside voucher awards were contingent on the PHAs meeting certain deadlines to put the units under HAP contract that were designed to ensure that the PBV set-aside funding would be used in an expeditious manner. The return of these vouchers was a function of failing to meet the funding award requirements the PHA agreed to, and does not reflect the PHA's willingness or unwillingness to continue to administer HUD-VASH vouchers.

PHA Name	State	FY 2013-2016 PBV Set-Aside Rescinded
County of Los Angeles	CA	38
City of San Buenaventura	CA	4
City of Long Beach	CA	75
Jacksonville	FL	75
Hawaii PHA	HI	25
NYC HPD	NY	58
Fairfield Metro	OH	5
Douglas County	OR	54
San Antonio	TX	12
Milwaukee County	WI	13
San Luis Obispo	CA	10
County of Wake	NC	10
Chester County	PA	35
State of Montana	MT	40
State of Massachusetts	MA	43
County of Los Angeles	CA	52
County of Riverside	CA	15
Madison CDA	WI	25
Oceanside	CA	25
City of Salem	OR	25
San Francisco	CA	21
Seattle	WA	21



**Question:** Please provide a list of all PHAs that have terminated or consolidated their tenant-based Section 8 programs in each of the past 3 fiscal years.

**Answer:** Please see the below table that lists the 92 housing agencies that have ceased operations, either through voluntary transfers or consolidations, in the past 3 fiscal years.

<b>Consolidated or Transferred PHAs: 2014-2017</b>	
<b>Name</b>	<b>State</b>
Mountainair Housing Authority	NM
Yoakum HA	TX
Winchester HA	CT
New London HA	CT
Roanoke Total Action Against Poverty	VA
HA of the City of Hartford	AL
Marshall County HA	IN
HA of the City of Oren	MO
Bradford HA	PA
The Center for People with Disabilities	CO
Sellersburg HA	IN
Community Housing Network	MO
Illinois Department of Commerce and Economic Development	IL
East Prairie Public Housing Agency	MO
HA of the City of Hutchinson	KS
Junction City Housing Authority	KS
Navasota Housing Authority	TX
Marfa Housing Authority	TX
Housing Authority of McKinney	TX
City of Willmar	MN
Piedmont Housing Alliance	VA
Saco Housing Authority	ME
Town of Oyster Bay HA	NY
Del City HA	OK
Eau Claire HA	WI
Taylor County HA	WI
Henderson County HA	IL
New Madrid County	MO
Taos County HA	NM
New Berlin HA	WI
Waukesha County HA	WI
City of Middletown	OH
Tempe HA	AZ

Mid Iowa RHA	IA
Livingston County HA	IL
Marion HA	IN
Lackawanna County HA	PA
HA of Delkalb	GA
Brockton Area Multi-Services	MA
HA of Beckville	TX
Galveston HA	TX
Housing Partnership, Inc.	FL
Town of Poughkeepsie	NY
Kalama HA	WA
City of Hollister	CA
City of Marietta HA	GA
Yuba County	CA
HA of the City of Corry	PA
Commerce HA	TX
Fulton County HA	IN
East Grand Forks	MN
Saint Albans City Housing Authority (SACHA)	VT
Ferry County Joint Housing Authority	WA
Martinsville RHA	VA
Buckhannon HA	WV
Corsicana HA	TX
Rice Lake HA	WI
Virginia Housing Development Authority	VA
Troy HA	NC
Fairfield Alabama HA	AL
Ogdensburg HA	NY
ABCD Housing Authority	MO
Wakulla County Board of Commissioners	FL
Transitional Services of New York for Long Island	NY
Family & Children's Association	NY
Grapevine HA	TX
Town of Horseheads	NY
Alamo Area Council of Governments	TX
NYS Housing Trust Fund Corporation	NY
South St. Paul HRA	MN
Bridgewater HA	MA
Polk County HA	FL
Clearwater County HRA	MN
Clark County HA	IL

Kauai County HA	HI
Monroeville Housing Authority	AL
Tarrant Housing Authority	AL
Cumberland County Housing Authority	IL
Athens Housing Authority	TN
Housing Authority of the City of Pasadena	CA
LaMarque HA	TX
Venango County HA	PA
Village of Mount Kisco	NY
Municipality of Jayuya HA	RQ
Burlington County Board of Social Services PHA	NJ
St. Michaels Housing Authority	MD
Grant Housing Authority	NM
Housing Development Corporation	PA
Duxbury Housing Authority	MA
Moorhead HRA	MN
Upland HA	CA
Independence HA	LA

**Question:** How many HUD-VASH vouchers are currently available for use?

**Answer:** As of March 31, 2017, 92 percent of the 87,864 HUD-VASH vouchers funded prior to fiscal year 2017 were leased or issued (or were in the process of being issued), leaving over 8,000 HUD-VASH existing vouchers available for use from prior year appropriations. Additionally, the Consolidated Appropriations Act, 2017 provides an additional \$40 million for HUD-VASH, and \$7 million for Tribal-VASH. The \$40 million will support approximately 5,000 new HUD-VASH vouchers, in addition to the 8,000 available vouchers from prior year appropriations.

#### **Ranking Member Price #12: IT Modernization**

**Question:** Please provide a list of all IT systems, subsystems or IT contracts decommissioned or terminated in FY 2017. Provide the cost of each system, subsystem or contract in each of the past 3 fiscal years.

**Answer:**

**HUD Systems Decommissioned in FY 2017**

<b>System Code</b>	<b>System Acronym</b>	<b>System Name</b>	<b>FY 2014 Cost</b>	<b>FY 2015 Cost</b>	<b>FY 2016 Cost</b>
D91a	TEAM	Total Estimation & Allocation Mechanism - Resource Estimation & Allocation Process	659,114	0	0
E08A	TEAPOTS	Title Eight Automated Paperless Office Tracking System	0	0	0
H09	LR2000	Labor Relations 2000	0	0	0
P096	LASS	Lender Assessment Sub-System	286,721	45,172	46,527

***Note: All systems listed above will have completed the decommission process and been removed from HUD's Inventory of Automated Systems (IAS) by the end of FY 2017.***

**Question:** Please provide a list of all IT systems, subsystems or IT contracts planned for decommissioning or termination in FY 2018. Provide the cost of each system, subsystem or contract in each of the past 3 fiscal years.

**Answer:**

**Planned HUD Systems Decommission for FY 2018**

System Code	System Acronym	System Name	FY 2014 Cost	FY 2015 Cost	FY 2016 Cost
D09I	CAPS	WebFocus CAP Reports System	0	0	0
E04	SCTS	Section 3 Complaint Tracking System (Cold Fusion)	0	0	0
F51	IMF	Institution Master File	377,062	73,525	73,731
F51Q	QDLS	Quality Assurance Document Library System	75,760	0	0
P273	HIAMS	HUD Integrated Acquisition Management System	2,795,508	1,618,319	809,059
V01A	ECIS	Enforcement Center Information System	143,131	0	0
V02A	DECMS	Departmental Enforcement Center Management System	113,517	0	0
V03A	ECPCIS	Enforcement Center Program Compliance Integration System	154,560	0	0
D77B	SFGIS	Single Family GIS Locator	0	0	0
D77C	HGM	HUD GIS Maps	0	0	0
P294	GMS	Grants Management System	527,327	449,096	34,900

**Note:** Planned decommissioning is contingent upon receiving the full FY18 President's Budget Request.

**Ranking Member Price #13: PHAs in Receivership**

**Question:** How many PHAs in receivership does the department plan to return to local control in FY 2017?

**Answer:** Two. The Housing Authority of the City of Lafayette (Louisiana) was returned November 16, 2016. East St. Louis (Illinois) is proposed for return on before the end of this fiscal year.

**Question:** How many PHAs in receivership did the department return to local control in FY 2016?

**Answer:** None.

### **Ranking Member Price #14: Next Generation Management System (NGMS) Status Update**

**Question:** What is the status of the NGMS project?

**Answer:** The Next Generation Management System (NGMS) was comprised of projects that support the management of the Housing Choice Voucher (HCV) programs: Budget Formulation and Forecasting (BFF) project, Portfolio and Risk Management Tool (PRMT), and PIH Information Center-Next Generation (PIC-NG). Based on requirements identified during the development of the NGMS projects listed, HUD is planning a development effort to improve the HCV cash management process that would replace the current Voucher Management System (VMS). The VMS is the system of record upon which the current payments to the Public Housing Authorities (PHAs) are calculated. The Budget includes a proposal for \$10 million to support HUD modernization efforts, including investments in conjunction with agency realignment under the Executive Order. These efforts will be coordinated with the COO, the CIO, and the HUD CFO (once confirmed).

The BFF project is currently used by PIH staff to validate HCV data from the PHAs. All further development of the BFF project ceased in 2016.

Both headquarters and field staff currently use the PRMT tool. The system was enhanced in July 2017 to have the PHA level dashboards in PRMT reflect data regarding a PHA's Rental Assistance Demonstration (RAD) Conversions.

HUD is currently re-platforming the current PIC system to the PIC-Next Generation (PIC-NG) system. This project, will move the system to the Azure cloud, add additional data fields to capture data at the household level, and upgrade the legacy system to a more robust model. PIC-NG tenant-level data will be used in the new VMS to calculate a PHA's monthly Housing Assistance Payment (HAP) need.

**Question:** Please provide a detailed accounting of DM&E expenditures, both planned and actual, for the FY 2013, FY 2014, FY 2016 and FY 2017 that directly support NGMS.

The table below provides the NGMS project DME expenditures.

**NGMS DM&E Expenditures by Source Year<sup>1</sup>**  
**(\$ in thousands)**

	FY 2014		FY 2015		FY 2016		FY 2017	
	Planned <sup>2</sup>	Actual	Planned	Actual <sup>3</sup>	Planned	Actual	Planned	Actual
Project Portfolio & Risk Management Tool (PRMT) Phase 2	\$812	\$812	\$0	\$0	\$0	\$0	\$0	\$0
Project Management Support	\$1,185	\$1,185	\$0	\$0	\$0	\$0	\$0	\$0
Budget Formulation and Forecasting (BFF) Tool	\$2,475	\$2,075	\$552	\$552	\$0	\$0	\$0	\$0
PIH Information Center (PIC)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Voucher Management System (VMS)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$4,472</b>	<b>\$4,072</b>	<b>\$552</b>	<b>\$552</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

1/ Funding for NGMS is awarded by vendor and multiple vendors work on multiple NGMS modules; obligations by module as provided in the table are estimates.

2/ Planned obligations include \$400K from FY 2014 expenditure plan and \$4.072 million from No Year funds.

3/ Actual obligations include \$552K of No Year funds and \$391 of carryover from FY14. Systems showing \$0 in the table are in operations and maintenance with no DME funding required.



**Ranking Member Price #15: Working Capital Fund**

**Question:** Please provide a list of transfers into and out of the working capital fund. For each, provide the office charged and the intent of the transfer.

**Answer:** Please see the table below. For FY 2016, the first column reflects charges for each office’s portion of shared services as appropriated in the appropriations Act. The second column reflects transfers under the authority to transfer up to \$10 million, to provide liquidity and fund unforeseen costs/investments to improve systems or services. The third column reflects anticipated charges for each office’s share of shared service agreements funded through the Working Capital Fund, consistent with enacted 2017 appropriations and billing estimates per the Interagency Agreements with HUD’s shared service providers.

**WCF Revenue Totals  
in Sthousands**

<b>Source of Funds/ Office</b>	<b>FY 2016 Transfer into WCF for FY16 IAAs</b>	<b>FY 2016 Additional Transfers into WCF</b>	<b>FY 2017 Anticipated Transfers into WCF for FY17 IAAs</b>
<b>EO</b>			<b>783</b>
OCFO	27,206	552	3,659
OGC			1,585
ADMIN			971
OCHCO	16,476	520	1,122
FPM		360	1,285
OCPO		900	1,356
ODEEO			246
OSPM			273
OCIO			1,995
<b>ASO Subtotal</b>	<b>43,682</b>	<b>2,332</b>	<b>12,492</b>
PIH		2,400	9,533
CPD		680	4,123
HOUSING		3,768	10,642
PDR		645	1,183
FHEO			1,863
LHCHH		175	576
<b>POSE Subtotal</b>	<b>-</b>	<b>7,668</b>	<b>27,921</b>
<b>HUD Total</b>	<b>43,682</b>	<b>10,000</b>	<b>41,196</b>
<b>GNMA</b>			<b>823</b>
<b>Grand Total</b>	<b>43,682</b>	<b>10,000</b>	<b>42,019</b>

The amounts of \$43,682k and \$42,019k transferred into the fund for FY 2016 and FY 2017 are directly applied to Interagency Agreements for the following Services:

<b>Shared Service Provider and Agreement</b>	<b>FY 2016 Agreement Totals</b>	<b>FY 2017 Agreement Totals</b>
ARC - Financial Management, Procurement, and Travel Services	27,206	24,190
ARC - Human Resources Services	12,830	12,796
TSSP - Human Resources Systems	3,646	3,791
NFC - Payroll Processing	-	1,242
<b>Total</b>	<b>43,682</b>	<b>42,019</b>

Department of Housing and Urban Development  
**Fiscal Year 2018 Questions for the Record**  
 John Culberson - Congressman  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

## **Representative Culberson**

### **Representative Culberson #1: CDBG-DR**

This year will be the 9-year anniversary of Hurricane Ike's landfall. Last year, you submitted a Question for the Record (QFR) to the HUD IG inquiring about the local housing authority still using Ike disaster relief funds to build subsidized housing. The answer to the QFR stated that the \$6.5 billion in Disaster Recovery funds was to remain available until spent. As of last year, \$1.4 billion of the funds remained unspent, and the answer to last year's question indicated that there is no mechanism available to recapture the unused funds.

**Question:** In my district, the local housing authority is still using disaster relief funds from Hurricane Ike to build subsidized housing, including \$26 million of CDBG-DR funding for one project that has an estimated per unit cost of over \$240,000. They are demolishing an office building to build the project. It is questionable to suggest that demolishing a functional office building to build subsidized housing is associated with hurricane destruction from 2008. Based on the most recent semi-annual report to Congress, \$1.1 billion of obligated funds from Hurricanes Ike, Gustav, and Dolly have not been disbursed. Seeing as how Texas has had several major disasters in the past year, and the Texas General Land Office is facing a \$2 billion shortfall for disaster relief from the past two years, can HUD de-obligate these funds and re-allocate them for actual disaster recovery from storms that have impacted the area in the past two years?

**Answer:** Congress appropriates CDBG-DR funds with specific instructions regarding the use of funds, including the effects of which disasters each grant may address. HUD lacks the authority to re-allocate the funds for other purposes including addressing the effects of events not covered by the language of the specific appropriation. HUD also notes that the state of Texas has reduced the unexpended balance of the 2008 funding below \$600 million as of May 31, 2017.

**Representative Culberson #2: Fountain View**

The per unit cost of the Fountain View project is estimated to be over \$240,000, considerably higher than other similar developments have cost. Fountain View was advertised to have amenities such as a courtyard swimming pool with gazebos and seating, barbecue grills and picnic tables, a fitness center, business center, and cyber café.

**Question:** The cost per unit of the housing project in question has a cost per unit of over \$240,000. The fact sheet for the project advertised that the project would have a courtyard swimming pool with gazebos and seating, barbecue grills and picnic tables, a fitness center, business center, and cyber cafe. Only 20 percent of the units in the complex will be rented at market value. In such a tight budget environment, are these amenities for low-income housing an effective use of taxpayer dollars?

**Answer:** The primary objective is to provide decent, safe and sanitary housing units at reasonable cost. The Fountain View project has had several project cost estimates; the estimate is now below \$240,000 per unit, and is within the range of reasonableness for comparable developments in similarly priced areas. To the extent that housing authorities or developers wish to incorporate certain amenities at a nominal cost, such actions are statutorily and regulatory permissible.

### **Representative Culberson #3: Houston Housing Authority/OIG**

On December 27, 2016 the HUD IG released an audit report on the Houston Housing Authority's public housing and Housing Choice Voucher Programs.

The report found that "The Authority did not follow HUD's regulations or its own policies when contracting for goods and services and paying for miscellaneous expenses. This condition occurred because the Authority did not implement adequate internal controls over its procurement and financial operations. The Authority also did not always use correct payment standards or perform annual tenant recertifications for its voucher program tenants in a timely manner and in accordance with HUD regulations and its administrative plan. This condition occurred because the Authority lacked written procedures for applying payment standards and its staff did not understand HUD's regulations. Further, its staff turnover and caseloads were high. As a result, the Authority paid more than \$3.2 million in Federal funds for ineligible and unsupported costs."

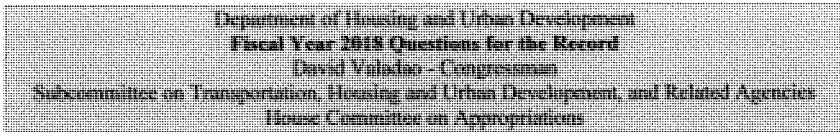
As a result, they recommended "that HUD require the Authority to (1) repay more than \$183,000 in ineligible expenditures; (2) support or repay more than \$3 million in questionable costs; and (3) implement adequate internal controls, including written procedures, to ensure that its procurement and expense payments comply with HUD's regulations and its own policies."

A Houston Chronicle investigation titled "Lost Money" on Houston's affordable housing fund (locally collected money) found that nearly half of the \$96 million spent since 2007 has gone towards "administrative costs, federal fines, or keeping projects moving after the city lost state and federal grants." Additionally, while the city thought they had \$7 million in the account, it was later discovered that they had lost track of \$17 million, and had not properly accounted for taxes collected since 2012 and actually should have \$46 million in the account.

**Question:** Late last year, the Inspector General released a report on the Houston Housing Authority that found they did not implement adequate internal controls over procurement and financial operations, resulting in \$3.2 million in Federal funds being spent on ineligible and unsupported costs. Additionally, an investigation by our local newspaper, the Houston Chronicle, found that the City lost track of \$39 million of locally collected funds that were designated for low income housing due to "sloppy record keeping." Is HUD doing enough to work with local entities that receive federal funding to ensure they have proper controls in place to be good stewards of taxpayer funding?

**Answer:** Public Housing Authorities (PHAs) expending more than \$750,000 in federal funds during a given fiscal year are required to conduct an audit by an Independent Public Accountant in accordance with the 2 CFR Part 200, Subpart F. Among its objectives, an audit considers whether internal controls are in place and effective. HUD reviews each audit submission for completeness, adherence to accounting standards, and the presence of material weaknesses and findings. HUD issues a Management Decision Letter on all audit findings and works with PHAs to correct any identified deficiencies, tracking each audit finding to closure. Further, HUD analyzes the content of the audits to identify long-term trends, programmatic findings, and the level of severity of the findings; this information is incorporated into HUD's overall risk assessment and monitoring strategy.

PIH has adopted a national risk-based approach to providing oversight and monitoring of its over 3,700 housing authorities to more effectively utilize its staffing resources for field staff. Through this approach, PIH focuses its efforts on PHAs that are very high risk and high risk as determined by a myriad of measures. These controls are designed to ensure, among other things, that PHAs have proper controls in place to be good stewards of taxpayer funding.



## **Representative Valadao**

### **Representative Valadao #1: Expansion of Moving to Work**

Under the previous administration, HUD established criteria for the first phase of the expansion of the Moving to Work program, which provides flexibility for housing authorities to explore and test new and innovative methods of delivering housing and supportive services to low income families. Unfortunately, the criteria set by HUD excluded nearly all of the California housing authorities, such as those that serve my constituents.

**Question:** What assurance can you provide that the next phase of Moving to Work expansion will include California housing authorities?

**Answer:** The selection criteria for the cohorts of the Moving to Work (MTW) expansion will be based on the 2016 Consolidated Appropriations Act (the Act) under which the expansion was established. The Act sets forth specific size requirements for the 100 new MTW public housing agencies (PHAs) to be selected, including that: no less than 50 PHAs administer 1,000 or fewer aggregate voucher and public housing units, that no less than 47 PHAs administer 1,001-6,000 aggregate public housing and voucher units, and that no more than 3 PHAs administer 6,001-27,000 aggregate voucher and public housing units. PHAs with more than 27,000 aggregate voucher and public housing units are not eligible. Further, the Act requires that PHAs selected be high performers in either the Public Housing Assessment System (PHAS) or the Section Eight Management Assessment Program (SEMAP). The Act also requires HUD to consider geographic diversity in its selection, which the Department will implement through the competitive selection process. In addition to these selection requirements set forth directly in the Act, HUD may need to establish other selection criteria for the cohorts of the MTW expansion to ensure that it can meet the evaluative requirements of the Act. For example, it may be necessary to set minimum threshold performance criteria or select specific sized PHAs for certain cohorts to ensure that HUD is able to carry out the rigorous type of evaluation required by the Act. PHAs in California, as well as in other states, will be able to apply to participate in the MTW program.



### **Representative Valadao #2: Disparate Impact**

Mr. Secretary, the previous administration significantly broadened the scope and interpretation of "disparate-impact evidence" far beyond that outlined in the Supreme Court decision in *Texas Dept. of Housing and Community Affairs v. Inclusive Communities Project, Inc.*

This overzealous approach has resulted in HUD weakening local ordinances designed to further protect residents and communities from criminal activity. Unfortunately, the zeal of the department to impose its will on local government has had a chilling impact upon local housing authorities and municipalities.

**Question:** Mr. Secretary, will you review and report back to this committee within 90 days all ongoing complaints issued and/or investigations of State law and/or municipal ordinances alleged by the Department, to have violated The Fair Housing Act (FHA) under the guise of "disparate impact evidence?" Include in your report, any ordinances that have been adjudicated and found discriminatory under the Fair Housing Act by a court of competent jurisdiction prior to the department initiating an investigation or filing a formal complaint.

**Answer:** The Department processes thousands of civil rights inquiries each year and hundreds of civil rights complaints. As the Fair Housing Act requires, the Department accepts and investigates jurisdictional Fair Housing Act complaints filed by aggrieved persons. The Department investigates and considers the evidence under all theories of liability, including disparate treatment and discriminatory effects. Staff do not designate cases by type of legal theory or method of proof, and as such, HUD would not be able to provide a count of "Disparate Impact" evidence. Although the Department accepts cases alleging discriminatory land use ordinances, HUD does not adjudicate them, rather, pursuant to statute, HUD refers them to the Department of Justice.

HUD notes that the Supreme Court's 2015 decision in *Inclusive Communities* is entirely consistent with HUD's 2013 discriminatory effects regulation. In fact, the Supreme Court quoted HUD's regulation twice in support of its analysis. In addition, the Second Circuit Court of Appeals and several lower courts have held that HUD's 2013 regulation is consistent with *Inclusive Communities* and provides the correct framework for evaluating disparate impact claims.

Department of Housing and Urban Development  
**Fiscal Year 2018 Questions for the Record**  
 Tom Graves - Congressman  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

## **Representative Graves**

### **Representative Graves #1: Manufactured Housing**

Manufactured homes are regulated by the Department of Housing and Urban Development, and are the only form of non-subsidized housing regulated by HUD. You have said that you want to shift the HUD focus to empowering individuals to make their way out of poverty, rather than on the simple provision of housing subsidies. Given its affordability manufactured housing is part of the solution to non-subsidized affordable housing.

Manufactured housing provides safe and affordable homes for more than 22 million Americans, many of whom have low to moderate incomes. It provides a path from poverty to home ownership - representing self-reliance and wealth creation for its customers.

The median annual income of manufactured homeowners is just under \$30,000 per year, nearly 50 percent less than that of all homeowners. Nearly 60% of all new manufactured homes sell for less than \$70,000, and the costs of manufactured homes are between 10 to 35 percent less than the cost of comparable site-built homes.

Programs through HUD now allow those in public housing to use their vouchers to transition from public housing rental units into ownership of a manufactured house.

These are precisely the sorts of impacts and results that we in Congress and the President are focused on.

Additionally, manufactured housing employs close to 39,000 people in factories around the United States. Obviously, job creation is number one on both the Congress' and the President's agenda, and we are working particularly hard to restore manufacturing jobs. Manufactured housing is just that – manufactured in American plants by American workers.

Manufactured homes also are particularly important in rural areas. In fact, about two-thirds of all occupied manufactured homes in the U.S. are located outside of metropolitan statistical areas (MSAs), and 14 percent of the homes in non-MSA counties are manufactured homes. Manufactured housing is critical in addressing housing needs in rural communities where multi-family options are limited and impractical.

**Question:** Given your personal connection and understanding of the need to increase home ownership in America, will you commit to making manufactured housing a priority in your work at HUD? What will you do to ensure that manufactured housing has a seat at table at HUD in

discussions about affordable housing? Will you commit to looking at elevating manufactured housing to the level of an Assistant Deputy Secretary at HUD putting it on par with multi family housing?

**Answer:** HUD's work in manufactured housing will remain a priority. With respect to any plans for reorganization, it is understood and fully appreciated that manufactured housing is the largest source of unsubsidized affordable housing in America and a critical component of housing rural America. The importance of manufactured housing will certainly be considered in any reorganization.

**Question:** Much of the discussion about the need for affordable housing is focused on inner cities. However, rural areas of this country have acute affordable housing needs as well. Manufactured housing has proven to be a critical source of affordable housing in rural America. Can you describe your plans about addressing the affordable housing needs in rural America and how manufactured housing will play a role in this effort?

**Answer:** The Department recognizes that manufactured housing constitutes one of every five homes in rural America. To that end, HUD's Office of Manufactured Housing Programs recently conducted an internal communications campaign that informed HUD personnel and visitors about the critical role manufactured housing plays in providing affordable housing in rural communities. The Department has two FHA financing programs, Title I and Title II, that are available for manufactured home financing which the Department is working on making more accessible for manufactured home purchasers in rural America. Currently, the Title I handbook is being revised to address concerns with this program. In addition, multifamily housing is responsible for the 207(m) program, which is a source of financing for manufactured housing community development and rehabilitation across the country.

**Question:** Under the administration of President Obama, HUD consistently overreached in its regulation of manufactured housing, imposing burdens on the industry that made housing less affordable and less accessible. Will you work to ease these burdens to make certain that this form of housing is available to more of our low to moderate income citizens?

**Answer:** The Department recently received almost 500 public comments on regulatory reform. Using those comments as well as working with the HUD Regulatory Reform Task Force, the Department is committed to trying to lessen the regulatory burden of all of its programs.

**Question:** To maintain housing affordability, it is absolutely imperative that HUD conduct adequate cost-benefit analyses of all potential new regulations on manufactured housing. As it stands, HUD has not undertaken the appropriate analysis, testing and research required to update the HUD Code. This pushes up costs without a clear justification that the new regulations will lead to improvements that are in the best interest of consumers. Can you ensure that HUD properly takes into account the economic impacts of and necessity of new requirements when issuing regulations about the construction and installation of manufactured housing?

**Answer:** The Department's approach to evaluating economic impacts of new manufactured housing regulations is guided by the Regulatory Flexibility Act and the Unfunded Mandates

Reform Act and The National Manufactured Housing Construction and Safety Standards Act, as amended by the Manufactured Housing Improvement Act of 2000. Within the context of these guiding statutory and regulatory requirements, the Department administers a rigorous process for vetting new or revised manufactured housing standards and regulations that includes cost benefit analysis in the interest of maintaining affordability while serving to protect and provide quality, durable, and safe housing. The Department's process includes internal cost benefit analysis as well as review of all standards and regulations and associated cost impacts by the Manufactured Housing Consensus Committee (MHCC). The MHCC is a 21-person committee comprised of 7 consumer representatives, 7 industry representatives, and 7 general interest and public official representatives. The MHCC considers such regulatory changes through public meetings that not only ensure transparency and accountability of the process, but also affords opportunities for public discussions of cost and affordability related to the regulations and standards under consideration.

**Question:** HUD needs to create an environment that fosters innovation and enables the manufactured housing industry to deliver quality, affordable homes. This is not what is currently happening. Can you look at what can be done to improve the way HUD regulates manufactured housing? Will you undertake an effort to comprehensively review all the regulations impacting manufactured housing and direct your team to utilize this information so that any new regulations do not have unintended cost consequences?

**Answer:** The Department, through the MHCC's Administering Organization (AO)'s online recommendation submission process, is always open to any recommendations of industry stakeholders and the public in general regarding manufactured housing standards and regulations. In fact, in December 2016, the Department proposed to the MHCC eliminating the burden of manufacturers and retailers to provide a Health Notice regarding formaldehyde with every home upon its implementation of the EPA formaldehyde final rule. Also, see response to the question above.

## **Representative Graves #2: FHA Admin Fee**

Mister Secretary, the subcommittee certainly recognizes that HUD and its technology systems are in need of an upgrade -- particularly for purposes of quality control and risk management. The FY17 budget package included \$4M for IT upgrades at FHA.

The President's FY18 request for HUD continues to include the prior administration's request for authority to levy an administrative fee to participating lenders based on the annual volume of loans insured to raise the \$30 million per year needed for FHA to better conduct quality control and manage risk in the program. It is important to note that this approach has been rejected by the Congress the past several years.

**Question:** For how long would the fee be levied, and how much would it raise?

**Answer:** One of the changes in the current proposal is to include a sunset for the fee. The fee would be levied for three years (starting after the completion of a notice and comment process and pro-rated in the first year). HUD proposed \$30 million in collections for 2018, and the amount collected each year will be set by the annual appropriations act.

**Question:** How can we be assured the fee won't become a permanent levy?

**Answer:** The fee would automatically sunset after 2020.

**Question:** Would HUD commit to work with the industry to ensure that the right initiatives are prioritized and funded?

**Answer:** Absolutely. In fact, the language requires a process for notice and comment prior to implementation. If enacted, in addition to that formal process, FHA would also seek input through interactive discussion with industry.

**Question:** Should there be an advisory board to oversee this?

**Answer:** As with any large-scale investment, rigorous management and oversight of the initiative would be required. Our proposal would include a rigorous internal project management framework, with leadership from senior executives and a steering committee including the highest levels of the Department. While we do not believe a formal advisory board would provide additional value, we welcome external insights and would be open to sharing periodic progress updates with our stakeholders. We would also note that HUD has hired a CIO, a position that will be instrumental in providing professional leadership to HUD technology projects.

Department of Housing and Urban Development  
 Fiscal Year 2018 Questions for the Record  
 Mike Quigley - Congressman  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

## Representative Quigley

### Representative Quigley #1: LGBT Housing Issues

Starting in 2012, HUD began to implement "policy to ensure that its core programs are open to all eligible individuals and families regardless of sexual orientation, gender identity, or marital status." This final rule was developed after HUD published a proposed rule on January 24, 2011 that cited "evidence suggesting that LGBT individuals and families do not have equal access to housing."

In spite of the HUD rule, housing discrimination remains a major concern in the LGBTQ community. According to a 2016 Williams Institute study, LGBT people still file housing discrimination complaints as often as people of color and women. A recent report noted that 48% of older same-sex couples face discrimination when they apply for senior housing. Nearly 20 percent of respondents in a national survey of transgender people reported facing housing discrimination.

LGBT inclusion is important in efforts to combat discrimination as well as in the provision of services that are supported by HUD. Homelessness among LGBTQ youth is one example. Of the roughly 1.6 million youth who experience housing instability each year, 40% of them identify as LGBTQ. Yet, they represent about 7% of youth overall. According to Chicago Public Schools, 18,831 students experienced housing instability during the 2015-2016 school year and 12.7% of them were unaccompanied youth. Yet there are fewer than 400 shelter beds for youth.

**Question:** Secretary Carson, under your administration, will HUD continue to implement policies that provide equal access to housing in HUD programs regardless of sexual orientation or gender identity and monitor adherence to those policies by entities that receive HUD funding?

**Answer:** Yes. HUD's policies on this point are unchanged. All individuals are entitled to equal treatment and equal access to housing in HUD programs, regardless of their sexual orientation or gender identity.

## **Representative Quigley #2: US Interagency Council on Homelessness**

I have long been a supporter of the mission and purpose of the US Interagency Council on Homelessness (USICH). Homelessness, in any amount, among any population, is unacceptable in a modern, wealthy, and prosperous society and I believe we should do whatever we can to ensure that every American has a place to call home.

USICH is not part of HUD, instead it serves as an interagency convener, ensuring that policies and procedures across the government are coherent and in sync and working with localities to establish and employ best practices when it comes to reducing homelessness.

The President's FY 18 Budget has proposed completely zero-ing our funding for USICH and if the program is eliminated, its responsibilities would almost certainly fall to HUD.

**Question:** Given that HUD has not requested any additional funding or personnel to take over for USICH, is HUD prepared to step in as the interagency group coordinating and catalyzing the federal response to homelessness across the 19 federal member agencies that USICH currently works with?

**Answer:** HUD is committed to working across agencies and state, local, and private partners to leverage other programs to end homelessness. One of the United States Interagency Council on Homelessness' (USICH)'s biggest accomplishments was the promotion of interagency collaboration to combat homelessness. USICH helped pave the way for collaboration across agencies, and now such collaboration across agencies has become more common place and can continue without a distinct Council.

### **Representative Quigley #3: Lead Exposure**

Prior to the finalized Lead Safe Housing Rule earlier this year, the federal threshold for action in housing for children containing lead was four times the CDC's recommendation for a "elevated blood lead level." That forced families to choose between forgoing HUD housing assistance and exposing their children to unsafe levels to lead in homes.

In order to address this serious concern, I joined colleagues in both the House and the Senate last congress to introduce the Lead Safe Housing for Kids Act and HUD released the "The Lead-Safe Homes, Lead-Free Kids Toolkit" and developed the new Lead Safe Housing Rule. As a result, for the first time in decades, HUD's definition of toxic lead exposure now aligns with CDCs. This has been a big win for vulnerable children across the country.

However, given HUD's recent notice on regulatory reform which may consider eliminating certain regulations, I am concerned this hard work to protect children who live in HUD assisted housing from the permanent damage caused by lead exposure will be lost

**Question:** Will you commit not to repeal these regulations? Will you also agree that the CDC, and not HUD, should set the standard for what is an elevated blood lead level?

**Answer:** HUD has a strong commitment to protecting the health of our most vulnerable through mitigating hazards from lead-based paint. HUD issued its elevated blood lead level amendment to its Lead Safe Housing Rule, which covers lead safety in older (pre-1978) assisted housing covered by the Residential Lead-Based Paint Hazard Reduction Act of 1992 (42 U.S.C. 4851-4856), known as "Title X."

This amendment adopts, as the elevated blood lead level that triggers a broad environmental investigation in assisted housing covered by the Lead Safe Housing Rule and, if lead-based paint hazards are identified, control of those hazards, the confirmed blood lead level in a child under age 6 for which U.S. Department of Health and Human Services, on behalf of the Centers for Disease Control and Prevention's (CDC), recommends that an environmental investigation be conducted. HUD recognizes that, over time, CDC may change the blood lead level at which it recommends an environmental investigation. Accordingly, to respect the potential burden placed on assisted property owners before adjusting its elevated blood lead level standard in the Lead Safe Housing Rule, and to provide transparency in its decision-making, HUD will provide for public notice and comment, as described in the amendment, so that potentially affected parties will have the opportunity to provide comments on proposed changes.

This amendment, issued on January 13, 2017, will begin its compliance phase after a six-month transition period, on July 13, 2017. My Administration reviewed this amendment and determined that it was an appropriate part of HUD's effort to reduce childhood lead poisoning.

HUD is establishing a Regulatory Task Force in accordance with Executive Order 13777 (82 Federal Register 22344-22346, May 15, 2017) to evaluate existing regulations and identify those that may merit repeal, replacement, or modification. Through that Federal Register notice, HUD sought public comments, and, in response, received 12 comments about its lead safety regulations,



the Lead Safe Housing Rule and the Lead Disclosure Rule. The Task Force's evaluation of these regulations will include consideration of these comments.

#### **Representative Quigley #4: Lead Exposure in East Chicago, Indiana**

Dr. Carson, as I'm sure you're aware, just across the Illinois border, in East Chicago, Indiana 1,100 individuals were forced to relocate from the West Calumet Housing Complex after being exposed to lead content 228 times the maximum permitted level.

It took half a century to identify this issue, exposing countless individuals to toxic lead levels in and around their homes.

**Question:** Can you please update the committee on the status of the relocation of the families impacted in East Chicago?

**Answer:** As of June 16, 2017 all 333 families have been relocated from the West Calumet property in East Chicago.

**Question:** Will HUD relocate families to safety by conducting risk assessments in replacement housing before move in?

**Answer:** For families with children under 6 with elevated blood lead levels who previously resided in the East Chicago Housing Authority's (ECHA) West Calumet Housing Complex, HUD staff worked with state and local health departments in Indiana, Illinois and other states to arrange for risk assessments in their new homes. Many health departments also conduct case management for children with elevated blood levels in their jurisdictions which will now include any impacted West Calumet families. Also, prior to resident moves undertaken as part of the West Calumet emergency transfer process, ECHA ensured that alternate public housing provided to families either already had a lead inspection or received a new one. For units not previously inspected and abated, ECHA conducted a combination lead risk assessment and inspection for lead-based paint hazards, performed lead hazard interim controls of identified hazards, and achieved clearance of the unit before occupancy. Work in the common areas, if not completed prior to move-in, was completed within 90 days after the evaluation in compliance with lead safe requirements.

**Question:** What measures will you take to identify lead hazards before children are exposed?

**Answer:** All HUD-assisted units receive housing inspections and must meet HUD's relevant standards prior to occupancy. The requirements for identifying lead-based paint hazards, however, vary by program. PIH field offices and the Office of Lead Hazard Control and Healthy Homes ensure that PHAs completed lead-based paint testing and abatement in Public Housing units. HUD's Real Estate Assessment Center (REAC) checks for lead inspection reports for units constructed prior to 1978 as part of the physical inspection process. In cases where REAC inspectors are unable to verify the documents, PIH field offices work with PHAs to locate the documentation or complete new lead-based paint inspections and lead hazard control for identified hazards. For the Housing Choice Voucher program, PHAs perform enhanced visual inspections to identify deteriorated paint in units constructed prior to 1978 and where a child under six is expected to reside before occupancy by the family. Deteriorated paint must be controlled prior to occupancy by the family.

**Question:** Are you committed to ensuring oversight, compliance, and enforcement of federal regulations to prevent harm to children in federally assisted housing?

**Answer:** HUD is committed to ensuring compliance with the Lead Safe Housing Rule, including the new amendments for response to children with elevated blood lead levels. HUD has increased its oversight in all programs, and in the upcoming year will increase technical assistance to all PHAs to help them comply with the updated requirements.

### **Representative Quigley #5: Climate Change**

Dr. Carson, on June 1<sup>st</sup>, President Trump announced his intention to withdraw the United States from the Paris Agreement. The Agreement, which I believe is a crucial framework for achieving the carbon pollution reductions necessary to tackle man-made climate change, is an unprecedented display of global will towards addressing climate change.

In response to the President's decision, HUD issued a statement praising the withdrawal and specifically mentioned the need to protect the "most vulnerable Americans."

There is ample evidence, however, that truly protecting the most vulnerable Americans requires responding to the threats and challenges posed by climate change. For instance, a number of studies late last year concluded that nearly 2% of all homes in the United States are at risk of being deemed uninhabitable due to flooding from sea level rise by 2100- impacting major cities like New York, Boston, New Orleans, and, in the Chairman's home state, Miami- where nearly 1 in 8 homes may be impacted.

In addition, as you well know, poorer communities tend to be centralized in inner cities, where they are more susceptible to heat waves and increased levels of urban air pollution. When low-income Americans have to spend more of their limited income on healthcare and energy to keep cool, they can't devote the resources necessary to housing.

**Question:** From a HUD and housing point of view, should addressing climate change and its impacts be a high priority? Does HUD have a plan in place to address and increase in demand for affordable housing from Americans if climate impacts are allowed to continue unabated?

**Answer:** The mission of HUD is to strive to ensure every American has access to safe, clean and decent housing. HUD is not the lead department with respect to the environment, and has no authority over these issues.

### **Representative Quigley #6: Low-Income Housing Tax Credit**

In a recent PBS Frontline piece on LIHTC, for example, one of the reason users of LIHTC explained the program today costing far more though is producing far fewer affordable housing units over time is because of the cuts to CDBG other federal programs that are most used for "soft" subsidies/gap financing for affordable housing projects.

**Question:** How does the nation address a growing rental housing crisis or the 50-year low in the homeownership rate with federal investment in affordable housing in full retreat?

**Answer:** The Department will continue to work with localities to encourage private-public partnerships, to continue to develop affordable housing. Additionally, this budget recognizes a greater role for state and local governments and the private sector in addressing affordable housing needs.

In addition, the fiscal year 2018 Budget lifts the cap on the Rental Assistance Demonstration (RAD), which has been a critical preservation program. RAD allows PHAs to transition public housing to a more sustainable funding and regulatory environment, while also leveraging debt and other non-Federal funding. An early evaluation of the RAD program found that it leverages nearly \$9 for every \$1 of PHA funding. More recent analysis by program staff, after several larger projects closed, show that the leverage ratio is now \$18 for every \$1 of PHA funding.

Even with reduced Federal funding in fiscal year 2018, RAD can remain successful. Some existing awardees and PHAs receiving awards due to the recent 40,000-unit increase that anticipated using Capital Funds as a source in their recapitalization transactions may need to find alternative resources. Should the RAD cap be lifted, HUD looks forward to working with Congress and local governments on how to fund future conversions.

### **Representative Quigley #7: Miscellaneous Questions**

#### **Quigley #7a: Housing First**

Chronically medically ill, homeless individuals are frequent users of costly medical services, especially emergency department and inpatient hospital services and nursing homes. By implementing a "Housing First" model of permanent supportive housing with intensive case management services for homeless individuals living with chronic illnesses, government spending can be reduced: evidence suggests every 100 chronically homeless individuals housed will save nearly \$1 million in public funds per year.

**Question:** Will you commit to investing in these types of programs and not cut cost efficient and effective programs that save the government money and people's lives?

**Answer:** The Department is committed to finding creative solutions that have a demonstrated success and are cost effective. As Secretary Carson stated in his hearing, the Department supports Housing First, and strongly believes that it's critical to follow up with a diagnosis and treatment for the underlying issues that lead to homelessness. HUD is committed to working with Federal, State, local, and private sector partners to leverage available resources and build on existing efforts to maximize the effectiveness of HUD resources.

#### **Quigley #7b: Housing Funding/Chronic**

**Question:** Understanding that housing is a key social determinant of health, what will you do to ensure adequate funding for HUD programs [i.e. HOPWA, homeless] serving people living with chronic health conditions?

**Answer:** Persons living with HIV/AIDS are highly vulnerable to homelessness and housing interventions improve their stability and connection to care. Through steady budget requests for the HOPWA and Homeless Assistance Grants Programs, the Budget demonstrates the Department's continued commitment to these special needs populations, homeless as well as those living with HIV. Both programs allow HUD to serve vulnerable individuals who are homeless or at risk of homelessness with assistance that allows them to become stably housed and maintain housing during times of medical crises.

HUD recognizes the importance of housing and its role in ensuring that individuals have a place to maintain health care. Without stable housing, it is impossible for an individual to fully participate in the healthcare system. The 2018 Budget request prioritizes HOPWA and Homeless Assistance Grants Programs, requesting steady funding in a time of fiscal constraint, to ensure that people living with chronic health conditions have the housing they need to participate in medical care, not only for their own health but for the overall community's health as well.

#### **Quigley #7c: Ending Homelessness HIV**

**Question:** What are HUD's strategies to end homelessness in the United States, including for people living with HIV?

**Answer:** HUD has made great strides in reducing homelessness and especially in reducing veteran homelessness, which of course includes many disabled subpopulations including People Living with HIV. The most recent Annual Homeless Assessment Report (November 2016), shows that homelessness continues to decline. The number of people experiencing homelessness on a single night decreased by 3 percent between 2015 and 2016. While HUD and our federal, national, and local partners have learned a lot about what works to solve homelessness, it still affects nearly 550,000 men, women, and children on any given day.

HUD works closely with our grantee communities to encourage strategic public-private partnerships that develop strong resources for people experiencing homelessness. HUD also works closely with our federal partners like HRSA's HIV/AIDS Bureau, to make sure resources are maximized and not duplicated, and will continue to enhance those practices to ensure we maintain progress in ending homelessness. HUD has strengthened the annual process for homeless assistance funds to incentivize communities to use funds on proven strategies such as permanent supportive housing and rapid rehousing, and is committed to providing technical assistance to communities and grantees to implement best practices. In addition, the HOPWA program sustains transitional and short-term households with homeless prevention efforts and coordination with local homeless Continuum of Care efforts to prevent and end homelessness.

Quigley #7d: Affordable Housing

**Question:** Major metropolitan areas, including Chicago, are in the midst of an affordable housing crisis. What are HUD's priorities to ensure all people have access to safe, decent and affordable homes?

**Answer:** Affordable housing a complex issue, and one where state and local governments and private sector partners must all play a key role in identifying the appropriate solutions for their communities. Rents are growing at a faster pace than renter incomes, and this problem is most severe in markets where local land use choices and regulations both limit the supply of land and increase the cost of development, leading to unsustainable market rents. The federal government has played a large role in addressing this problem through production programs, like LIHTC, and increasing per unit subsidies for assisted tenants. However, this effort alone is not enough. HUD needs a new way of thinking about addressing the affordable housing shortage, and looks forward to working with the Congress to discuss the local, state, and federal combined strategy for addressing the needs of low-income renters.

Quigley #7e: HOPWA

**Question:** Secretary Carson you said, "You know Americans are industrious people. That's how America got to be a great place. We're not a little feeble people who have to be spoon-fed." Do you understand that providing quality, affordable housing access is not "spoon-feeding people" that housing is health care access? That housing such as HOPWA helps people engage in their community and become economic drivers in their neighborhoods? If so, why are you cutting HOPWA by \$26 million dollars?

**Answer:** HUD recognizes the importance that housing plays in health care access and in driving local neighborhood economies. HUD plays a key role in ensuring affordable housing across the country, and HUD cannot do this alone. While HUD must make difficult budget decisions, the Administration places priority on maintaining current service levels under HOPWA, and is seeking mechanisms to operate efficiently, while working together with Federal, State, local, and private sector partners to fully address the affordable housing crisis. The Department appreciates the additional funding provided to the HOPWA program in the fiscal year 2017 Appropriations Act.

Quigley #7f: LGBT—Fair Housing

**Question:** Secretary Carson, under your administration, will HUD continue to implement policies that provide equal access to housing in HUD programs regardless of sexual orientation or gender identity and monitor adherence to those policies by entities that receive HUD funding?

**Answer:** Yes. HUD's policies on this point are unchanged. All individuals are entitled to equal treatment and equal access to housing in HUD programs, regardless of their sexual orientation or gender identity.

Quigley #7g: Tiny Homes

**Question:** Secretary Carson, under your administration, will HUD endorse tiny homes by adding them to the menu of affordable housing options?

**Answer:** The Department is open to studying any effective and cost efficient affordable housing model.

Quigley 7h: HOPWA

Congress knows the importance of HOPWA funding. For FY17 they voted to increase HOPWA by \$21M. This increase is because of the efficiency of HOPWA, the low administrative rate of HOPWA, and the important modernization of the HOPWA formula which puts money in jurisdictions that need it the most. Further, according to HUD, there are approximately 390,000 persons eligible for HOPWA while the program can currently only serve about 60,000 households. In the president's proposed budget, he based the \$5M cut off the 17CR and made clear his budget was not taking into account the 17 budget that was yet to be passed.

**Question:** Do you still stand by this significant cut and how do you propose implementing this cut to HOPWA so that people are not kicked out of their homes and the spread of HIV does not rise?

**Answer:** The Department appreciates the additional funding provided to the HOPWA program in the fiscal year 2017 Appropriations Act. HUD will look at streamlining services offered under HOPWA, and work together with our partners to target our resources to avoid displacement of currently served households. In addition, the recent HOPWA formula modernization helps



advance the program's ability to target funding to the areas of highest need and incorporates local housing costs and poverty rates. HUD is already in the process of providing technical assistance to communities to develop long-term strategies for managing changes due to the HOPWA formula modernization. In addition, HUD is committed to focusing more time and energy toward ensuring the development of developing public-private partnerships, to fully address the housing needs of homeless and unstably housing individuals. It, as it is only through public-private partnerships that communities will be able to address the need.

Quigley #7i: HOPWA

**Question:** For every HOPWA dollar granted by the federal government, \$1.42 is leveraged by state and local communities for about 70.5 million leveraged every quarter. Are you concerned about the impact a cut to HOPWA would have on local economies and the housing industry?

**Answer:** The 2018 request for HOPWA reflected a commitment to meeting current service levels, requesting steady funding with anticipated 2017 funding, and assuming continued work to identify and implement efficiencies to maximize the resources available to avoid displacement of currently served households. HUD is working to streamline programs, reduce duplication of services, and develop stronger public-private partnerships. These actions will benefit local economies, as well as maximize available resources and better meet the needs of persons living with HIV/AIDS.

Quigley #7j: Fair Housing

President Trump's budget proposes cut funding for the Office of Fair Housing and Equal Opportunity (FHEO) by 3 percent, which could result in the agency failing to handle 225 complaints of housing discrimination. Funded at \$72 million in FY 2016, this office leads the nation in the enforcement, administration, development, and public understanding of federal housing policies and laws. In 2016, the FHEO employed 514 full-time equivalent staff to carry out its programs, including overseeing more than 8,500 complaints filed through the office and implementing the new Affirmatively Furthering Fair Housing rule. The proposed budget cut may force the FHEO to reduce its staff to 499 full-time equivalents.

**Question:** How would a smaller staff address this large of complaints in a timely manner to prevent additional harm?

**Answer:** HUD is working towards reforms and efficiencies that will allow the Department to deliver on HUD's mission more efficiently. While details will be part of subsequent Budgets, any efficiency effort will recognize the fact that HUD's fair housing enforcement work is driven by statute and public demand as evidenced through complaints. HUD is pursuing efficiencies in information technology so staff have the needed tools, in staffing, to ensure that there are the right staff and skill sets in place, and in procurement—making sure the Department gets the most value for each dollar spent. HUD is also looking at the alignment of roles and responsibilities, so that staff in each office are targeted to the work of that office. HUD believes the request, with the

administrative flexibilities proposed at the Department level, will allow the Office of Fair Housing and Equal Opportunity to continue to address its mission in a timely manner.

Quigley #7k: Fair Housing

In a 2015 op-ed in the Washington Times, you recognized that "private and public housing policies such as redlining, restrictive covenants, discriminatory steering by real estate agents and restricted access to private capital . . . exacerbated the suburban segregation in the 1970s and '80s." As you know, the Fair Housing Act made such policies illegal and charged HUD with the responsibility to affirmatively further fair housing goals in its programs.

**Question:** Do you believe HUD should play a role in combating the continuing housing segregation created by these policies? What should HUD do? Will you require recipients of HUD funding to comply with the AFFH rule? Has HUD analyzed how zeroing out CDBG and reducing other funding will undermine communities' efforts to affirmatively further fair housing?

**Answer:** The courts have consistently found that the Fair Housing Act of 1968 requires HUD to take an active role in "affirmatively furthering fair housing," including specifically combatting housing segregation. The AFFH obligation is shared between HUD and its grantees as required by the Fair Housing Act. The grantees' obligation spring from a variety of HUD funding sources, the largest being low-income rental assistance under public housing and Section 8. The AFFH Rule outlines compliance with this obligation for HUD's grantees, and grantees must comply with the Rule.

Quigley #7L: Fair Housing

**Question:** In that same op-ed, you took issue with the Supreme Court's 2015 decision recognizing that discrimination can be proven under the Fair Housing Act with evidence of disparate impact, even without proving a discriminatory intent. Is it your opinion that people engaging in racial discrimination generally provide overt evidence of that discrimination?

**Answer:** The HUD Secretary does not have an opinion about what "people engaging in racial discrimination generally provide" as evidence of discrimination. The Administration does believe that no American should face housing discrimination.

Quigley #7m: Fair Housing

**Question:** As a medical practitioner examining racial disparities in health care, you noted in an editorial that "Discrimination may not be overt but frequently consists of making assumptions about a person . . . The resultant disparities are unintended, but nevertheless quite real." Can such subtle discrimination in housing have similarly real impacts? As HUD Secretary, would you work to eradicate it? Would you enforce the Fair Housing Act's prohibition on this kind of disparate impact discrimination?

**Answer:** There is no place for housing discrimination of any kind in this nation. It goes against everything we as Americans believe. HUD will continue its work to eradicate it, not only because it's the law, but also because it is the right thing to do.

Quigley #7n: Fair Housing

**Question:** In that same editorial, you wrote that an HHS report on health care disparities "appropriately outlines the actions mandated by the government to reduce and eliminate those disparities." Do you believe the government should play a similar role in reducing and eliminating racial disparities in access to housing?

**Answer:** Yes, the Government has a similar role to play in housing. Housing is not the same as healthcare, but the analogy does hold to some extent. Access to the housing of one's choice, in the community of one's choice, is part of the American Dream. Addressing disparities, be they racial disparities or other forms of disparities, is appropriate and necessary, to uphold the law and our American values.

Quigley #7o: Moving to Opportunity

**Question:** In a recent speech, you mentioned a desire to create "ladders of opportunity" so that people can move out of poverty. Are you familiar with HUD's Moving to Opportunity program, which helped Section 8 voucher recipients move to lower-poverty areas? Are you familiar with the recent Harvard study of that program demonstrating that young children whose families participated in the program earned 30% more as young adults than peers whose families did not participate? How would you build on this success?

**Answer:** HUD does intend to use the information from the recent MTO study, and other available evidence, to inform the development of policies to further economic mobility and access to opportunity. This is an important study that should be looked at in the context of the totality of the research. That totality of research indicates (i) that neighborhood safety is a high priority for households eligible for HUD assistance; and (ii) that mobility is good for some members of the family, but can be bad for others. Accordingly, HUD will place additional focus on neighborhood safety, whether that is through mobility or efforts to improve safety within the communities' families currently live; and HUD recognizes the need to be thoughtful about mobility.

When MTO was established, the number one reason families wanted to move was for safety. And when they received a housing voucher and counseling on mobility they tended to settle in a lower crime neighborhood. That move to safety had significant positive health impacts for mothers.

As you note, the recently published Harvard study by Raj Chetty, Lawrence Katz, and Nathan Hendren found there was a long-term benefit for children that moved from high poverty to low poverty when under age 13. That study also found, however, that the children who moved to low poverty who were older than 13 experienced negative impacts on their long-term well-being compared to the control group. Additionally, the MTO research of Ron Kessler, also of Harvard, found that moving to low poverty communities had a positive effect on the mental health of girls but a negative effect on the mental health of boys.

MTO research also shows that mobility alone is not a panacea for many of families' immediate challenges, and that families faced many obstacles to relocation. For instance, those with jobs and children often needed the kinship networks and the better public transportation of the poorer neighborhoods to help them keep their jobs. MTO holds many lessons and HUD will consider all of those lessons as it seeks better ways to serve the housing needs of low-income families with children.

Department of Housing and Urban Development  
**Fiscal Year 2018 Questions for the Record**  
 Katherine Clark - Congresswoman  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

## **Representative Clark**

### **Representative Clark #1: Region 2 Director**

It has been reported that President Trump has appointed Lynne Patton to lead the Department's region that oversees New York and New Jersey. According to press reports Ms. Patton has no experience working in housing and has falsely claimed to hold a law degree.

**Question:** What work experience does Ms. Patton possess that qualifies her to lead HUD's New York and New Jersey region?

**Answer:** As someone who has lived in New York, Ms. Patton understands the unique housing challenges and opportunities that exist in the region. She also has a keen interest in housing and community development, and the energy and enthusiasm for executing HUD's mission. Ms. Patton will be supported by a tremendous team of housing experts in both the HUD Region II office, and at HUD Headquarters, many of whom have extensive knowledge of the area's housing issues and have served the region for years.

Previously, Ms. Patton served as a senior executive of a large non-profit, which has given her insight into how to run an organization and work with others to most efficiently help those in need. More recently, Ms. Patton served as a senior advisor to Secretary Carson. In this role, she spearheaded his national listening tour and identified potential reforms to HUD's Section 3 program, which provides a mechanism for low-income families to receive job training and employment with HUD-funded projects.

**Question:** What criteria was used to evaluate Ms. Patton's suitability for this position?

**Answer:** When selecting Regional Administrators, Secretary Carson looked for a person who understands the region where they will serve, has a passion for the work HUD does, and has the skills that allow them to effectively oversee the delivery of HUD programs.

**Question:** What is the Department's policy on employing individuals who fabricate their qualifications?

**Answer:** HUD's hiring process is consistent with that of all other federal agencies. Ms. Patton's qualifications as stated on social media were not formally considered as part of that process.

Pete Aguilar – Congressman  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

## **Representative Aguilar**

### **Representative Aguilar #1: Federal Housing Administration Loan Limit**

The Federal Housing Administration (FHA) loan limit program is meant to help many families secure affordable housing and build equity. However, HUD's current FHA loan limit policy is locking consumers out of competitive FHA loan programs. Specifically, HUD is implementing a flawed interpretation of the Housing Economic Recovery Act that affects how FHA loan limits are calculated. As you know, FHA loan limits are based on median home prices and the multiplier of 115 percent, which is set in statute by the Housing Economic Recovery Act (HERA). Prior to the implementation of HERA, HUD utilized a long-time policy that calculated FHA loan limits by using the highest median home price of a Metropolitan Statistical Area (MSA) available, regardless of the year. However, when HERA went into effect, HUD changed that policy. Instead of using median home prices from 2007 to calculate FHA loan limits, which was the highest median price available in most regions, HUD changed the baseline year to calculate FHA loan limits to 2008 or later.

This change after the implementation of HERA has contributed to the plateau of the housing market in San Bernardino County, CA. Between 2014 and 2017, the FHA loan limit has only risen from \$255,350 to \$379,500. This has locked consumers out of competitive FHA loan limits available in nearby cities that have higher FHA loan limits. For example, the City of Upland in the County of San Bernardino has a median home price of roughly \$448,750. Therefore, if a consumer hopes to purchase a home in Upland through the FHA loan program, their options are limited, but if they go just a few minutes down the road to the next city over in LA County, their FHA loan limit rises to \$636,150. This is a trend not only experienced in the City of Upland, but in a variety of cities within San Bernardino County.

**Question:** Is HUD open to reconsidering its policy to utilize median home prices from 2008 or later to calculate FHA loan limits? What type of relief can HUD provide communities in which FHA loan limits are below median home prices?

**Answer:** Aside from the effective date of HERA, which HUD considers to be a binding statutory constraint on the date range of median house prices eligible for consideration as the basis for the FHA loan limits, HUD does not have widely available high quality data from which to calculate median house prices for years prior to 2008.

The statutory definitions by which HUD sets FHA loan limits, as designed by Congress to limit FHA's share of the mortgage market, prevent HUD from basing the loan limit on anything other than the median house price for the highest priced county in a metropolitan area, and from designating loan limits for anything but entire metropolitan areas and non-metropolitan counties. In the case of the Riverside-San Bernardino, CA MSA, consisting of Riverside and San Bernardino

Counties, the median house price in Riverside County of \$330,000 controls the metropolitan area loan limit of \$379,500, which is 138 percent of the median house price of \$275,000 in San Bernardino County. Despite the higher loan limit of \$636,150 in Los Angeles County, this is only 116 percent of the median house price of \$550,000 there (the Los Angeles loan limit is controlled by Orange County, where the median house price is \$710,000, above the maximum allowable FHA loan limit).

## **Representative Aguilar #2: Federal Housing Administration Multifamily Program**

The Federal Housing Administration Multifamily programs are critical to the growth and operation of affordable multifamily housing. The FHA Multifamily office recently restructured its office by consolidating more than 50 field offices into 12 offices.

**Question:** I understand the office was restructured in an effort to improve efficiency, but will you maintain the existing number of staff and offices? Will services remain consistent?

**Answer:** The Office of Multifamily Housing Programs was consolidated to a five-region field structure through HUD's Multifamily for Tomorrow (MFT) reorganization. Each of the five regions have one hub office and one or two core satellite offices. The hub and core satellite locations, by region, are as follows:

1. Central Region: Fort Worth (Hub Office) and Kansas City (Core Satellite Office)
2. Midwest Region: Chicago (Hub Office), Detroit, and Minneapolis (Core Satellite Offices)
3. Southeast Region: Atlanta (Hub Office) and Jacksonville (Core Satellite Office)
4. Northeast Region: New York (Hub Office), Boston, and Baltimore (Core Satellite Offices)
5. Western Region: San Francisco (Hub Office) and Denver (Core Satellite Office)

Although Office of Asset Management and Portfolio Oversight employees continue to remain in pre-MFT field offices, future staffing will be limited to the five hub offices and seven core satellite offices.

FHA Multifamily mortgage insurance application processing times have improved for all multifamily loan insurance products due to the MFT reorganization. In fact, FHA Multifamily Production staff process loan applications 60 to 70 percent faster than before MFT. In the Office of Asset Management and Portfolio Oversight, the reorganization has allowed for better consistency across regions as well as an increased focus on troubled projects to allow for risk-based and proactive interventions. The default rate on Multifamily properties has fallen to 0.1% as of May 2017, with only 11 delinquent loans out of over 11,000 total FHA-insured loans.



### **Representative Aguilar #3: Federal Housing Administration Premium Payments**

In 2013, the Federal Housing Administration (FHA) published a mortgagee letter that required FHA borrowers to pay mortgage insurance premiums for the entire life of the loan. Before this policy was implemented, FHA automatically cancelled insurance premiums for FHA borrowers that had paid at 78 percent of the original property value. Currently, private mortgage insurance lenders are required to drop private mortgage insurance when a borrower's balance on the loan drops to 78 percent of the home's initial appraised property value. Maintaining FHA insurance premiums on the life of the loan is a burden on borrowers. Borrowers may decide to refinance their FHA mortgage to avoid paying premiums. This may leave the Mutual Mortgage Insurance Fund (MMIF) in a more vulnerable and risky position.

**Question:** Would you reconsider the position of requiring FHA borrowers to pay premiums on the life of the loan?

**Answer:** Currently, the Single Family loan products that require Annual Mortgage Insurance Premiums (MIP) for the life of the loan are those with an initial loan to value (LTV) of greater than 90%. Other products with an initial loan to value of less than 90% have an 11-year term for MIP.

HUD is always considering options to ensure our programs are properly balanced to serve the public while remaining fiscally responsible. Reverting back to FHA's long standing policy for charging premiums for the life of the loan is a recognition that FHA insurance also exists for the life of the loan, meaning that unlike private mortgage insurance, the FHA insurance fund and ultimately taxpayers retain liability no matter the loans' LTV ratios. The policy to charge premiums for the life of the loan contributed substantially to the growth in the economic health of the MMIF. HUD notes the importance of ensure fiscal sustainability as FHA was only able to rebound to its mandated 2 percent Capital Ratio for the MMI Fund in FY 2015 and the FHA portfolio has grown to exceed \$1.1 trillion.

**Representative Aguilar #4: Federal Housing Administration Condominium Policy**

Last year, Congress passed H.R. 3700, the Housing Opportunity Through Modernization Act. The bill includes a provision that is meant to streamline the process for condominiums to apply for approval from the Federal Housing Administration (FHA) to participate in the FHA loan program.

**Question:** What is the timeline for HUD to publish a final rule on the FHA condo policy?

**Answer:** On September 28, 2016 HUD published a Proposed Rule in the Federal Register to solicit feedback on revised condominium policy that aims to provide guidelines that are more flexible, less prescriptive, and more reflective of the current market than FHA's current policies. FHA wants to reduce red tape for mortgagees while maintaining the necessary safeguards and monitoring that protect borrowers and FHA's Mutual Mortgage Insurance Fund. The Department received many comments to the Proposed Rule, and is currently preparing responses. This process will be completed soon, and any revisions to the Proposed Rule in response to the public feedback will be made after that time. The Administration and HUD is weighing every regulation carefully, but the Condo Rule is a top priority for the Department.

### **Representative Aguilar #5: HOME Program**

The HOME Investment Partnership Program (HOME) is critical to building stable neighborhoods. A local organization in San Bernardino, the Neighborhood Housing Services of the Inland Empire (NHSIE), has utilized HOME funds to rebuild communities. They have also leveraged HOME funding to educate prospective homebuyers on best practices and to buy their dream homes. The City of San Bernardino's median household income is \$37,047, which is \$24,771 less than the household median income in California. The HOME program provides financial flexibility to organizations, such as the NHSIE, to rebuild blighted properties and help prospective homebuyers to purchase a home. The HOME program is critical to improving low homeownership rates, which is currently 63.6 percent.

**Question:** How does HUD plan to address low homeownership in light of the FY 2018 budget's proposal to eliminate the HOME program?

**Answer:** The HOME program has played a part in helping communities expand their supply of affordable housing. HUD plans to incorporate successful elements of the HOME Program into future aspects of the Agency's work, as well as working with state and local governments to find ways to make it less burdensome to allow for more affordable housing to be developed through public and private partnerships. HUD will also manage and oversee the around \$1.3 billion in uncommitted HOME program funds, including recently appropriated FY 2017 funds, and work towards finding the most efficient way to use these funds to provide affordable housing, including activities that promote homeownership.

Further, the Department will continue to support homeownership through its other programs, with Housing Counseling to facilitate informed choices for housing and homeownership, and the support that FHA provides through the Mutual Mortgage Insurance Fund to help credit-worthy first time homebuyers.

### **Representative Aguilar #6: Reducing Homelessness and Community Development Block Grants**

Los Angeles County's most recent homeless count on May 31, 2017 revealed that the homeless population has increased by 23 percent over the last year, despite increased resources and investments put into placing individuals in homes. Although 14,000 people were permanently placed in homes, there are still 58,000 homeless individuals living in Los Angeles County. Homelessness is also a persistent issue in San Bernardino County, which only improved by one percent between 2016 and 2017.

**Question:** What policies does HUD plan to implement to reduce rates of homelessness? What steps does the agency plan to take in light of the proposal to eliminate funding through the Community Development Block Grant (CDBG) program? What data is available to demonstrate that HUD's strategy under the Trump Administration will reduce homelessness at a faster rate than previous administrations?

**Answer:** HUD has been working strategically with its Federal, state, and local partners to identify how to more efficiently use existing resources. As HUD is engaged in this collaboration it has encouraged communities to also forge strategic partnerships with homeless assistance and mainstream benefits providers within their communities. These relationships broaden the communities' understanding of the scope of the homeless community and what housing and services they need to end their homeless experience. This kind of cooperation allows communities to use existing resources in a more efficient and strategic manner by shifting resources from lower performing projects and to focus on better prioritization of resources. The end result is that individuals and families experiencing homelessness receive more tailored housing and services. In addition to encouraging communities to build robust local partnerships, HUD will continue to promote evidence-based policies. Housing First follows a basic principle—that everyone needs housing, regardless of the complexity or severity of their needs. Not only is there a strong body of research supporting it, HUD has seen that those communities demonstrating the greatest success in ending homelessness consistently report that they have implemented and received broad community support for a Housing First approach.

Another proven strategy is targeting permanent supportive housing resources to individuals and families experiencing chronic homelessness. Research indicates that using permanent supportive housing to support the chronically homeless results in more long term stability for clients and costs savings for communities from lowering the use of public systems such as jails and hospitals. HUD will continue to use performance to drive results as well. As communities use data to inform decisions about what projects to fund, for which homeless populations, and where those funds should be spent, they are able to better use limited resources to serve individuals and families experiencing homelessness in a more meaningful way.

The policies mentioned above are all rooted in evidence and have proven to be helpful for communities to better serve those experiencing homelessness in their areas, while using resources in the most efficient manner. HUD will look to accelerate these strategies and continue to look for other evidence-based practices.

HUD also has a long history of creative public-private partnerships. Many of the projects today have a healthy blend of public and private supportive service options that often rely on local and state health and mental health services coupled with privately funded housing and employment specialists. Similarly, assistance with housing is often done in partnership with public housing authorities and other state and city resources along with non-profit housing developers and providers partnering to identify how to prioritize the housing and service resources to best meet the needs of individuals and families experiencing homelessness in their communities. These partnerships create critical leverage for maximizing the use of resources.

### **Representative Aquilar #7: Reducing Veteran Homelessness**

Nationwide, there were nearly 40,000 homeless veterans in 2016. San Bernardino County has greatly reduced the rate of homeless veterans in the county. Within the last six months of 2015, the County housed more than 500 homeless veterans. In total, San Bernardino County's Veteran Housing Initiative has assisted more than 730 homeless veterans. The County has been able to keep the rate of homelessness among veterans consistently low. Currently, San Bernardino County has a rate of homeless veterans that averages 20 to 30 veterans per month and house approximately 15-20 veterans per month. The HUD Veteran Affairs Supportive Housing (HUD-VASH) program has been instrumental in the County's efforts to reduce veteran homelessness. San Bernardino County is a success story that demonstrates how HUD-VASH vouchers can be used successfully to address homelessness within the veteran population. The proposed budget eliminates new vouchers for veteran housing through the Veteran Affairs Supportive Housing (HUD-VASH) program.

**Question:** What policies, if any, does the Trump Administration plan to implement to provide housing assistance to veterans? How do you estimate these cuts would affect the homeless veteran population?

**Answer:** The HUD-VASH program remains HUD's primary initiative designed to reduce veteran homelessness. Both HUD and the VA remain committed to this program, which combines rental assistance from HUD with VA supportive services to assist homeless veterans. We will continue to work with local PHAs and their Veterans Affairs Medical Center partners to build upon the past success of the program and to address existing challenges.

The Administration's decision to not request additional HUD-VASH vouchers in 2018 does not reflect a lack of confidence in the program or that addressing the needs of our veterans does not remain a priority for this Administration. It simply reflects that currently existing HUD-VASH resources are available to increase the number of veterans served without requesting additional funding in FY 2018. As of March 31, 2017, of the 87,864 HUD-VASH vouchers funded prior to FY 2017, 92 percent were currently leased or issued (or were in the process of being issued). In other words, there are over 8,000 HUD-VASH vouchers currently available for use. The FY 2017 Appropriations provided an additional \$40 million for HUD-VASH (not including Tribal-VASH), which will support approximately 5,000 new HUD-VASH vouchers, in addition to the 8,000 existing vouchers available for use.

HUD has been working strategically with its federal, state, and local partners to identify how to more efficiently use existing resources. HUD's relationship with the VA has grown stronger in the past several years and HUD will continue to work with VA to improve coordination of resources for veterans experiencing homelessness and their families. As HUD is engaged in this collaboration it has clearly communicated to communities that they should forge similar partnerships locally. Most communities today report that they work in partnership with their local VA partners and other homeless service agencies that focus resources on ending veteran homelessness. These partnerships have allowed communities to use VA resources to focus on veterans who are eligible for VA services and to target other funding, including HUD's CoC and ESG program funding, to veterans that are not eligible for VA services.

### **Representative Aguilar #8: Public Housing Administrations and Community Partnerships**

The lack of stable, affordable housing leads to overcrowding and homelessness, exacerbating health problems, such as exposure to environmental toxins and stress. This undercuts efforts by school districts and educators to serve low-income children and young adults. National Community Renaissance (National CORE), is one of the largest national affordable housing non-profits and is located in my congressional district. National CORE has a long track record of linking up supportive services with public housing and other HUD affordable housing units – an approach that is consistent with your stated agenda of breaking down silos between HUD and other agencies to serve families in a more holistic manner.

**Question:** What program changes might HUD and Congress make to break down these silos, in order to make it easier for entities like National CORE to provide these critically-needed supportive services? As budget constraints continue to put pressure on Public Housing Agencies (PHA), what more can HUD do to promote the use of PHA partnerships with qualified non-profit affordable housing developer/managers in areas such as Rental Assistance Demonstration (RAD), Move to Work (MTW), and use of housing tax credits?

**Answer:** At the direction of OMB, each Federal agency has been asked to examine its programs to create efficiencies with the goal of delivering services better to the American people. As part of this reform, OMB will work with agencies and key stakeholders on crosscutting initiatives to develop synergies that involve multiple Federal agencies. HUD looks forward to working with other Federal agencies to break down silos and better deliver supportive services.

With budget constraints, HUD encourages PHAs to seek private, state and local partnerships to leverage opportunities for additional investment. HUD continues to support the Rental Assistance Demonstration (RAD), which permits PHAs to leverage private debt to transition public housing to the Section 8 funding platform through partnerships with qualified non-profit affordable housing developer/managers and other partners. Similarly, PHAs partner with qualified non-profit affordable housing developer/managers in the rehabilitation or new construction of public housing using Low Income Housing Tax credits. Lastly, HUD looks forward to expanding the Moving to Work (MTW) program by 100 agencies over the next several years to afford more PHAs the ability to creatively utilize their funds, to partner with affordable housing developers/managers, and to leverage private and other public resources to create affordable housing and provide supportive services.





THURSDAY, JUNE 15, 2017.

**DEPARTMENT OF TRANSPORTATION**

**WITNESS**

**HON. ELAINE CHAO, SECRETARY, DEPARTMENT OF TRANSPORTATION**

Mr. DIAZ-BALART. Before I begin, I know that all of our minds are a little bit, in many ways, elsewhere because of the incidents yesterday at the baseball practice field. And I just wanted to, once again, mention how all of us are praying for, obviously, the Whip, Mr. Scalise, the two brave police officers that were injured along with a member of the staff, and a former member of the staff, who were injured. So we cannot forget them and we do not forget them, and we wish their full recoveries.

With that, this morning we welcome Secretary Chao to testify on the fiscal year 2018 budget for the Department of Transportation. I do not have to tell any of you that Secretary Chao comes to this position with, frankly, one of the most impressive records of public service that anyone will ever see.

Having served as chair of the Federal Maritime Commission, Deputy Secretary of the Department of Transportation, director of the Peace Corps, and Secretary of the Department of Labor, and, you know, not to mention a number of leadership positions in the private sector and the not-for-profit sectors.

Madam Secretary, you have led large and complex organizations, and I will tell you that I think all of us agree that we are fortunate to have someone of your expertise, of your experience, of your knowledge as heading DOT, as we are facing some challenges of course. We always face challenges, but nobody is more prepared than you. So we are grateful that you have agreed to, once again, come back to public service, as you always have.

Thank you for your service to our Nation. I look forward to working with you to maintain and improve the safety of our transportation system, all the while ensuring that our infrastructure investments lead to economic growth and really to improve the day-to-day lives of the American people, which is really what we are talking about.

The budget request for the Department of Transportation is 16.3 billion in discretionary budget authority, and a total of 75 billion in total resources, including obligation limitations for service transportation and aviation programs.

Now, safety is this committee's top priority for DOT. I am pleased that the budget request places priority on safety programs, Madam Secretary, funding several programs consistent with the FAST Act and continuing many of the safety priorities in the previous 17 bills. So I think that is, frankly, very good news, in addition to focusing on safety of our transportation network.

Now, we obviously must ensure that we grow our economy and, yes, through fiscally responsible transportation investments. And in doing so we must make sure that we do not leave rural America and economically distressed areas behind. As we make the tough decisions that face us for the 2018 budget and beyond, I want you to know that I want to work with you, that we want to work with you to make sure that we continue, for example, air service to small towns and remote communities, and I want to make sure that we address the passenger rail needs for our rural communities.

I also want to take a careful look at transit as an important component of our transportation network. We can and we must make, obviously, tough choices in Federal spending. We all have to do that, we have to be willing to do that.

I have some concerns about the administration's proposal to terminate the Department's work with local governments on several dozen transit projects, but I look forward to working with you and through all of those very difficult issues.

I look forward to a spirited discussion about the administration's proposal to transfer air traffic control operations and facilities to a corporate nongovernmental entity. We are dealing with a monopoly, whether it is the monopoly controlled by the government or a monopoly controlled by somebody else, it will still be a monopoly.

I have not been shy of saying that I believe that we should maintain the air traffic control system that is accountable to the public. It is owned by the public and it should be accountable to the public, and I do not see any other way to achieve this than to continue our congressional oversight role.

And I believe that preserving the public's voice, frankly, is the only way to maintain our airspace as a national asset and protect access to all users, commercial aviation, general aviation, and, this is key, new entrants, such as drones and commercial space operators. And frankly, in many cases we do not even know what they are, but we know that it is going to happen now, it is starting to happen now. So we must, to the maximum extent possible, protect the right of the traveling public as well.

It is not a secret, our airspace is the most complex in the world with an unmatched safety record. We can work together to build on that safety record, and I look forward to it, and open the airspace to more and more users. Also make sure that we are not limiting it, but that we open it to more and more users as technology changes, some of which are beyond our current imagination, but that are starting to happen right now.

So, Madam Secretary, just know that I look forward to discussing this issue with you today, and for not only today, but continuous conversations in the weeks and the months ahead. Secretary, I appreciate your attention and the attention the President has given to infrastructure last week. Improving our Nation's infrastructure is an area where we can find common ground and make real improvements to the daily lives of the American people, not only in their ability to get around, but also, frankly, to help our economy.

So, I really, really look forward to working with you, and my colleagues with this subcommittee to make smart investment, to go after waste, to cut red tape, and to protect the taxpayers. So, again,

first thank you for your service to the Nation, thank you for appearing before us today.

And with that, I would like to yield now to my ranking member. Mr. Price, you are recognized, sir.

Mr. PRICE. Thank you, Mr. Chairman. Welcome, Madam Secretary, we are glad to have you here this morning. I want to, first, associate myself with the chairman's remarks about yesterday's tragedy, and the concern we all have for our colleague Steve Scalise, of course. And in particular, I want to acknowledge David Bailey, one of the police officers who was injured, and we are very proud of him. He is a North Carolina Central University graduate, and we have followed his progress over the years.

We really have come together, as we must come together, as an institution and as a country, I believe, in face of this. And I hope some good will come of it, but, in the meantime, we are dealing with real personal difficulties, tragedies that command our attention and our good wishes.

We are here this morning to examine the 2018 budget request for the Department of Transportation. This system that we are funding facilitates the flow of commerce and impacts every American. We know that investing in transportation infrastructure keeps us safe and improves our economy, it creates jobs.

Unfortunately, we also know that we are not doing so well, according to objective observers such as the American Society of Civil Engineers, whose 2017 report card gives America's infrastructure a grade of only D+. The report concludes that we need to invest nearly \$4.5 trillion just to bring our infrastructure from poor to good condition.

We have heard a lot recently about the need to reduce bureaucratic red tape to encourage more private investment in transportation projects. These are laudable goals, but they will not deliver the transformative results we need without a core of robust Federal funding. To maintain and modernize and improve our Nation's transportation system, we must take bold steps to reduce the backlog of deferred maintenance to move our transportation infrastructure back to a state of good repair.

And we must make strategic investments in new technologies to make transportation safer and more efficient. The challenge before us is clear, and it will only get worse without action on the part of Congress and this administration. I have to say, I think this budget proposal falls short of that mark. The result largely adheres to the funding levels agreed upon in the FAST Act for programs that rely on trust fund dollars, but overall budget authority will be cut by \$3.1 billion, or 16 percent.

The brunt of these reductions falls upon discretionary accounts designed to advance public transit rail and other multimodal projects that are critical to our Nation's transportation future. For example, the highly competitive Capital Investment Grants Program would be discontinued for all projects that currently lack full funding grant agreements despite the fact that funding for this program was increased just 2 months ago in the bipartisan Omnibus package.

Ending the CIG program would completely upend dozens of badly needed transit projects across the country, including two in my

home district in North Carolina. In most cases existing funding amendments from State and local governments would no longer be enough to move forward with construction, dooming many projects to failure. We should be encouraging more State and local investment in transit. Elimination of the Federal-matching dollars will have exactly the opposite effect.

Equally concerning is the proposal to zero out TIGER funding. Here, too, I could point to successful projects in my district, in my State, that leverage funds from other sources, so this is a very successful grant program. It supports innovative projects, multijurisdictional projects of regional and national significance. They are difficult to fund through traditional Federal programs. TIGER grants are awarded on a competitive basis, and every member here knows how competitive that process is, how far the demand for funding exceeds the current supply.

Congress provided 500 million for another round of TIGER grants in the Omnibus package; it is zeroed out in this budget. Passenger rail also fairs poorly. The Department seeks to end Amtrak's national routes by slashing investment in the national network of Amtrak by more than 50 percent.

The request also proposes a 28 percent cut, incredibly, for the heavily traveled Northeast Corridor. Meanwhile Amtrak is breaking ridership records, and more Americans are looking to rail to meet their traveling and commuting needs. Support for a robust national rail system has been reaffirmed by members of both parties, including the most recent long-term Transportation reauthorization bill.

And again, we have strong validation from North Carolina where traveling from Charlotte to Raleigh, or the other way, has become a model of efficient and pleasant transportation.

Madam Secretary, you stated on several occasions that safety must remain a top priority of the Department, yet the budget request would cut funding in several critical safety accounts. I will just quickly tick them off: the operations and research account at NHTSA, the safety and operations account at Federal Railroad Administration, the pipeline safety account, the Pipeline and Hazardous Material Safety Administration, and aviation safety activities within the FAA's operations accounts.

I am puzzled by these cuts. I hope they do not represent a lack of commitment to key safety functions. We need to know how the Department plans to maintain safety with fewer resources at its disposal.

Quickly, briefly, I want to shift gears and address air traffic control. The administration has endorsed the outlines of Chairman Shuster's privatization proposal. I have grave concerns about this. I have said that repeatedly. This would sever FAA's aviation safety and air traffic control components. The government-sponsored corporation model envisioned by Chairman Shuster and President Trump would reduce transparency and oversight, while allowing for fee increases, diminished access to the national airspace for many aviation stakeholders.

It would also represent an unprecedented giveaway of taxpayer-funded assets to an untested private entity. And it would threaten the progress we are making, threaten FAA's ongoing efforts to

modernize air traffic operations under NextGen. That process has accelerated in recent years, delivering billions in savings to airlines and customers. So, the budget request not only unrealistically assumes the quick transition to a private ATC entity, it also defers capital investments in FAA's air traffic control infrastructure for the upcoming fiscal year. That seems to be directly at odds with the notion of improving ATC operations.

Of course the major transportation put forward by the administration is the much-discussed infrastructure initiative, and this is something that has potential I believe for bipartisan support. But we do not have enough to work with. It is a six-page document. Rather, they mention 200 billion in Federal outlays that supposedly would leverage 800 million in private and non-Federal investment, and, of course, we would need more details about this to even begin to assess it.

Before I close, we need to acknowledge that we still have no budget resolution, no topline spending number, no subcommittee allocations. There is talk of rushing to assemble a Republican-only Omnibus package. I think that is a recipe for failure. It would represent a complete abandonment of the regular order.

Even if we reject the administration's draconian cuts to non-defense discretionary spending, the appropriations process is at risk of completely breaking down if we are forced to write our bills to sequestration levels. We have seen this happen in the past year when we lacked bipartisan budget agreements. Bipartisan budget agreements are required given the requirements of the Budget Control Act if we are going to have workable allocations so that we can cooperatively write the Transportation, HUD, and other appropriations bills. I know we want to work in this cooperative fashion, but we also know what is going to happen to enable us to do that.

Madam Secretary, I look forward to your testimony today, working with you to ensure that vital transportation programs are adequately funded. So, thank you. And thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, Mr. Price. Now I am particularly honored and pleased to welcome one of the busiest leaders in this entire process, and that is chairman of the full committee, Mr. Frelinghuysen.

Mr. FRELINGHUYSEN. Thank you very much, Mr. Chairman, Mr. Diaz-Balart. It is a pleasure to welcome back Secretary Chao to another stint serving our public so well. Thank you very much for being here, Madam Secretary. We look forward to your testimony.

Let me just add on to both Dr. Price and Mr. Diaz-Balart, I think many of us were shocked to the core yesterday. Obviously, we pray for the quick recovery of those that were badly wounded, and, may I say, we have raised the profile of the important role of our Capitol Police.

But may I say, a lot of what you do, Secretary, is you have within your purview, or just outside your purview, the men and women who protect our harbors, our tunnels, our airports, our train stations. Sometimes we pass by them, we acknowledge them, but sometimes we do not expect that at some point they might have to put their lives on the line. I would just like to take this opportunity to recognize their role and raise their profile.

Today's hearing is an important part of our oversight duties to the committee. After all, the power of the purses resides here on Capitol Hill. As Secretary of Transportation, you are responsible for maintaining and improving our Nation's infrastructure and protecting it. As we pursue policies and programs to grow our economy, so, too, we must grow our infrastructure to support it.

In that context, I would like to bring up a critical project for our national economy, the Gateway Project and the Hudson Tunnel Project. As you may know, the Northeast Corridor Regional Rail, encompassing over 50 million people between the District of Columbia and Boston, produces over \$3 trillion in output, equal to 20 percent of our gross national product.

Safe and reliable passenger rail service is essential to that economic opportunity, whether it be the East Coast, the West Coast, or somewhere in between.

Rebuilding the Hudson Tunnel is of vital importance to our region, and certainly to my home State of New Jersey. Given the clear benefits of these projects and the disastrous consequences of inaction, I am concerned about the fiscal year budget provision limiting funding for capital investment grants, what we commonly refer to on the committee as New Starts. I am eager to hear, either in this setting or outside this room, how the Department plans to support this vital infrastructure proposal for the New York/New Jersey region.

I have also taken note of the administration's proposal to spend \$200 billion on targeted Federal investments to leverage private sector resources so that the end result is at least \$1 trillion in total infrastructure spending. I would like to hear more about the specifics for this proposal, and how it will improve our infrastructure planning for State and local governments.

We welcome you, Madam Secretary. And thank you, Mr. Chairman, for the time.

Mr. DIAZ-BALART. Thank you, Mr. Chairman. Madam Secretary, obviously your full written testimony will be submitted, included in the record. You are recognized now for 5 minutes. Thank you so much.

Secretary CHAO. Good morning and thank you for being here to discuss the President's fiscal year 2018 budget request for Transportation. My colleagues and I share your thoughts and prayers for those injured in yesterday's incidents, and we are so grateful that the Capitol Police were there.

On transportation, we all share the same goal: to ensure that our country's transportation systems are safe, dependable, and ready to adapt to transformational new technologies. The President's 2018 budget represents a bold vision for our transportation infrastructure. The administration has carefully studied our current spending patterns, and it has taken a closer look at programs that may not be meeting their intended purposes, have outlasted their usefulness, or could be replaced with new initiatives that will better address future transportation needs.

The President is requesting \$76 billion for transportation. This request fully funds surface transportation programs included in the FAST Act and provides steady State funding for the majority of

other transportation programs. The budget provides new policy direction in several key areas.

First, our transportation infrastructure is crumbling and in urgent need of attention. To address this concern the President has proposed long-term reforms to change the way infrastructure projects are regulated, funded, delivered, and maintained. The President's plan will create incentives for additional State, local, and private funding and will ensure that Federal funding is leveraged to maximize infrastructure investment. The President has identified a total Federal commitment of \$200 billion for infrastructure improvements, of which a portion will be directed towards rural America.

Next, the President's fiscal year 2018 budget also includes a proposal that represents a major shift for the FAA. Despite spending billions of taxpayers' dollars, over decades of effort the government has not been able to fully implement state-of-the-art air traffic control technology. Air traffic controllers still use paper strips to keep track of flights and pilots are guided using 1960s technologies, radar, for example. Congestion and delays cost more than \$25 billion annually in higher fuel costs, lost productivity, not to mention our quality of life. By 2020, air passenger traffic will soar to over 1 billion annually. Air freight is expected to more than double over the next three decades. Drones and unmanned aircraft systems will have to be integrated into the national airspace. Without change, the current air traffic control system will be unable to keep up.

So this administration has proposed moving air traffic control operations to a nonprofit, nongovernmental, independent cooperative. The safety regulatory oversight functions will remain at FAA. And this would also involve and solve a longstanding conflict of interest issue with the operating entity, air traffic control, regulating its own safety. More than 50 countries worldwide currently have this structure of separating out air traffic control and air safety regulations.

Finally, the President calls for reforming some of our other transportation programs, like FTA's capital investment grants programs, the discretionary portion of the Essential Air Service, and Amtrak's long distance routes. The President also recommends that we revisit the TIGER grant programs.

The infrastructure principles outlined by the President will highlight alternative ways to fund worthy projects using a different funding formula moving forward. It also will recognize the administration's commitment to rural America as we revitalize our transportation infrastructure.

Thank you very much for the opportunity to appear before you today to discuss the President's budget. I am actually 20 seconds ahead of time. [Laughter] I will be more than glad to answer your questions.

[The information follows:]

**STATEMENT OF**  
**THE HONORABLE ELAINE L. CHAO**  
**SECRETARY OF TRANSPORTATION**  
**BEFORE THE**  
**APPROPRIATIONS SUBCOMMITTEE ON**  
**TRANSPORTATION, HOUSING, AND URBAN DEVELOPMENT AND**  
**RELATED AGENCIES**  
**UNITED STATES HOUSE OF REPRESENTATIVES**  
**June 15, 2017**

**Introduction**

Chairman Diaz-Balart, Ranking Member Price, and members of the Subcommittee thank you for the opportunity to meet today to discuss the President's Fiscal Year 2018 Budget request for Transportation. I am deeply honored to serve as the 18<sup>th</sup> Secretary of Transportation, and I look forward to working with all of you to address America's transportation needs. I know that together, we share a commitment to ensuring our transportation systems are safe, effective, and ready to adapt to new technologies.

The President's FY 2018 Budget represents a bold change of course for our Nation and challenges all of us to rethink the way we are setting our priorities. It calls on us to reexamine our current spending and our continuing commitment to programs that may not be meeting their intended purpose, have outlasted their usefulness, or simply need to be replaced with new initiatives that will better address our requirements for the future. Some funding reductions are in recognition that our resources are limited and that we have an obligation to future generations to keep our spending under control.

The President's Budget requests \$76 billion to support transportation programs in FY 2018. The request fully funds surface transportation programs included in the Fixing America's Surface Transportation (FAST) Act and provides levels of funding for the majority of other Transportation programs roughly in line with FY 2016 levels. But just as important, the budget promises a renewed focus on the state of our infrastructure -- targeting ways to streamline approvals, encourage cost-sharing, and prioritize projects with the greatest value to Americans.

**A New Infrastructure Initiative**

Our transportation infrastructure is aging. We need a focused approach to address this problem. The President proposes to tackle these problems by seeking long-term reforms on how infrastructure projects are regulated, funded, delivered, and maintained. The President's plan proposes reforms that will incentivize additional state, local, and private funding and will ensure that Federal funding is leveraged to maximize and significantly increase total infrastructure investment. The President has identified a total Federal commitment of \$200 billion for



infrastructure improvements. These resources will work in tandem with reforms so that progress can be achieved quickly.

While transportation specific infrastructure needs will be a key element of the President's plan, the entire initiative will encompass other Federal programs as well. The infrastructure plan will involve 13 Federal Departments and Agencies working in concert to address the following key principles:

- Make targeted Federal investments on the most transformative projects. These will be high priority projects from the perspective of the Nation or the region, or projects that will change the nature of how infrastructure is designed, built, and maintained.
- Encourage states, localities, and tribes to take their own action to improve their infrastructure. Because Federal resources are not unlimited, and the needs are great, waiting for Washington to fund repair and renovation projects only delays the improvements even longer. State and local efforts can be helped by streamlined Federal permitting and regulatory processes.
- The private sector has capital that could and should be utilized to improve our infrastructure. We can make Federal and state dollars stretch further by leveraging, and we can tap into the management benefits offered by the private sector, such as procurement methods, market discipline, and long-term maintenance protocols. The Administration does not believe public-private partnerships are the answer to all infrastructure needs, but they can play a much stronger role in fixing America's infrastructure.
- We should also align infrastructure investment with the entities best suited to carry it out and maintain it. The Administration will look for opportunities to divest from certain functions that the private sector could do more effectively. The Federal government can also be more efficient about disposing of underused capital assets, ensuring that those assets are put to their best use.

With these reforms and principles in mind, I am confident that the Federal Departments and Agencies working together will be successful in developing an infrastructure improvement initiative that will achieve the President's vision.

### **Charting a New Course**

The President's call for reforms includes changes affecting some of our traditional transportation programs. One of these areas is the Federal Transit Administration's Capital Investment Grants program. The Capital Investments Grants program supports projects that have primarily local direct benefits. While the President's Budget honors commitments to projects with existing full funding grant agreements, it does not recommend funding for new projects. The Administration is reexamining programs where significant Federal resources are spent on activities that have primarily local benefits – including what fiscal and other tools might be the most appropriate to encourage investment in those jurisdictions.

Along the same lines, the President's budget request does not include funding for the discretionary portion of the Essential Air Service (EAS). EAS was originally proposed as a temporary program nearly 40 years ago at about \$50 million. Today, two budgetary accounts are

funding the EAS program at a total cost of \$280 million. Yet, many EAS flights are not full and have high subsidy costs per passenger, calling into question the affordability of this program. But this poses a conundrum for all of us, because we recognize how critical the EAS program is to rural areas.

To address this situation, the President's Budget requests support for a redesigned program known as the Transportation Aviation Assistance to Remote Areas (TAARA) program. This new program will be funded exclusively by mandatory overflight fees at \$119 million. By reworking the old EAS program, we will help reset the path for remote air assistance going forward. The objective is to sustain air service to rural locations most in need, and to establish relevant objective criteria for making those determinations.

Funding for Amtrak's long distance routes is another area where Federal investments do not match the level of usage. Amtrak's long distance services are used by a relatively small number of passengers. These trains are very expensive to operate and maintain; and account for much of Amtrak's operating losses. The President's budget recognizes this is an area with a low return on investment and instead asks us to concentrate our resources on other portions of Amtrak's system.

The President also recommends an end to the Transportation Investments Generating Economic Recovery (TIGER) grant program at a savings of nearly \$500 million. With the passage of the FAST Act and the creation of a new competitive grant program, the Department has other opportunities for funding those projects that have nationally or regionally significant characteristics. Grant programs that meet the objectives of the new infrastructure initiative will also be considered for future investments.

### **FAA Modernization**

The President's FY 2018 budget also includes a bold shift in the operational model used for the Federal Aviation Administration (FAA). First, I would like to recognize the dedicated individuals of the FAA who safely and efficiently guide thousands of aircraft carrying millions of passengers and tons of cargo to destinations around the country. However, while the FAA has established a tremendous safety record while operating the world's most complex air traffic system, it has been hindered by the continued use of old technology.

After billions of dollars invested and years of effort to modernize our air traffic control system, our air traffic controllers are still dependent on paper strips to manage the airspace. And while we have stayed stuck in an old-fashioned approach, many other countries throughout the world have successfully implemented new models for delivering safe and reliable air traffic control services using non-governmental structures. The President's budget request asks Congress to enact FAA modernization legislation based on the principles he has just announced. This legislation would, begin a multi-year modernization effort that will transfer the day-to-day air traffic control services provided today by FAA to a new non-government cooperative. The Federal government would retain its role in regulating aviation safety, just like it does for all other modes of transportation. As we begin this modernization effort, we will be working to structure the new organization around the following principles:

- A non-profit, non-governmental cooperative is the best model to deliver air traffic services in a safe, efficient, and innovative manner.

- A board of directors that represents all users of the National Airspace System will better align air traffic services to customer demands. No one stakeholder group would control the Board.
- A fee structure would be put in place to allow aviation users to pay the cost of the services of the air navigation provider with the understanding that the provider would not charge any more than necessary to recover its costs. Any surplus would be plowed back in to the entity; there are no shareholders that would profit.

When completed, this modernization effort will deliver an organization that uses modern business tools and management flexibilities that are comparable to those used in the private sector. This flexibility would speed up the implementation of new, state-of-the-art technology for air traffic control that will allow for greater precision in managing the airspace, thus enhancing safety and alleviating flight delays that have become an increasingly aggravating element of air travel. The Nation that invented air travel should surely do better.

Thank you again, for the opportunity to appear before you today to discuss the President's Fiscal Year 2018 budget. I will be happy to answer your questions.

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Mr. DIAZ-BALART. Thank you, Madam Secretary. And we try to keep on time here. So we will proceed with the standard 5-minute rounds, alternating sides. I want to thank the members of the subcommittee. We are pretty strict here, Madam Secretary, in trying to keep to the timeline and, of course, I get a lot of help from the subcommittee chairman in doing so.

With that, Madam Secretary, as I mentioned in my opening remarks, I have drawn a very bright line to really my opposition to transferring air traffic control systems to what in essence is a corporate monopoly. It is a monopoly that will remain a monopoly, the question of who is going to run it. And so I am obviously wide open to finding ways to improve the way that FAA makes decisions and investments. And I welcome, by the way, working with you and your suggestions as to how I can even do my job or our job better. We are always subject to doing a better job.

The problem, though, is that I am concerned that the proposal would reduce or even eliminate, frankly, the public's voice in something as critical as our national air traffic controller. While I am open, and I have for decades been open, to privatization and competition, this is not privatization. This is a monopoly that will remain a monopoly except that all the assets that have been paid by the taxpayer will be transferred over to this other group. And I think it potentially could, frankly, create great risk if we were to hand decisions over to an unaccountable corporate board. And so that is the only level of accountability that I am hearing in this bill through this board of directors. But I just do not see how a board of directors made up of good people, but from different industries, are going to do anything other than support the issues of their industries, of their special interests.

So, yes, I agree that our current system, like everything else, is imperfect, but it does give a guaranteed voice to the public interests. And so that is one of the issues, Madam Secretary, that I want to continue to talk with you about.

In addition to basic accountability to the public, I also want to make sure that we preserve our Nation's airspace as a place of innovation. I know that is something you are committed to as well. You know, we are seeing an explosion of new entrants into the space, as you mentioned, drones, commercial space operators, new general aviation technologies. And in this next generation we will be moving people and goods through the air in ways that are beyond what we see today. And so that is why, again, handing that decision to a board controlled by special interests, I am sure they will be good men and women, to me would be like handing the streets over to the taxicab commission right at the time when Uber and Lyft were entering into the marketplace.

But I do want to say where one of my greatest concerns is. Right now the FAA has extensive engagement with communities when new airline routes are planned that could bring, for example, higher levels of noise over neighborhoods, and we hear that in this subcommittee all the time. So right now the public can go to Congress if the FAA is unresponsive. But the corporation would have no such obligation when they create new routes or when they change the frequency of those routes. So this goes to the health, the home values, the basic quality of life. So, you know, how do we address this

issue with a board that has no direct public accountability? None whatsoever.

So, again, I have other concerns and we will talk about those at a future time, Madam Secretary. I just wanted to, again, start that conversation, and we are going to have many more, but to just throw some of the issues that are concerning to me. So I would like to ask a couple of questions about it. I do not have a lot of time.

So would the traveling public have any say on new fees charged by this new entity? And I know it is in the early stages, so I do not know if it is even fair to throw these things at you right now, but, you know, any idea about, for example? Would the public have any say, any input as to any new fees that would be charged?

Secretary CHAO. The public would have the same recourse to appeal to their congressmen and to their senators on fees like they do now. That part will still be the same. What we are seeing now is a very congested airspace. Our airspace is the safest in the world, but delays and congestion plague air travel. And with increased traffic, with new entrants like drones and unmanned aircraft having to be integrated into the national airspace, we need to upgrade the technology to ensure that new entrants and that there is a system that can respond to all this new traffic and congestion and delays.

And this is not a new idea. It has been proposed decades ago by the Clinton administration. What we are trying to do is to allow the air traffic control system to have the latest technology with which to manage the airspace. So for noise, for example, noise regulation would still remain at the FAA. So what we are doing is actually addressing one of the major issues that has been longstanding, and a conflict of interest of the air traffic control system regulating its own safety. We are separating that out. There will be a safety component which stays with FAA, the air traffic component will be independent and separate.

And on noise, that still stays with FAA. So citizens will—the new air traffic control system has to respond to the same regulations, the pollution regulations, noise regulations. And if people are unsatisfied, they would have the same recourse. They can go to their congressmen, their senators as well.

Mr. DIAZ-BALART. Madam Secretary, I try to keep myself on time as well, but we will continue this conversation.

Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Madam Secretary, I want to first ask for your assurance on a matter that includes the entire appropriations process, and it has to do with the reports that the White House has ordered agencies to ignore Democratic oversight requests. The administration seems to be saying that Democratic oversight has no legitimacy, that oversight is the prerogative of the majority party. That is a new level of partisanship that is unprecedented. It is unacceptable, will only worsen gridlock in Washington. So I want to just ask for your assurance on this. What is your policy? What is the policy—it is your Department with response to—

Secretary CHAO. I will be more than glad to answer that, but I would like—

Mr. PRICE. Let me ask you a couple of related questions—

Secretary CHAO. Sure.

Mr. PRICE [continuing]. About your policy in your Department. Is there any policy or guidance that you know of that would prohibit or delay responses of ranking members of congressional committees or subcommittees? Is there any policy or guidance that would prohibit or delay responses to Democratic members of Congress? And if such policies are in place to prohibit or delay responses to ranking members or other Democratic members, was that developed in consultation with the White House or the OMB?

Secretary CHAO. There are a lot of questions. So let me say, first of all, it has always been my policy to work on a bipartisan basis with members of Congress. Having said that, I think it is worthwhile clarifying that previous administrations' policy regarding oversight requests has always been to work with the majority chairman. And I will quote from a DOJ opinion, "The executive branch's longstanding policy has been to engage in the established process for accommodating congressional requests for information only when those requests come from a committee, subcommittee, or chairman authorized to conduct oversight."

This opinion also says, with regard to responding to a request from individual, "Members who are not committee chairs, the executive branch has historically—historically—exercised its discretion in determining whether and how to respond following a general policy of providing only documents and information that are already public, or would be available to the public, through the Freedom of Information Act."

So in terms of requests from members who are not committee chairs, regardless of party, the DOJ opinion makes clear in its final paragraph that the response depends on the circumstances. I am reading obviously from the recent opinion that has been made public. It probably puts into writing what has always been the established precedent.

I am not here to anger anybody and I will say that from my point of view, to the extent that I can, it is my intent to work fully with both sides of the aisle.

Mr. PRICE. Well, that statement of intent that you just appended to the other things you said is the kind of assurance that I have gotten, and other ranking members have gotten, in asking your counterparts across government. So for you to revert to some kind of supposed precedent that there is some kind of unique channel to the chairs of the—who represent the majority party, the way I asked the question represents my historical understanding and my experience in numerous committees and in numerous administrations. I have never heard what you articulated made explicit or, for that matter, as just—it just does not reflect my experience. And so there is something new here.

And what does your assurance mean? I mean, you say where possible you will respond. What kind of—

Secretary CHAO. Well, I do not want to get into an argument, and I am not being disrespectful, but I have been in the Federal Government before, in the executive branch, and this has been the precedent before regarding oversight. I am not talking about information relevant to policy making, but rather investigations inquiries.

So, but having said that, there are circumstances—I can say to you I will work with both sides of the aisle the best that I can. And there will be some issues on oversight that it must come from the chairman, whether it is Democrat or Republican. That has been a longstanding practice. And I have been in government in the executive branch when the majority in Congress was Democrat.

Mr. PRICE. Well, I must say it has not been my experience. And the kind of issues the chairman just raised, the kind of things that are our day-to-day grist for the mill here, airport noise, you know, the kinds of bureaucratic snafus that develop, I mean, we have so many things that we need to bring up with you in these hearings and questions for the record.

Secretary CHAO. And we welcome that. The issue is oversight. This is not a blanket policy of not answering requests. It is an issue specifically related to oversight. So we, of course, will help members on both sides of the aisle with technical assistance, with information, with constituent services. You will find that in my record, you know, we always are very, very responsive. But I think in this particular case it refers to oversight.

Mr. PRICE. Well, oversight is about oversight of executive performance, agency performance. The Appropriations Committee is the epitome of congressional oversight and it has historically been nonpartisan, bipartisan. That the administration is called to account no matter who the president is, no matter what the party division is, the administration is called to account by this committee. That is the American system, the power of the purse.

Secretary CHAO. I totally agree with you.

Mr. PRICE. And the notion that that would somehow in your mind be segmented—

Secretary CHAO. It is not only in my mind, sir.

Mr. DIAZ-BALART. Well, it looks like it is in the administration's.

Secretary CHAO. This is a memo that we have received.

Mr. PRICE. Yes, that is right. And I—all right.

Secretary CHAO. Yeah. And it is public.

Mr. PRICE. You have made it much more explicit than other secretaries have and we certainly will need to explore this further.

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

Mr. Culberson.

Mr. CULBERSON. Thank you, Mr. Chairman. Secretary Chao, I appreciate your service to the country and I can confirm that that has indeed been the policy under President Obama. And when he was first elected, under the 4 years when the Democrats were in the majority here, the administration followed that exact same policy that you just read. So you are exactly right.

And, of course, we all work together. I know Mr. Price works very well, we all work together very, very well on any oversight or concerns that, Mr. Price, the minority have. I know our chairman would work with them arm-in-arm to make sure that the appropriate oversight is conducted.

But I wanted to focus on a superb speech that President Trump gave with the Secretary at the Department of Transportation, Madam Secretary, where he pointed out that it only took 4 years to build the Golden Gate Bridge and only 5 years to build the Hoover Dam, and less than 1 year to build the Empire State Building,

but that today it can take 10 years and far more just to get the approvals and permits needed to build a major infrastructure project. He pointed out that, for example, in highway permitting it includes 16 different approvals, including 10 different Federal agencies, being governed by 26 different statutes. And in the case of an 18-mile road in Maryland, they had to build—excuse me, get approval and permitting. They spent \$29 million for an environmental report weighing 70 pounds and costing \$24,000 per page.

President Trump quite correctly said at that speech, and he is absolutely right about this, I was not elected to continue a failed system. I was elected to change it. All of us in government service were elected to solve the problems that have plagued our Nation. We are here to think boldly, we are here to think big, and rise above petty partisan squabbling. It is time to start building our country and we are here to take action.

He is absolutely right. I am tremendously proud of the bold agenda that he has taken to cut through all the red tape when it comes to transportation. And I wanted to ask specifically, much of this lies within your authority. I wondered if you could talk to us about what you have done and what you can do with the authority that you already have as Secretary to combine the party process, to let them make sure they go in parallel to accomplish what the President has asked.

And then, number two, this committee is better equipped than any other to help the President achieve his agenda with our authority over the power of the purse. That, as James Madison said, is the single most powerful check and balance on the executive branch.

So, number one, what can you do and have you done to speed up the permitting process? And then, secondly, what can the chairman and this subcommittee, working arm-in-arm in a bipartisan way, do to help simplify the permitting process for the critically needed infrastructure projects that President Trump is so correctly focused on?

Secretary CHAO. The administration issued an executive order very early in the administration coming on board. And this executive order takes a look at the regulatory aspects that delay infrastructure projects, and so—

Mr. CULBERSON. It is to set up the council that was designed to—is that the council that the President set up?

Secretary CHAO. Yes, that is the infrastructure council, number one; deregulatory council as well.

Mr. CULBERSON. To examine the process and come up with a report and recommendations?

Secretary CHAO. Right. And, as you mentioned, it talks about ways in which the permitting process can be streamlined: if there are sequential processes, whether they can be made to occur concurrently; if there are duplicative regulatory processes, whether that can be collapsed or consolidated. And this is also an effort throughout the government. So in the Infrastructure Task Force there are about 16 different Federal agencies. And so the Department of Transportation is also working with EPA and with Department of Defense, Army Corps of Engineers, with Fish and Wildlife, and many other departments in an effort to see how we can work



better together to facilitate and speed along some of these infrastructure projects.

Mr. CULBERSON. I guess really what I am driving at, and you are right, of course, it does need to be carefully examined and thought through, but the President's right that he was elected to think big, act boldly. What could be done to speed that up? I mean, we have had a lot of councils and commissions before to study things, but you have the authority, I believe, already to cut through a lot of this red tape and create parallel permitting, and no committee in Congress is better equipped than the Appropriations Committee to support you in that effort. The chairman has got your back, we have got your back. What can we do to help speed that up in order to really act quickly and boldly.

Secretary CHAO. Well, the President has also made it very clear that he would like to reduce the infrastructure regulatory process from 10 years to 2 years, and so he is very results-oriented, and we are looking at that.

Mr. CULBERSON. I look forward to working with you on that. I know the chairman is as well, and Mr. Price. And please come to us with specific suggestions so that we can help that process along as quickly as possible. Thank you very much.

Secretary CHAO. Thank you.

Mr. DIAZ-BALART. Thank you, Mr. Culberson. We are honored to have the ranking member of the full committee. I know you have been running around between hearings, Ms. Lowey.

Mrs. LOWEY. Thank you very much, and I am sorry but we have a defense hearing, EPA hearing, and I have the privilege and pleasure of attending them all.

Madam Secretary, we have had the opportunity to meet before, and I congratulate you on taking this position. But I am truly shocked with the report I just received while I was in another committee. I understand there was a question from Mr. Price that you have referred to the Department of Justice guidelines about responding to oversight requests, and that you stated that you will respond to committee chairs and work with the minority when possible. I have known you for a long time. I have been in this Congress for 28 years; I cannot believe that this is true. Does this mean if I have a request and I send you a substantive request you may or may not, or your Department may or may not respond? You could not have said that.

Secretary CHAO. I have always worked across the aisle, and I want to reassure the members on the dais that I will always work with the committee, and if there are specific incidences where you have not received a response, please come to me. I will be more than glad to work with you.

Mrs. LOWEY. So, you are saying, you said to the committee, but you would respond to my request as ranking member of the minority, as well as you would to our distinguished chair, which, frankly, with whom I work very closely and I have enormous respect? And I just want to make this clear that on Appropriations, we always say there are Democrats, Republicans, and appropriators. So, I just want to hear you say you will respond to requests whether we are a Democrat or a Republican. You do not have to agree with me,

but, I think, each of us—Democrat, Republican—deserve a response. Could you respond again?

Secretary CHAO. I will try my best.

Mrs. LOWEY. I will take that as a yes, you will respond to—I do not understand when you say you will try your best.

Secretary CHAO. I will try my best and I have some discretion under the OLC opinion. You know me.

Mrs. LOWEY. I do.

Secretary CHAO. And my history, I have always worked—

Mrs. LOWEY. So, just say yes, of course, I will respond to you.

Secretary CHAO. I cannot quite say that with regard to investigatory document requests. It is a narrow category.

Mrs. LOWEY. Then that leaves a question, Madam Secretary. So, think about it while I ask another question because I am really surprised that you would not say, of course, Congresswoman, you know me, I will respond whether it is a Democrat or a Republican. One more chance.

Secretary CHAO. It has always been my history to work with both sides. I have always done it that way and will continue to do so. But there is precedent that oversight questions are handled in a certain way. Again, we are not talking about requests for data or information needed for developing legislation or any information a member needs to help constituents.

Mrs. LOWEY. Let me just say this and I will get on to another substantive question because the chairman is being very generous with me. You do not have to agree with me, you do not have to agree with my distinguished colleagues, and we could have healthy debates because that is what Congress is all about. But I am really shocked that you would not just say, of course, I will respond, whether it is a Democrat or Republican or a citizen.

So, I'll go on to the next question, and I would like to follow-up on Mr. Price's infrastructure plan question. I am concerned that the President's plan lacks actual funding and, instead, would put a burden on State and local taxpayers to pay for those programs. This would be particularly catastrophic in a State like New York, which gives more in Federal tax dollars than it receives from the Federal Government. You remember hearing that from Senator Moynihan who documented that many years ago.

So, if New York is getting less in tax dollars and giving more, already pays some of the highest taxes in the country, it would be unfair, in my judgment, to force New Yorkers to pay for even more, particularly when many infrastructure developments and economic gains in New York benefit the economy of the entire Nation. Do you have more details about how President Trump plans to pay for his infrastructure plan, and how will you ensure this infrastructure plan does not force States and localities to raise taxes to pay for federally directed projects?

Secretary CHAO. The President has always emphasized the need for new infrastructure, and he has talked about a trillion dollars, \$200 billion of that will be direct government funding. Some of the monies will come from sale of public assets, and then the remainder will be a combination of partnerships and cooperation between the public and the private sector and through leveraging the Federal dollars, which will be used like a seed capital that will allow

more innovative, more creative financings. And that leveraging through public-private partnership is actually seen more often. But, right now we have certain States that do not allow the private sector to fund public infrastructure, and so, we want to be able to let the private sector come in and, if they want to, fund public sector infrastructure projects. And if there are ways in which they can participate that will help alleviate the burden on taxpayers, I think that's something that we should welcome.

Mrs. LOWEY. Mr. Chairman, thank you for your generosity of time. I will just conclude by saying I am a strong supporter of public-private partnerships, but I am strongly opposed to a proposal when President Trump has emphasized infrastructure, and without help from the Federal Government for the new Tappan Zee Bridge, as you know, that is going up; and without redevelopment of LaGuardia Airport and Kennedy Airport. A lot of these infrastructure programs create real jobs and if the private sector wants to contribute, that is great. But I know you know the town of Harrison, and I know that my constituents would be very upset if their taxes are going up to pay for responsibilities of the Federal Government. It just does not make sense to me.

So, I would like to continue this discussion because most people today who responded to President Trump were people who said, I am tired of paying taxes that keep going up and up, and President Trump was very forceful about infrastructure, creating jobs. So I do not think they knew when they responded to his comments that they are going to pay for those infrastructure projects.

Secretary CHAO. They are going to pay either way. If it is a trillion dollars in direct government funding, that is taxes.

Mrs. LOWEY. That is taxes, but it is the Federal responsibility, and when you see all these cuts that we have in the domestic side of the budget, there is a real concern.

Secretary CHAO. Which is why we need the private sector to be involved so we can leverage their input and their participation as well.

Mrs. LOWEY. I am delighted to have the private sector involved, but I do not want, frankly, the responsibility for these major infrastructure programs that the President talked about, and how he was going to create jobs, fall on the tax base of our local citizens.

Thank you. Thank you, Mr. Chairman, for your generosity.

Mr. DIAZ-BALART. Thank you. Thank the gentlelady. I am going to ask the members, obviously, the ranking member of the full committee is always going to have some leeway, but I will ask the members now to please adhere to, as much as possible, to the 5-minute rule.

Mrs. LOWEY. Let me thank you again for your generosity and your constant willingness to work together on this committee in a bipartisan way.

Mr. DIAZ-BALART. Thank you, Madam. Thank you, Ms. Lowey. Mr. Young will have to be a little bit less lenient than we were with the chairman and the ranking member.

Mr. YOUNG. You just took 5 seconds off my time.

Mr. DIAZ-BALART. No, you can have those. We have not started the clock yet. And for being so nice, I will give you 5 minutes and 5 seconds. How is that?

Mr. YOUNG. All right. Thank you, Mr. Chairman. Secretary Chao, thank you for being here today. Thank you for your past public service in other departments, and what you are doing today. I have already admired your bipartisan approach, your fair approach to your role in leadership and administration, so thank you for that.

I want to talk about infrastructure. In your statement, you say, "Our transportation infrastructure is aging," and I think we can all agree with that, and "that we need a focused approach to address this problem." I think we also need a focused approach to address new advancements in transportation, new technologies, new vehicles, when it comes to taking a look at what an infrastructure looks like when you have autonomous vehicles; when you have artificial intelligence.

Should we be looking at a different approach or a different way to ensure that the next transportation grid is ready to go for the 22nd century and not be stuck in kind of an analog approach as we have in the past? Do we need different surfaces, different tracks within roads? Do we need sensors out there? Will all the vehicles be talking to each other? I just want to make sure that we are all thinking about this as we go into the new century.

And the future is here. It really is. How do you see these new technologies influencing an infrastructure package?

Secretary CHAO. All that you are discussing is currently being examined and reviewed in various aspects of the transportation infrastructure proposal. The infrastructure proposal does not just have transportation. It includes other departments, other areas, for example, energy, water, veteran affairs, and possibly broadband; that is yet to be determined. But what you say about autonomous vehicles on the ground and in the air is partly a reason why the air traffic control system is being considered in terms of the need for upgrade and the need to be kept abreast of state-of-the-art technology. And on the roads, we are, obviously, thinking more about how do we accommodate the concerns with autonomous vehicles on the ground in terms of traffic, but also in terms of safety, security, and privacy.

So, all those issues are part of the national dialogue that needs to occur as we talk about this infrastructure proposal. It will be, actually, probably three different phases, meaning it will be short term, medium term, and long term. Right now, we are talking about the short term, which is a trillion dollars over 10 years; it cannot be funded as our friends on the other side of the aisle would like, by direct Federal funding. That would create a tremendous adverse impact on our deficit and also introduce potential havoc with the private sector markets with such a large injection of Federal funding.

So, there are States I mentioned that do prohibit public-private partnerships. While that is not the only solution, public-private partnerships should not be discriminated against, and the private sector, if capable, should be allowed to invest in public infrastructure.

So, all of that is going on and there is a short-term and a long-term consideration of all of these issues.

Mr. YOUNG. We have had some very interesting hearings already with the private sector on the new technologies, autonomous vehicles, what it means, how can we adapt to it. The Department and this committee, we need to keep being engaged on this issue. But, more importantly, for us and for you and your Department, I think, it is imperative that we are really engaging the private sector every day because they are driving this, and with consumer demand, as well.

I have about 35 seconds. If you add the 5 seconds, I have 40. The Highway Trust Fund, you know, it has not been self-sustaining since 2007. Because of advancements, again, in technologies, innovation, with new vehicles out there, new fuels, and ways to power vehicles, how do we ensure those using our roads and bridges are paying their fair share? You know, kind of pay-to-play on our roads, and are not getting away with not contributing? We want to make sure that we have an up-to-date transportation infrastructure program for our roads and bridges. Because there could be disparity out there because, I think, more and more with technology, you are going to have vehicles who are not paying into the Highway Trust Fund, but are using the system.

What ideas does the DOT have that we all should consider? And if you cannot name any, just give me some sense of confidence that you are thinking about this because we need to think about it.

Secretary CHAO. Well, there are various ways to fund the infrastructure proposal. There is a working list of 13 to 17 under discussion. None of them are attractive. We all want the benefits, but there will be groups that will not like one or another financing solution. But the longstanding problem of the Highway Trust Fund has been resolved until 2020.

But as we prepare for fiscal year 2019 budget, which is going to be coming up this summer, and as we talk about the infrastructure proposal, we have to—and I am underscoring your point, that funding the Trust Fund exclusively with the gasoline tax is not going to be sustainable. So, we do have to take a look at other options. And we have not yet made any decisions, nor any conclusions, nor any agreement among ourselves as to how to do that yet. But, suffice it to say, that nothing is off the table.

Mr. YOUNG. Thank you for your testimony and being with us today. Mr. Chairman.

Mr. DIAZ-BALART. Thank you. Mr. Quigley.

Mr. QUIGLEY. Thank you, Mr. Chairman. Thank you, Madam Secretary, for being here. I do not see the boldness. I think you look at what you talked about, an aging infrastructure, but who is using what? In our urban areas, we are about an \$85 billion state of good repair. The Chicago Transit Authority carries more people than Amtrak nationwide in a month. And when you combine the state of good repair there and with METRA, the numbers are staggering. These are not conducive to public-private partnerships. I am all for those. For to use it as we have, this bold new idea, we are going to do this, is extraordinarily limited with where people are going.

Millennials are not buying cars. They are doing rideshares, they are riding bikes, and, thank God, they are using public transpor-

tation. But I have an antiquated, 100-year-old, rickety transit system that is carrying more people all the time.

In this budget, the grants, the capital investment grants, are cut in half. So, what are we saying? We are going to have a bold new idea to transport people the way we did 50 years ago. Where is the boldness? How does public-private partnerships work? And how can you assure that they are going to rebuild or provide positive train control in all of our light rail systems and around the United States as a whole?

Secretary CHAO. The infrastructure proposal is going to address four principles: One is to target Federal investments on most transformative projects. Two is to encourage States and localities to take their own action, with Federal aid coming in terms of streamlining regulations and permitting. Three is to tap into the private sector capital and management methods. And four is to align the infrastructure with the entity best suited for operation and maintenance. We are going to give the States a great deal of flexibility, and they are going to have a lot of say in how all of this is to be spent.

Mr. QUIGLEY. Look, METRA and the Chicago Transit Authority are not worried about permitting. They are not worried about the State getting in their way, increasing demand. And the fact that public-private partnerships are not going to help them at all, some of this just takes Federal dollars. So, you have outlined four things that do absolutely nothing for those two entities, and take away half of the funding to make them continue to have rolling stock. And let me tell you, these folks are Democrats and Republicans. My metro trains come through Chicago, but they go out to my friend Peter Roskam's district.

These are all people who, right now, these are entities that need resources, at some point in time, you have got to rebuild track and you have got to repurchase rolling stock. They do not have that. Nationally, the backlog on repairs is extraordinary. So, outlining four things that will help private sector entities or States move forward with permitting means almost nothing to them and their most vital need.

Secretary CHAO. Approximately 84 percent of transportation dollars come from the State and local funds. I am not saying that we are not going to participate. What I am saying is, under the infrastructure proposal, the States and localities will have great freedom and great flexibility.

Mr. QUIGLEY. Let us just say you put more money into a trillion-dollar infrastructure package. You just took away half the funding for the Direct Grant Program, and the States matched those dollars, so you have done nothing. Right now you have cut them in half; this is absolutely vital. So, let us just say, you come back and say, well, we are going to have this trillion-dollar package and some of that is going to include—you will have just taken it from one spigot and put it into another. That is assuming that you even do this.

Secretary CHAO. Well, obviously we disagree with some of the priorities and some of the missions and some of the purposes.

Mr. QUIGLEY. And where is——

Secretary CHAO. So, what we are doing is repurposing it. So, we are basically going to—

Mr. QUIGLEY. So, you are taking money, in a sense, from mass transit and putting it where?

Secretary CHAO. That is going to be in the details of the infrastructure which will be coming out—proposal which will be coming out in the fall of this year.

Mr. QUIGLEY. We have just got to have some inclination. You have given us the lead on this that we do not care as much about public transportation.

Secretary CHAO. No, I did not say that.

Mr. QUIGLEY. But you cut it in half, so you have got to—it cannot be a priority if you cut it in half.

Secretary CHAO. It will be reshifted, repackaged, and repurposed in the infrastructure proposal.

Mr. QUIGLEY. For what?

Secretary CHAO. And the details of which have not come out yet, but states and localities will have the freedom to apply for grants to address their individual infrastructure needs whether that is transit systems or something else.

Mr. QUIGLEY. Where would you send it if it is not for public transportation?

Secretary CHAO. Well, that decision has not been made yet, but states and localities will have flexibility.

Mr. QUIGLEY. Okay. Thank you.

Mr. DIAZ-BALART. Again, also we are thrilled to have chairman emeritus. And by the way, Chairman Rogers is the one who gave me this chairmanship originally. So, for those of you that are happy that I am chairman, you thank him. Those that are not happy, he is the one to blame.

Mr. Chairman? I apologize.

Mr. ROGERS. Thank you, Mr. Chairman. And you are doing a great job and I am glad I had the wisdom name you to this post.

Madam Secretary, good to see you. Welcome to the Hill. Good to see you outside of Kentucky, although we love you back there as well.

Secretary CHAO. Thank you.

Mr. ROGERS. Infrastructure, of course, is the name of the game this year. We are all tired of traveling on old streets, bridges that are falling, waterways that are not being traversed properly, and the like. So, we share your enthusiasm for doing something big on infrastructure improvement.

I noticed on page 2 of your statement where you list the key elements, the key principles of the infrastructure plan that will involve 13 Federal departments and agencies in concert. The first principle that you list is that the monies would be spent on the most transformative projects. Tell me what that means.

Secretary CHAO. I think the President would like something that is bold, that is innovative, something that will really speak to the future and address the concerns of the future. Having said that, I understand your question, and that is you are concerned about rural America.

Mr. ROGERS. Yes.

Secretary CHAO. And I come, as you know, from a State that is a very rural, so I am concerned about access, ridership, and the ability of rural America to be part of the American dream as well. There will be a separate title to the infrastructure proposal that will address rural America. The dollar amount has not yet been decided, but we are very cognizant of the needs of rural America.

Mr. ROGERS. Where is the center of the effort to finance, the study how to finance the infrastructure improvements? Where is that research going on? Is that in your Department?

Secretary CHAO. I think you asked how will this all be paid for?

Mr. ROGERS. Yes. I am asking, who is studying that portion of the problem?

Secretary CHAO. At the White House?

Mr. ROGERS. Yeah.

Secretary CHAO. All of us. Prior to your arrival here, we talked about various different ways, that there is a plethora of ways, 13 to 17, very commonly discussed ways to pay for infrastructure. As of yet no decision has been made-, no agreement, I should say, has reached a consensus. None of the payment forms are ideal. At this point, suffice it to say that nothing is off the table. And as you mentioned, there are about 16 different government agencies in the infrastructure task force that are grappling with how to pay for all this.

Mr. ROGERS. Well, given the financial situation of the country and of the States and localities, it is pretty plain the money to do whatever we are going to do has got to come from somewhere else, i.e., private sector. Do you agree with that?

Secretary CHAO. Yes. And again, in an effort to be bipartisan, I understand that our colleagues—our friends on the other side would prefer 100 percent Federal funding of \$1 trillion, and I had just said that, unfortunately, that would increase our deficit quite a bit, and it would actually also create some havoc within the private markets because it would be such a large presence of Federal dollars.

So, the President is looking more toward using \$200 billion in direct Federal funding, in infrastructure using that as seed money, and selling off some public assets, and using the Federal amount to entice or to partner with the private sector in some creative, innovative public-private partnerships, which we have seen in the past.

Mr. ROGERS. Yes. There are examples of this. For example, Indiana, 10 years ago or so, sold the cross-State toll road for billions of dollars, and then used those proceeds to build the roads around the rest of the State. Is that a possible way to go here?

Secretary CHAO. Toll roads certainly are an increasingly popular way to finance infrastructure, but I understand both sides, that some people might not like toll roads, but it is very effective to finance new roads.

Mr. ROGERS. All of us do not like toll roads, but some of us may tolerate tolls. But the selling, what I am talking about is the selling of the asset. And I assume the buyer of that highway would need to enact tolls in order to pay off the purchase price.

Secretary CHAO. This actually is a big issue, whether we sell off these public assets. And actually there is a discussion going on



about concerns about selling public infrastructure to foreign interests, and whether there is sentiment that that is not desirable. And so we are thinking about some lease and buyback. I mean, these are one of many, many ideas that are being surfaced as to how we can finance it.

Mr. ROGERS. Good luck to you. And thank you. I yield back.

Mr. DIAZ-BALART. Thanks, Mr. Chairman. Representative Clark.

Ms. CLARK. Thank you, Mr. Chairman. And we are delighted by your appointment, and I want to thank Chairman Rogers for that. And thank you, Madam Secretary, for being with us today.

And I also want to thank you for your commitment on the Green Line Extension in Massachusetts, and for being up in Boston recently. A lot of hard work has gone into that project, and it would not have been possible without the assistance of your Department. And so, we thank you for that.

And I have lots of substantive questions, but I really was struck by your comments earlier in response to Ranking Member Price, especially today, the day after such horrifying events and attacks on our colleagues yesterday. So, I just want to make sure that I understand what you are saying.

There was a Letter of Counsel to the President on May 1, 2017. Is that the opinion that you are citing from DOJ?

Secretary CHAO. What I am trying very, very hard to say—I am not trying to anger anybody—especially as you mentioned, “after what happened yesterday.” But this is DOJ reiterating established precedent, and I do not seem to be given credit for that. It is. I have been in the government before, it is—

Ms. CLARK. So, just precedent or not, there is a line in that note that also says it is established precedent, but it reads, “Individual members of Congress, including ranking minority members, do not have the authority to conduct oversight in the absence of a specific delegation by a full House committee or subcommittee.” Is that your understanding of the law?

Secretary CHAO. That has always been the case with every executive branch oversight defined narrowly—documents requested for investigations, not for policy evaluation or review.

Ms. CLARK. So that is a yes?

Secretary CHAO. I am committed to working with those members of this committee—

Ms. CLARK. No, I just want to know if that is your understanding, that individual members do not have any authority to conduct—

Secretary CHAO. That has always been precedent regarding investigatory document requests. That has been the precedent.

Ms. CLARK. Okay. So that is your understanding of the law and the policy of Department of Transportation?

Secretary CHAO. It is not just Department of Transportation, this has been executive branch precedent for previous administrations—

Ms. CLARK. But you are the Secretary of Transportation. That is your understanding and policy?

Secretary CHAO. It is throughout government, yes.

Ms. CLARK. Okay. And your understanding is that is throughout the executive branch?

Secretary CHAO. Yes. I said that is the—the executive branch, it has always been that way.

Ms. CLARK. All right. I am going to move on.

Secretary CHAO. Through every administration.

Ms. CLARK. I am going to move on to positive train control.

Secretary CHAO. Yes.

Ms. CLARK. Which is a big issue back in States like Massachusetts, and really across the country. As the FAST Act authorized \$199 million out of the mass transit account to create this grant program, but States like mine, are trying to meet the deadline for implementation, but have struggled to find the financing to complete the installation.

My understanding is that the application for this grant program has not yet been fully implemented. As a result, you have to complete two different applications: one for TIFIA, one for, is it RIF, RIFR, I am not exactly sure I have that right. Can you give us an update on how this implementation is going and whether there has been progress in streamlining this application process?

Secretary CHAO. I can speculate, but let me do my due diligence and get you, specifically, information, and I will be pleased to work with you on that.

Ms. CLARK. Okay. That would be helpful, because I think it has become a redundant application process. It is really causing some problems in meeting the deadlines.

Secretary CHAO. I will look into it.

Ms. CLARK. On the State maritime academies, they are essential to a vibrant U.S. Merchant Marine, and ensuring America's sealift capacity and, frankly, they are key to our national security. These academies rely on training ships to fulfill their education mission. The TS Empire State at SUNY Maritime College is now 56 years old. Its lifetime is expected to end in 2019. The TS Kennedy at the Massachusetts Maritime Academy is 51 years old and its useful service life is estimated to end in 2025.

The 2017 NDAA directed DOT to complete the design of replacement vessels. And I am hoping that you can tell me, has the design of the national security multi-mission vessel been completed? And can you give me an update of the replacement of these ships?

Secretary CHAO. The Mass Maritime and SUNY Maritime are two great maritime academies, universities, and they graduate outstanding young men and women every year. I am familiar with this. These two ships are the oldest. They need to be replaced at some point. Unfortunately, it is an issue of cost as well. One ship will cost \$300 million. For all the maritime academies that will be about over a billion dollars in direct outlay.

So we are looking at this issue. And I just recently spoke with the Mass Maritime president, and also New York Maritime president, so this is an issue that has to be somehow addressed. Perhaps one way is to find a renovated vessel, but then there are waivers required because it would not be U.S.-built, but that could possibly be \$15 million per ship. So, we are looking at different ways to address this problem.

Mr. DIAZ-BALART. Congressman Valadao.

Mr. VALADAO. Thank you, Chairman. Thank you, Madam Secretary, for your time today.

Madam Secretary, last month the Department of Transportation approved a \$647 million Federal grant arranged during the last days of the previous administration to the Caltrain Electrification Project. The power equipment will eventually be used by the State's bullet train from Los Angeles to San Francisco. The grant requires that the State match the official's—requires that a State match that officials have indicated will come from Proposition 1A, approved by voters specifically for California's High-Speed Rail Project.

With the use of Prop 1A funds, it is being challenged in court. If these funds do not become available, what happens to the Federal grant? And reports indicate that California high-speed rail is very unlikely to secure private funding. Do you have any confidence in them being able to match the Prop 1A funds going forward?

Secretary CHAO. That is actually a concern that Caltrain needs to consider very carefully themselves. The timing of this particular contract was very sensitive. It was signed off on January 17, 2017, 3 days before the end of the previous administration. However, there is a process by which that goes up to the Congress for 30 days, disputes or rebuttals or challenges can occur. That really did not happen.

And when the Omnibus basically inserted \$170 million into this, it made the cut for full funding agreement, and the Department signed it. So, for those that are involved in the project, they have the funding for 2017. For future years, they do need to be thinking ahead as to what they want to do.

Mr. VALADAO. How do you plan on holding them accountable for spending those Federal dollars, to make sure that they are properly accounted for, but also properly spent? I mean, the whole High-Speed Rail Authority has faced a lot of scrutiny. All 14 members of the Republican delegation from California signed a letter to you specifically asking you not to, at least until they did an audit and gave us some sort of background.

So, I will go with my second question. Prior to the approval of this Federal grant, all 14 members of the California Republican delegation sent a letter to you regarding high-speed rail being an infeasible, counterproductive project, but it also cited that the project's cost increased, reductions in its scope, and its failure to secure State and private funding. Our request was to block any pending Federal funding until the State High-Speed Rail Authority completes an audit of the project and its finances, and those findings be made public. Do you think that was too difficult a request on our part?

Secretary CHAO. I am very much aware of that letter. In fact, we tried very hard to work with both sides of the aisle to come to some resolution, but when that Omnibus bill came through with the full consent of both Houses of the Congress, there was no choice. It was \$170 million we were obligated to award. They had to proceed. Now, going forward—

Mr. VALADAO. And there were some statements from your office that you were planning on sending more, depending on the future appropriations—

Secretary CHAO. I do not have any money. If there are future appropriations and it is dictated by Congress, of course, I have to send it. But there is a natural process of monitoring that goes on for every single one of these projects, and so those natural processes will be in place and there will be monitoring of this project to see that monies are not wasted and that they are aptly applied.

Mr. VALADAO. Madam Secretary, as you are undoubtedly aware, California has received \$3.55 billion in Federal funding. Our finance report from the Federal Railroad Administration admits that the High-Speed Rail Authority is unlikely to meet spinning deadlines established by the grants, and would, therefore, be forced to forfeit upwards of \$220 million back to the Federal Government. And I am concerned that the authority will start to use the grant money as a slush fund, spending on frivolous projects outside the high-speed rail's project.

Does the Department of Transportation require detailed reports on how the California High-Speed Rail Authority is spending those Federal dollars? And do you feel that the Department has proper oversight over where those funds are being spent?

Secretary CHAO. I do. I have only been there 4 months, but according to what I have seen so far, it is a very professional organization and there are processes in place to monitor how funds are spent. This is really a matter before the Congress. We execute the law as it comes from the Congress, and so the money was mandated and it needed to go out.

Mr. VALADAO. All right. Thank you. I yield back.

Mr. DIAZ-BALART. Thank you, sir. Mr. Aguilar.

Mr. AGUILAR. Thank you, Mr. Chairman. I appreciate it. And just to follow up on that, Madam Secretary. There was a difference of opinion, as you mentioned, on that Caltrain issue, and our office and I personally heard from business leaders in California who were concerned.

When you talked earlier in your answer about seed capital, you talked about making sure that the Federal Government has seed capital as a priority to spur investment. I think conflating high-speed rail and Caltrain is not fair. This is a line that is already operating, that is hundreds of millions of dollars of planned investment that those individuals have taxed themselves to do. And I think electrification is something that is helpful for the environment, will reassure that line, and push more commuters through that transit mode, which should be our responsibility to help. So I appreciate the consideration that your agency put forward in making that award.

I did want to shift briefly to TIGER grants. In my community we were awarded an \$8 million TIGER grant. That is a Redlands Passenger Rail Program. It connects a popular transit center and terminates at a local university. In between the two are job centers, as well as a local VA healthcare facility, and will create thousands of jobs connecting low-income residents with alternative and affordable transit routes. And I heard your comments and read your testimony about TIGER previously, but given the benefits of this program in my district and in other districts around the country, what did the DOT use to rely on to decide that the elimination or phas-

ing out of this program would be beneficial to our national infrastructure system? What type of data was used? Yeah.

Secretary CHAO. I think the purpose was to basically—there was a basic philosophical disagreement on whether to retain an unauthorized program from the Stimulus act that are used in an earmark-like way to fund certain projects. But having said that, it is the will of the Congress and so you certainly have every prerogative to restore what you think is beneficial. This is a new administration, so the President may have different priorities.

Mr. AGUILAR. Are you saying that TIGER grant funding was earmarks? Is that what I heard you say?

Secretary CHAO. Earmark-like.

Mr. AGUILAR. Earmark-like, okay. I think—

Secretary CHAO. But, again, this is a matter before—

Mr. AGUILAR. I am new to the committee. I defer to the ranking member and the chairman to describe the program and those who helped craft the language in prior administrations or in prior Congresses, and then there clearly are prohibitions against that. So I think I would take issue with that characterization.

But I will say that creating programs that help our communities is exactly our role here in Congress. None of us, to my knowledge, inserted, you know, any language specific to a project. We are prohibited from doing that.

Secretary CHAO. You are right, it is competitively bid.

Mr. AGUILAR. It is competitively bid and the administration is responsible to decide.

Secretary CHAO. But that should be in the corpus, you know. We would prefer that it be authorized rather than have it kind of like siphoned aside for some specific purpose.

Mr. AGUILAR. Yet your—

Secretary CHAO. But having said that, we are willing to work with you. And for those that—obviously, this is a very popular program. Members of Congress like it and so we will respond to the will of Congress.

Mr. AGUILAR. So you disagree with our ability to siphon aside funding or take issue with it. The administration may take issue with it, but you are creating something that you are going to roll out in the fall that would siphon aside hundreds of millions—hundreds of billions of dollars in projects that would be up to the administration to suggest.

Secretary CHAO. No, we are not saying that at all. We have yet to unveil our infrastructure proposal. So that is to say that we do not know whether distribution of the funds will occur one way or the other. That is still under advisement and discussion.

Mr. AGUILAR. How do you view—and back to your comment before about seed capital, because I do think, as you mention, and in your transit document, as your transportation document mentioned in your factsheet that so much investment is occurring at the local level. Local voters in my community have taxed themselves to build infrastructure projects. As a local mayor, I was on the authority that allocated those funds.

How do you differentiate the seed capital, as you mentioned, for some projects, yet in TIGER and other projects you do not view

that as seed capital that is helpful to the creation of jobs and the movement of goods and bodies?

Secretary CHAO. Well, the TIGER grants, you know, I know that they are very popular, but they were created as an aside in the 2009 Stimulus bill, kind of like a separate aside, pool of funds. And I think it would make much more sense if they were all put together in a large pool where they could be leveraged for projects proposed by States.

Mr. AGUILAR. Thank you, Mr. Chairman. Thank you, Madam Secretary.

Mr. DIAZ-BALART. Thank you, sir. Mr. Joyce, you are recognized.

Mr. JOYCE. Thank you, Mr. Chairman. Good afternoon, Madam Secretary, and thank you for being here today.

I have heard from a number of constituents and local leaders in my district who are worried about the scope of the metropolitan planning organizations, or MPOs; that they have grown too big and that they have begun to impede on surrounding communities. While I appreciate their directive in providing cohesive regional planning, it is important to me that we do not continue down a path of federalizing community planning.

Can you shed any light on the administration's view on this and if there might be some push now or in the future to alter this range of authority?

Secretary CHAO. We have heard from a number of members on both the Senate and the House, and we actually are—I think we have actually rescinded all that, and I will check on that for you, the metropolitan planning authorities. Yeah.

Mr. JOYCE. That is good news. Moving right along, as you notice, and I understand there have been some questions asked prior to this, but this subcommittee recently met with field experts working on emerging transportation technologies, including autonomous vehicles. And I am encouraged by this research thus far that indicate these vehicles have extreme potential to make our roadways safer. So I wanted to make sure we are doing everything we can to support further development of these vehicles and, hopefully, one day, their widespread use.

You recently visited the Transportation Research Center located in my home State of Ohio. Nearby TRC, along Route 33, the Ohio Department of Transportation has initiated underground installation of 35 miles of high-capacity fiber optic cable. As you know, this cable will help provide researchers with the data necessary to further develop autonomous vehicles and design roadways that are compatible with their use. Now, call me biased, like my chairman does, but I believe the Buckeye State given everything from varying weather conditions to innovative centers like TRC, is uniquely positioned to test and rapidly deploy these technologies.

I might ask you what role of support to our safety-making agencies, such as NHTSA, do you see these proving grounds playing? And how can this committee or your Department best equip them to carry out the work you think valuable to the safe deployment of autonomous vehicles?

Secretary CHAO. These proving grounds are very popular. And the last administration, a few days prior to departure, had issued

sort a Good Housekeeping, seal to about 10 proving grounds. We are in the process of looking at all of that.

What I hear, actually, from major automotive manufacturers and other entrepreneurial entities that deal with autonomous vehicles is actually that they are going to Australia. They are going to other countries where there is much less regulation that governs how they are to test, where they are to test, and under what circumstances. So I do not think the issue is which State gets these proving grounds. The issue is how do we make the whole United States more open to innovation while respecting the safety regulations that we have? But how do we make it more welcoming of these new technologies rather than have these companies, American companies, go overseas to test their products?

Mr. JOYCE. Well, I certainly agree with you and I applaud your efforts to keep them here. But in Ohio, as you well know——

Secretary CHAO. You have one in particular that did not make it.

Mr. JOYCE. Correct, and one that the State has invested a lot of money in, as well, and it is——

Secretary CHAO. I actually went there to visit.

Mr. JOYCE. I know.

Secretary CHAO. Yes.

Mr. JOYCE. That is why I mentioned that in my notes and we are very happy that you went there and had the opportunity to visit and, hopefully, that in review of this you take that into consideration. Because as you are well aware, you know, Ohio had these two brothers named Wright that created flight. And we had a guy named John Glenn, who was in the Senate with your husband, who flew around the world for the first time in a capsule. And Neil Armstrong, an Ohioan, was the first one to step foot on the moon. So we like to be out front in these technologies and we certainly think that we have invested a lot of money in TRC and would appreciate you giving it your look. Because we do not want to lose any business to Australia.

Thank you very much, Mr. Chairman.

Secretary CHAO. Well, thank you for bringing that up again.

Mr. DIAZ-BALART. Thank you, sir. Mr. Dent.

Mr. DENT. Thank you, Mr. Chairman. Good afternoon, Madam Secretary.

I represent a large portion of the Lehigh Valley of Pennsylvania. And in recent years, we have seen a growth in freight traffic and operations, which includes truck, rail, and air modes of transportation. This trend is expected to continue and industry is expected to grow even more. Part of this growth is the result of increased online commerce and changing customer expectations about the speed of delivery. This kind of growth presents economic and employment opportunities, but it will also require that our infrastructure keeps pace with these types of developments.

As the transportation system assumes a growing role of supporting commerce, how does your Department anticipate addressing the increased needs to maintain our Nation's roads, bridges, railways, and airports, specifically in the areas that are seeing increased freight activity?

Secretary CHAO. Freight is very important. We sometimes forget that, but it is a lifeline for the economic vitality of our country. So part of the infrastructure proposal will also include consideration of freight. There are passenger rail issues with freight lines, and intermodal efficiencies that are desirable to facilitate the rapid movement of freight. So we are very much aware of those. And I do not want to—I cannot say too much about specifics yet, but freight is obviously a very big concern.

Mr. DENT. Can I ask, I will ask you, too, just about the infrastructure package and how we might pay for this? I understand the public-private partnership nature of this whole thing, which I certainly think is important, but there is probably going to be a public component, as well. And a durable, sustainable revenue source will be important. Has the administration taken a position on how through maybe tax reform we might be able to find that durable, sustainable source? And are you open to the user fee, the highway user fee?

Secretary CHAO. In the beginning part of our discourse internally, there was discussion about having this be part of the—having some portion of tax reform be involved in funding infrastructure. Those discussions, it seems, have ebbed. It may come back again, but as of now, I think Secretary Mnuchin has already said that tax reform will not be part of the funding of infrastructure. But that, again, may change.

And the second issue you mentioned was?

Mr. DENT. No, that was mostly it. That was mostly it, these user fees.

Secretary CHAO. Everything is still on the table.

Mr. DENT. How to fund—

Secretary CHAO. As a gasoline tax you mentioned.

Mr. DENT. How to fund it. Yeah, the user fee.

Secretary CHAO. Yeah.

Mr. DENT. The highway user fee.

Secretary CHAO. The user fees are—and the gasoline taxes, I mean, that obviously is a very quarrelsome issue among some quarters. And so what I can say is that nothing is off the table.

Mr. DENT. Okay. Final question. The administration and Congress, as we consider this infrastructure and transportation package, I believe that we have an opportunity to begin integrating some new technologies that will greatly benefit Americans in their daily lives. One of these technologies, of course, is hydrogen fuel cells, and they have the potential to be a clean alternative energy to power vehicles with no carbon emission, only water vapor.

As you may know, a number of States have made commitments to adopt zero-emission vehicle standards for the auto industry. And as Co-Chair of the Hydrogen Fuel Cell Caucus, I know that fuel cells, hydrogen fuel cell vehicles are just one technology option that automakers are pursuing to meet these obligations. So I guess how is your Department working with the industry to remove any possible barriers to entry and ensure a successful rollout of hydrogen infrastructure?

And I know that the previous administration was not particularly supportive of hydrogen. Just wanted to hear your thoughts.



Secretary CHAO. We are looking at all new technologies. The basic principle is that we want to encourage innovation and entrepreneurship, and this is a new area that we are looking at. We have just gotten into office, so we do not have a conclusion on that yet, but we are looking at it.

Mr. DENT. Thank you. I will yield back with 20 seconds to spare.

Mr. DIAZ-BALART. Thank you, Mr. Dent. Madam Secretary, there is a lot of interest, so what I am thinking is let us do another round. We will limit it to 3 minutes per question and answer.

We have had multiple hearings, Madam Secretary, regarding NextGen programs and I think there have been some great successes in this partnership with the private sector, whether it is issues like Automated Dependent Surveillance Broadcast (ADSB) or Datacom development or the NextGen weather programs. I think those are programs and I may submit some questions, but those are issues that I think are looking like really good successes and I want to get some feedback from you, but I do not think we have enough time to do that today.

I do want to briefly talk about the NextGen Advisory Committee. This committee has been set up as a public-private partnership to guide the NextGen decision-making. Do you think that that body, this body, is an effective body to help guide our air traffic investments for the future?

Secretary CHAO. It is an advisory committee?

Mr. DIAZ-BALART. Yeah.

Secretary CHAO. I have not met with them. I have met individual members. I have not met with the committee in total yet. It is about 35 members and they meet about 3 times a year. They certainly offer a great deal of assistance. They are people who are steeped in various aspects of the aviation industry. And I think it is always good to get a diversity and variety of opinions and advice.

Mr. DIAZ-BALART. And I do not know if you have had the opportunity to look at some of the stakeholders and determine if that is the appropriate list of stakeholders represented. I do not know if you have had the opportunity to look at that yet.

Secretary CHAO. I have a list here. I always think it is always helpful to get as broad a representation of industry stakeholder groups wherever possible, whenever possible.

Mr. DIAZ-BALART. Yeah. And also, Madam Secretary, if there are ways that you think we can improve that, improve the effectiveness of that, that is one of those things that, you know, I would like to be in touch with you. I do not know if you have any ideas at this stage.

Secretary CHAO. Of course. I do not say this enough, but we want to work with the committee, we want to work with the Congress, and we are very open to your ideas.

Mr. DIAZ-BALART. Well, Madam Secretary, you have a history of doing that and so, again, thank you for saying that. But more important than the words, you have a history of doing that, which is why I think all of us are thrilled that you accepted to do this and to once again serve here.

Have you been able to see the benefits that we have seen to date regarding the ADSB, which is the Automated Dependent Surveillance Broadcast? Catchy name. Now that it has been completed

have you had the opportunity to see how that is doing and the benefits?

Secretary CHAO. It is actually one of the successes of the whole NextGen effort. I commend FAA and I commend the men and women at the FAA who are doing a tremendous job despite difficult circumstances. They have been able to maintain the system, work through the air traffic control, despite challenging circumstances. I mean, the system is as safe as it is and it is as good as it is not because of the current government structure, but in spite of it. And so I think it says a lot about the men and women who work there, but we want to do better.

And as I mentioned earlier, we are going to disagree on this, is that we are thinking about the future——

Mr. DIAZ-BALART. Well, we will be working through these issues.

Secretary CHAO. You know, we are thinking about the future: increased traffic, increased congestion. When we talk about the NextGen, the project that you mentioned, it is ADB, you know, we are talking radar here. With radar it is a sweep, once in 6 seconds, and within 12 seconds an airplane travels 1 mile. So we need to be in a GPS system and not still tied to 1960 technology of using radar. We have the technology now.

That is just one example and there are many other examples of where the new technological advantages which are available to us, we are still not—FAA, air traffic control—we are still not quite up to speed on, and that is what we need to improve on.

Mr. DIAZ-BALART. Madam Secretary, and again, this is a conversation we will continue to have. I do want to note that the U.S. has deployed the ADSB GPS technology. The issue is not that the technology is not available. The issue is that the airlines need to equip themselves with it. But anyway, those are conversations that I look forward to having with you.

Secretary CHAO. Okay.

Mr. DIAZ-BALART. And again, I am thrilled that——

Secretary CHAO. I have an answer to that one, too, but we can discuss——

Mr. DIAZ-BALART. We will continue.

Secretary CHAO. Yes, we will continue this.

Mr. DIAZ-BALART. This is a long conversation. And again, Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman. Madam Secretary, I want to quickly achieve some closure on your earlier conversation with me and Ms. Lowey and Ms. Clark, saying that the reason you obviously took us aback is that your answer departs from what we have heard, what I have personally heard from other cabinet secretaries about this matter, in my personal case, Carson, Kelly, Mnuchin.

Secondly, I assure you it is not a question of your good will. We do not doubt your good will. The question is a matter of policy, the obligation that anyone in your position has to respond to oversight inquiries from duly elected members of Congress, and particularly the committees charged with funding and overseeing your Department.

Let me ask you about capital investment grants, New Starts. Your budget request upends the precedent of Federal support for transit projects, specifically the budget would cut off Federal fund-

ing for new transit projects and those currently in the CIG pipeline, and spare only those projects with full funding grant agreements already in place. I want to ask you about that in particular, that pipeline.

I applaud you for advancing projects like Phoenix, Pittsburgh. They went into project development. The New York Canarsie Line went into engineering. Going forward are you going to continue to rate, review, and move projects through the pipeline?

And B, what about Small Starts? The fiscal 2017 Omnibus provided funding for 10 Small Starts projects. When do you expect to sign Small Start grant agreements for those projects and award the funds to the sponsors?

Secretary CHAO. It is actually a more complicated answer which I do not think you will appreciate, but the current guideline from the administration is that for New Starts, that there is going to be—if there is not funding, then I cannot sign the full funding agreement. And if I cannot sign the full funding agreement, obviously there is no funding. But it really depends on the Congress.

Right now, for those that do not having funding, I will not be able to sign it.

Mr. PRICE. There are some that do not have the full increment, as you say. As I understand it, there is through the fiscal 2017 bill there is full funding for six of those.

Secretary CHAO. Yes, and they are actually listed. So if you are on that list, you will get funding. If you are not on that list, then you will not.

Mr. PRICE. All right. Can you tell us about the pipeline going forward, since our time is limited? What about the continuation of—

Secretary CHAO. There will not be any New Starts.

Mr. PRICE [continuing]. Rating and reviewing and moving projects through?

Secretary CHAO. Yeah, the administration does not support New Starts.

Mr. PRICE. Well, on what basis did you advance Pittsburgh and Phoenix and New York Canarsie?

Secretary CHAO. I think they were already defined as New Starts.

Mr. PRICE. They are moving into—

Secretary CHAO. There is actually a list, so.

Mr. PRICE. They are moving into project development. They are moving into engineering. That is a process that is ongoing. Is that process going to stop?

Secretary CHAO. I do not think so. I mean, these cities, they will have to now consider what they want to do. If they do not have the funding beyond 2017, what will they do? So that is a question and I cannot answer it for them. They may go to public-private partnerships. They may find other sources of funding, but that is something they are going to have to consider.

Mr. PRICE. You have no answer for them. You are going to continue to move them into these various phases, these early phases, but there is no—

Secretary CHAO. I think we are pretty—

Mr. PRICE [continuing]. But there is no—

Secretary CHAO. The good part—

Mr. PRICE [continuing]. Resources.

Secretary CHAO. But the good part is if you are on that list, as I mentioned, of fiscal year 2017 or for that is for the fiscal year 2018, if you are on that list, you can be assured of some certainty. If you are not, it is probably not going to be funded. So it is pretty clear.

Mr. PRICE. Well, there are——

Secretary CHAO. And then alternative plans have to be made, obviously.

Mr. PRICE. All right. My time has expired. There are projects in this kind of——

Secretary CHAO. Let us discuss that offline.

Mr. PRICE [continuing]. Betwixt and between discussion.

Secretary CHAO. Okay.

Mr. PRICE. It is a situation, so we do need to have some understanding of that.

Secretary CHAO. Yes, then let us discuss this further and see.

Mr. PRICE. All right. Thank you.

Secretary CHAO. Thank you.

Mr. PRICE. Thank you, Mr. Chairman.

Mr. DIAZ-BALART. Thank you, sir. Mr. Valadao.

Mr. VALADAO. Thank you, Chairman. Madam Secretary, livestock haulers in my district and across the country have a challenging task of balancing both the safety of motorists and the health and welfare of animals being transported. Unfortunately, the impending December 18, 2017, electronic logging device, ELD, enforcement date and existing hours of service rules do not adequately accommodate this subject of the trucking industry. Industry members and authorities have expressed the need for delayed implementation of the rule to address concerns and provide sufficient training and education for the uniformed compliance and enforcement.

While motorists safety remains a top priority, so does the welfare of our animals. What long-term solutions do you recommend to ensure both motorist safety, as well as animal welfare? Probably not one you spend a lot of time on.

Secretary CHAO. I am sad to hear that. Of course we want to protect our pets, our livestock.

Mr. VALADAO. It is mostly geared to livestock.

Secretary CHAO. Yes. I will look into that.

Mr. VALADAO. All right.

Secretary CHAO. I do not have the answer to that.

Mr. VALADAO. In your opinion, are ELD devices able to accurately distinguish between the times that a truck may be running, but not yet on the road? For livestock haulers this would include time to the initial loading location, time spent waiting, and time loading. In the future, would the Federal Motor Carrier Safety Administration be willing to work with the livestock and insect industry to provide further exemptions or flexibility for them under the hours of service rule?

Secretary CHAO. I am not familiar with this subject as you mentioned, but I look forward to working with you and your constituents.

Mr. VALADAO. Thank you. I really do appreciate that.

Chairman, under my time limit, so I yield back.

Mr. DIAZ-BALART. You know, I was very proud of how this committee always sticks to the timeline. Today we have not been doing that great, but it is okay.

Ms. Clark.

Ms. CLARK. Thank you, Mr. Chairman. Madam Secretary, I would like to return to the maritime academies. We talked about their essential role in sealift capacity, our national security, but there have also been very troubling recent reports of sexual misconduct at the Merchant Marine academies that really allege a hostile culture for the female midshipmen. And these reports of unwanted sexual advances, harassment, and assault have caused the academy to suspend its Sea Year Program.

So I have two questions for you. How is your Department going to handle these allocations? And also, how is your budget and your proposed expenditures going to ensure the safety of female midshipmen during their Sea Year when most of these incidents occur?

Secretary CHAO. I am obviously very concerned about these issues, as are my colleagues at the Department of Transportation and at MARAD, so we are investigating this. And the dollar amount that you specifically mentioned, it has been increased from \$380,000 for education, advocacy, counseling, to almost a million dollars now. But we are very concerned about this issue and obviously we need to do something about it because, as you mentioned, it is connected to the accreditation issue and it is a safety issue.

Ms. CLARK. Right. We had the Inspector General in several weeks ago and we were talking about this issue. Are you working closely with them on this issue?

Secretary CHAO. Yes, and I say yes although he has the lead on the investigation, of course.

Ms. CLARK. Yeah, yeah.

Secretary CHAO. We are kept apprised and he will give recommendations and we will see where we go from there. But obviously, we are very concerned about it and so if you have suggestions, we would love to work with you, as well.

Ms. CLARK. All right. We will welcome that opportunity. Thank you. One minute back to you, Mr. Chairman.

Mr. DIAZ-BALART. Mr. Aguilar.

Mr. AGUILAR. Thank you, Mr. Chairman. I will not take Representative Clark's minute. I will stick to my own.

Madam Secretary, as a member of the committee one of our areas of responsibility is to make sure that these funds are invested wisely, and I know that you share our concern about that issue. And one of the ways that some agencies have sought to utilize technology is by using geospatial analysis and technology. FEMA has done this, has utilized this technology.

Do you think that it would be beneficial for the Department of Transportation to employ technology to apply a more kind of real-time view of where we are with our transportation infrastructure system, with the projects that DOT is funding, where they are in the process, what is getting complete at what stage, or are those being completed? Would you be more open to looking at how we use technology in the Department in order to advance the priorities, to make sure that the American public, similar to what was done with the stimulus years ago, in a tracking fashion that individuals can

track what projects are being awarded and where they are within the pipeline? Is there more than we can do and help you with?

Secretary CHAO. That is very interesting.

Mr. AGUILAR. Yeah.

Secretary CHAO. Yeah, I do not know. That is——

Mr. AGUILAR. You have—I know you discussed——

Secretary CHAO. I understand your concern. Yeah, that is an interesting concept. I would be more than willing——

Mr. AGUILAR. And I know you discussed before your reluctance to support siphoning aside money, but one of the ways—one of the areas——

Secretary CHAO. The transparency and it allows people to find out what is going on, yeah.

Mr. AGUILAR. Absolutely.

Secretary CHAO. Yeah, sure.

Mr. AGUILAR. And one of the ways that Congress has asked you to prioritize the budget and the agency has accepted, obviously, and there is funding within fiscal year 2017, as well as the fiscal year 2018 request, is transportation planning and development. So I just wanted to know your thoughts on how we do a better job of managing those projects, having a more, you know, real-time analysis of where we invest or funds.

Secretary CHAO. The real-time analysis is the key because I believe that the Transportation Department has a good handle on monitoring funds, how it is being used, whether the funds are being used for the purpose they were intended, all that.

Mr. AGUILAR. Sure, sure, absolutely.

Secretary CHAO. So I think we have a good monitoring system. I mean, after all, we are grant makers——

Mr. AGUILAR. That is correct.

Secretary CHAO [continuing]. And so we need to monitor for distribution.

Mr. AGUILAR. Yeah. No, no, no, no, and I am not questioning——

Secretary CHAO. But your——

Mr. AGUILAR. Yeah.

Secretary CHAO. So you are saying on real time——

Mr. AGUILAR. Yeah, yeah.

Secretary CHAO [continuing]. Which is very interesting.

Mr. AGUILAR. No, I am not questioning——

Secretary CHAO. Yeah.

Mr. AGUILAR. Yeah, I am not questioning the ability of your staff.

Secretary CHAO. So we like to——

Mr. AGUILAR. Right.

Secretary CHAO. So I would like to hear more about that.

Mr. AGUILAR. Yeah, I am not questioning the ability of——

Secretary CHAO. And maybe we are doing that already, but that is a very interesting thought.

Mr. AGUILAR. Sure, sure. No, and I think your ability to provide oversight is totally fine from the grant side. I am just saying, yeah, as you mentioned, from a transparency perspective, you know, is there more that we can do to show the American public, you know, where the investments are occurring?

Secretary CHAO. Well, if you have ideas, again, we are very open to discussing them with you.

Mr. AGUILAR. Sure. I appreciate it. Thank you so much.

Mr. DIAZ-BALART. Thank you, sir. Let me recognize the vice chairman of the subcommittee, Mr. Joyce.

Mr. JOYCE. Thank you, Mr. Chairman. In trying to go through with the question I asked you about the MPOs to begin with. There was a bill, 496, that the President signed that talked about the merger aspect, but I was talking more about the expansion aspect of the MPOs. And I do not see it addressed in there, the fact that they are going into neighborhoods and telling or dictating to communities how they should grow forward. Is that something we can address with you offline as we move forward?

Secretary CHAO. Of course.

Mr. JOYCE. Okay.

Secretary CHAO. Let us talk about that. Our rulemaking last spring dealt with mandatory MPOs.

Mr. JOYCE. Great. Thank you very much.

Mr. DIAZ-BALART. Thank you, sir. Madam Secretary, let me first thank you and also your staff for your participation here this afternoon. The committee staff will be in contact with your budget office regarding questions for the record. I know that we will all have a number of questions to be submitted and I would imagine that, again, all of us would do that. If you could please work with OMB to return the information for the record to the subcommittee within 30 days from tomorrow, that way we will be able to publish the transcripts of today's hearings and make obviously informed decisions when crafting the fiscal year 2018 bill.

I would be remiss, Madam Secretary, if I did not say, you know, obviously you are a well-known entity for those of us who have been here, and your reputation has always been one of obviously talent, but also responsiveness and accessibility. And I just want to tell you that you have proven that that has been the case; that you have been exceedingly responsive to our requests and you have been accessible. So just know that that does not remain unnoticed and that we do appreciate your continuing willingness to work with us.

And I will tell you that I for one, and all of us, look forward to a very close working relationship. You know, we have to be working very closely. And again, I think all of us are thrilled that it is you, not only because of your history, but because you have demonstrated already in the short time that you have been there and that you remain as accessible and as responsive as anybody.

So thank you for your service. We look forward to continuing to work with you.

Mr. Price, any closing remarks?

Secretary CHAO. Thank you.

Mr. PRICE. Well, thank you, Mr. Chairman. I also thank you for your discussion here with us this morning. We will all have further questions that we want to explore for the record, but I join the chairman in gratitude for your appearance and a desire to earnestly work on these transportation issues. You are leading a department that is at the forefront of our country's economic wellbeing, the quest for new and better jobs. And it has a history of relatively bipartisan cooperation and support—

Secretary CHAO. Yes.

Mr. PRICE [continuing]. Both in the Congress and in the various stakeholders that you work with. That will be very important going forward in divisive times to find some way to invest in our country's transportation future. So thank you so much.

Secretary CHAO. Mr. Chairman, Ranking Member Price, thank you so much for the opportunity because I want to reinforce again I have been in this Department before. It has always been bipartisan and that is the spirit with which I proceed, and I look forward to working with all members of the committee.

Mr. DIAZ-BALART. Thank you, Madam Secretary. The meeting is adjourned.

Secretary CHAO. Thank you.



DOT Secretary  
Fiscal Year 2018 Questions for the Record  
Congressman Mario Diaz-Balart  
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
House Committee on Appropriations

*FTA Transit Assault Rulemaking*

**Question:** Section 3022 of the FAST Act requires the Federal Transit Administration (FTA) to issue a Notice of Proposed Rulemaking on protecting transit operators from the risk of assault. Specifically, the FTA was to issue the rulemaking within 90 days of the publication of its Review of Public Transportation Standards (section 3020 of FAST). I understand the FTA Review was published in January of 2017. Can you inform the Committee on the status of this transit safety rulemaking? What is the Department's timeline for completing this rulemaking?

**Answer:** The Department currently is developing a Notice of Proposed Rulemaking (NPRM) addressing protection of transit operators from the risk of assault. This rulemaking is subject to Executive Order 13771 (Reducing Regulation and Controlling Regulatory Cost) and Executive Order 13777 (Enforcing the Regulatory Reform Agenda), and will be evaluated by the Department's Regulatory Review Task Force. The Department anticipates that the NPRM will be published later this year.

*FMCSA's Lease and Interchange Rule*

**Questions:** On May 27, 2015, FMCSA published a final rule (80 Fed. Reg. 30164) on the lease and interchange of passenger vehicles. In response, the industry filed petitions for reconsideration in August 2015. On August 31, 2016, FMCSA published a notice of intent to revise the rule concerning four specific areas, as raised in the industry petitions. On Friday, June 16, 2017, FMCSA published a notice, again expressing its intention to revise the regulations and seeking comment, but only referenced revisions for two areas of concern; along with a notice postponing the final rule compliance date to January 1, 2019. The Committee is seeking clarification on the following:

1. Can you advise the Committee if the notice published on June 16, entitled "Proposal in response to petitions for reconsideration; request for comment," constitutes a notice of proposed rulemaking to revise the rule?
2. If the June 16 notice constitutes a notice of proposed rulemaking, is FMCSA limiting the scope of revisions only to those matters addressed in the notice i.e. excluding chartering from the lease requirements and extending the emergency 48-hour delay in preparing lease documents? Will the Agency consider additional revisions based on the original four areas of consideration, outlined in the August 31, 2016 notice?
3. Can you provide an estimated timeframe for FMCSA to complete this rulemaking?

**Answers:** FMCSA plans to initiate a new notice-and-comment rulemaking preceding to address the passenger-carrier industry's concerns about the May 27, 2015, final rule on the lease and interchange of passenger-carrying commercial motor vehicles. The rulemaking notice would present (1) the Agency's proposed amendments and/or revisions to the May 27, 2015, final rule, and (2) regulatory analyses of the estimated impact of the proposed changes on the industry in terms of costs savings from the reduced regulatory burden that we anticipate.

The June 16, 2017, notice did not constitute a proposed rule. It was intended as a reiteration of the Agency's intent to make changes to the May 27, 2015, final rule in response to the concerns raised by the passenger-carrier industry. On June 16, the Agency also issued a final rule extending the compliance date for the May 27, 2015, final rule from January 1, 2018, to January 1, 2019, to ensure sufficient time to complete the rulemaking process before any of the regulated carriers incurred costs to comply with the 2015 final rule.

We understand that despite our attempt to simplify this rule, there has been considerable confusion. We further understand that there is significant interest in doing a new notice of proposed rulemaking (NPRM) and that is the direction the Department is currently moving. We intend to address all four issues listed in our August 31, 2016, notice of intent.

With regard to the timeframe for the forthcoming rulemaking, the Agency will work with the leadership team of the Department to prepare a schedule for publication of the NPRM.

### ***Drunk Driving***

Drunk driving fatalities account for approximately one-third of all the deaths on our nation's highways. Drunk driving fatalities on our roadways have decreased by 51% since 1982 while total traffic fatalities declined by approximately 20% -- so clearly some of the steps we've taken, improved technologies, and law enforcement efforts have had an impact. Unfortunately, the downward trend line for drunk driving fatalities changed course in 2015, rising 3.2% over 2014, and reportedly have continued that deadly trend in 2016. In addition, drunk driving arrests and enforcement efforts are down. Madam Secretary, all roadway fatalities are a tragedy and we know that NHTSA has worked hard at impacting distracted driving, but your own Department's statistics show that drunk driving kills three times as many people on our highways as all forms of distracted driving combined.

**Question:** With such a preponderance of fatalities in this category -- and with those sharply increasing -- what additional resources and initiatives are identified or available in your budget request to reverse the incidence of drunk driving and the increase in alcohol-related fatalities on our highways?"

**Answer:** The Department supports, and will continue to support, a number of proven programs to combat impaired driving. The FY 2018 budget request includes approximately \$190 million for research activities, grants to States, media campaigns such as the national "Drive Sober or Get Pulled Over" campaign, law enforcement, prosecution and judicial training and education, and State ignition interlock programs. The proposed FY 2018 funding also supports the following new and continuing initiatives:

- Developing and promoting advanced training programs on impaired driving countermeasures for State and community highway safety specialists;
- Developing impaired driving technical assistance teams to assist States to strengthen impaired driving programs;
- Promoting a specialized training course for the medical community on techniques for counseling patients on the risks associated with alcohol and driving;
- Providing technical assistance to States to increase the number of offenders using ignition interlocks;
- Accelerating the development of a passive and voluntary alcohol detection technology.

*Elimination of Amtrak's Long Distance Service*

Secretary Chao, your budget proposes to eliminate Amtrak's long distance service and estimates an associated saving of \$642 million when compared to the FY17 enacted level.

**Question:** Eliminating long distance service would turn off revenues immediately. However, costs would continue to accrue, especially those costs associated with contractual agreements. Is that correct?

**Answer:** The Department recognizes that there are many cost, revenue, and operational impacts related to shutting down Amtrak's long distance routes. Nevertheless, funding for Amtrak's long distance routes does not provide the country with the return on investment we deserve. These trains are expensive to operate and maintain and account for much of Amtrak's operating losses while carrying only a small proportion of Amtrak's ridership. Amtrak is in the best position to provide a complete analysis of Amtrak's responsibilities under its contractual agreements. The Department looks forward to continue working with Congress and Amtrak to eliminate Federal subsidies for long distance routes and mitigate any related effects and costs.

**Question:** Amtrak states that elimination will actually cost \$423 million the first year and estimates a cost of \$1 billion over 5 years. How is it that you estimate an immediate savings?

**Answer:** The President's FY 2018 Budget proposes to eliminate Federal subsidies for Amtrak long distance routes, and does not speak to the transition costs associated with this action. The Administration strongly believes that Federal investments should be directed to where it produces the greatest benefit. Under this proposal, Amtrak would be able to improve its efficiency across the network and focus its funding towards those investments that will provide the most return and value.

**Question:** What effect would the elimination of long distance service have on the cost of state-supported routes and the Northeast Corridor? Wouldn't the costs of services associated with these lines increase? By how much?

**Answer:** The Department recognizes that there are many cost, revenue, and operational impacts related to shutting down Amtrak's long distance routes. This includes potential impacts to Amtrak's Northeast Corridor and state-supported routes due to shared network costs that will remain but no longer be allocated to long distance trains. Refocusing Amtrak's attention and Federal investment to the areas of the network that are most successful—state-supported routes and the Northeast Corridor—will benefit those users. The Department looks forward to continuing to work with Congress and Amtrak to increase the return on Federal investment and to mitigate any potential adverse effects to the changes required.

***Rural Communities and Transportation***

The elimination of long distance service and the elimination of the discretionary portion of the essential air service program would severely impact rural communities.

**Question:** Did you consider the reduction of transportation options on those that live in rural communities?

**Answer:** Rural communities are an essential part of our country and economy, and transportation access programs are essential to ensuring that these vital communities are fully connected to the larger economy. In an environment of constrained funding and resources, the FY 2018 President's Budget works to reform transportation access programs to ensure the programs operate efficiently and are sustainable for future generations.

The Essential Air Service (EAS) program has been important to its stakeholders because it has provided a link to the national air transportation system for many small communities. However, over the years, the EAS program has drifted away from its original purpose of subsidizing transportation access for truly remote communities. The lack of appropriate sized aircraft and qualified pilots, coupled with an oversubscribed waiver process, have made the program inefficient. As a result, program costs have ballooned in excess of 150% over the last ten years, subsidizing numerous localities that have access to major airports close in proximity. Under the President's FY 2018 budget, overflight fees will fund a new Transportation Aviation Assistance to Remote Areas (TARRA) program. The TARRA program will continue the original intent of the EAS program by focusing on transportation assistance for communities demonstrating the greatest need.

Long-distance rail services have also proved inefficient and incur the vast majority of Amtrak's operating losses. The FY 2018 budget request's proposal to re-evaluate federal support for long distance trains will allow the Department to allocate limited resources to areas where passenger rail makes sense today. However, DOT continues to offer other programs that support the surface transportation needs of rural and remote communities. The Nationally Significant Highway and Freight Projects discretionary grant program, also known as Infrastructure For Rebuilding America (INFRA) Grants, provides DOT the ability to award competitive grants to projects of national or regional significance and is authorized at \$4.5 billion through 2020. The INFRA notice released on June 29 includes several provisions that account for the unique needs of rural areas.

***Maritime Administration and National Security Multi-mission Vessel (NSMV)***

The State Maritime training vessels for the six schools are aging. The oldest one is 55 years old and is reaching the end of its useful life. The State Maritime Academies will not be able to continue meeting the demand for seaman training without vessels.

Over the past two years, we have provided funds for the common-hulled ship design for a National Security Multi-mission Vessel (NSMV), which would be configured for humanitarian aid, disaster relief, and mariner education.

**Question:** Your budget does not continue funding for the NSMV. Mariners must log 300 days of sea time. What is your proposal for ensuring the pipeline of Coast Guard-credentialed licensed maritime officers?

**Answer:** The Department is committed on working to ensure we find a solution to the aging training ship fleet issue at the State Maritime Academies. At the Secretary's direction, the Maritime Administration is analyzing options for training vessel replacement or other alternatives.

***DAR-56, MAG-6 Programs***

Madam Secretary, the FAA has implemented a successful "transition" program, the DAR-56 program, to make more efficient the U.S. aviation industry's implementation of Maintenance Annex Guidance, Revision 6 (MAG-6) to the Bilateral Aviation Safety Agreement between the European Union and the U.S.

We are concerned that this successful program expires on September 30, 2017, and are hopeful that the FAA will continue this program so long as MAG-6 is in effect. Failure to extend the DAR-56 program will result in billions of dollars of US industry investment being wasted for no reason other than a new paperwork requirement, the reduced availability of aircraft parts, increased parts costs and likely delays in returning commercial aircraft to service.

**Question:** Madame Secretary, can you confirm with the FAA that they will continue the DAR-56 program so long as MAG-6 is in effect?

**Answer:** The Federal Aviation Administration created the DAR-56 program to give accredited distributors a limited time to generate FAA 8130-3 Authorized Release Certificate, Airworthiness Approval Tags, on parts held in their inventory. We established the temporary program in October 2016 for products that did not have an 8130-3 tag that the European Aviation Safety Agency (EASA) was requiring beginning at the end of last year in accordance with EASA Maintenance Annex Guidance (MAG) Rev 6. The FAA does not intend to extend the program after September 2017 because it was always intended to be a temporary measure and because it does not provide the level of conformity oversight we desire for a permanent process.

*FAA Safety*

As we discuss the future of the FAA's safety function, I would like to focus on the work our air traffic controllers are currently doing within the FAA.

As I understand it, air traffic controllers work hand in hand with the FAA's safety office in a collaborative process to ensure technologies and procedures place safety at the forefront. It seems to me this is one of the advantages of FAA's current organizational structure.

**Question:** Could you comment on the current collaborative process between controllers, FAA's safety managers, and industry partners to ensure safe operations?

**Answer:** The collaborative processes that now exist between controllers, safety managers, and industry partners have made significant contributions to the exemplary safety record of U.S. aviation. Historically, aviation safety used a forensic approach or post-accident/incident investigation techniques to determine causal factors and issues. In some cases, precursors to safety issues went unreported until they resulted in a significant loss. Now, a predictive approach has been introduced into air traffic safety; built directly on safety management principles to proactively address emerging safety risks by taking advantage of the growing availability of safety data and the development of powerful analytical tools.

One key collaborative process has been the Voluntary Safety Reporting Program. An adaptation of the successful airline program, this has proven highly effective in providing a singular source to report any safety concerns, non-compliance, deficiency, or deviation for all air traffic organization operational employees. Relevant and actionable information from this program is also shared with our industry partners.

Another important area is the congressionally mandated improvements in Runway Safety Areas. This program included partners across government, airlines and industry, resulting in significantly improving the margin of safety for the aircraft they serve. Additionally, Runway Status Lights effectively prevents runway incursions by providing direct indication to pilots and vehicle operators that it is unsafe to enter or cross a runway or begin a takeoff.

**Question:** Has this collaboration brought us safety benefits?

**Answer:** Yes, the collaboration between the Aviation Safety and Air Traffic Organization Lines of Business has contributed to the safety record of U.S. aviation. For example, our Voluntary Safety Reporting Programs, which includes reports from pilots, controllers, and technicians, has become a component of our Safety Strategy. One specific example of the benefits of the Voluntary Safety Reporting Program is the on-going collaboration between pilots, controllers, technicians, and safety experts to reduce the instances of serious runway incursions. Voluntary safety reporting has provided valuable insights into improving data collection to assist with mitigating the complex array of potential hazards to reduce the number of serious runway incursions.



Further, the FAA has formalized a collaborative partnership between controllers and managers known as Partnership for Safety (PFS). It puts system and facility-centric data in the hands of the facility's safety teams to solve its issues. Through this partnership, Safety Awareness for Excellence (SAFE) discussions provides a platform for local and national safety-related conversations. An added benefit is that facilities can share proven safety best practices and information. These are just a sample of our efforts that are implemented collaboratively and drive our overall safety culture.

*FAA Procurement Reforms*

Secretary Chao, as you know, Since the 1990s the FAA has had significant flexibilities in its procurement processes, where it is free from many of the requirements that are imposed on other Agencies.

**Question:** Putting aside the debate on FAA's organizational structure or governance, what can we do right now – this year, next year – to make further improvements to FAA's ability to procure the best technology in the fastest way possible?

**Answer:** The Administration believes that the best manner Congress can ensure state-of-the-art technology is procured, is to pass legislation in accordance with the President's principles for reforming air traffic control. Among these principles is the establishment of a not-for-profit, non-governmental entity that will facilitate modernization of the nation's air traffic control system. Part of this modernization effort will include the new entity's streamlined ability to procure goods and services, as well as bond or pledge future revenues to fulfill the terms of financial agreements. These factors will all ensure that the best aviation technology is procured in the fastest way possible.

*Transit*

Secretary Chao, you just received \$2.4 billion in FY17 to execute projects in the Capital Investment Grants (CIG) pipeline, including \$667 million for new projects.

**Question:** Do you plan on funding each project as directed by the Committee? This includes the 10 Small Starts projects.

**Answer:** The Department will continue to implement the Capital Investment Grants program in accordance with program provisions as authorized in statute. As it applies to appropriation bills, the Department will execute and allocate appropriated Capital Investment Grants funding in accordance with enacted bill language and accompanying bill reports.

**Question:** A few of the small starts projects anticipate a 2 year commitment from the Federal government. Will you still plan to execute these projects, as specified in our most recent bill?

**Answer:** The Department will sign Small Starts agreements listed in FY 2017 Congressional Appropriations reports when those projects have fulfilled all the statutory requirements and are ready to execute a construction grant agreement. However, for those projects where grant agreements may be put in place but the project is not fully funded, project sponsors should recognize that funding for projects in FY 2018 and beyond is subject to appropriation. The Administration has not requested funding for any Small Starts projects in the President's FY 2018 Budget.

**Question:** If the will of Congress does not align directly with the priorities of the Administration, how do you plan on reconciling the differences?

**Answer:** The Department will continue to implement the Capital Investment Grants program in accordance with program provisions as authorized in statute. As it applies to appropriation bills, the Department will execute and allocate appropriated Capital Investment Grants funding in accordance with enacted bill language and accompanying bill reports.

**Question:** If Congress decides to continue funding the program this year, and put forward new projects for FFGAs, will you be willing to work with us to execute FFGAs?

**Answer:** The Department will continue to implement the Capital Investment Grants program in accordance with program provisions as authorized in statute. As it applies to appropriation bills, the Department will execute and allocate appropriated Capital Investment Grants funding in accordance with enacted bill language and accompanying bill reports.

**Question:** Will you continue to work with the project sponsors to move new projects through the project development and engineering stages, regardless of the funding discrepancies?

**Answer:** Yes. Consistent with Federal law, FTA is advancing CIG projects through the steps in the program as they meet the statutory criteria requirements for advancement. This includes advancement into Project Development and Engineering.

*FAA - Next Gen*

I have been hearing from some of the industry partners who are working on Next Gen programs, and there is growing concern that, in the debate on FAA's future, we have lost sight of some of the progress that has been made modernizing the airspace.

I think once you look at the efforts of our private partners in developing technologies, it becomes clear the U.S. is a global leader. Further, I don't think FAA is broken. I've been impressed by the collaboration between air traffic controllers and industry partners.

This doesn't mean we shouldn't keep a watchful eye on progress, or stop holding FAA's leadership accountable.

Can you give us a status update on some of the NextGen programs, including progress to date, and work that lay ahead:

**Question:** What is the status of DataComm development and the schedule for deployment?

**Answer:** The Data Communications program -- or Data Comm --has been deployed to 55 air traffic control towers, 29 months ahead of schedule and under budget. The operators and controllers have quickly adopted the service with over 32,000 Data Comm Tower operations per week currently being conducted in the National Airspace System (NAS), which is a 428 percent increase in the last year. The program has exceeded its equipage goals over two years ahead of schedule, with more equipped aircraft coming into the operation every month.

Data Comm services for high-altitude airspace (called the En Route environment) are being deployed in two phases. For the first phase, the FAA developed a deployment strategy in October 2014, is currently testing and evaluating software enhancements, and is conducting demonstrations to ensure that services meet operational requirements. The FAA is on track to deliver Initial Services starting in FY 2019.

For the second phase, the program reviewed requirements this past March and continues to identify future software development, testing, and deployment strategies.

**Question:** What about Next Gen Weather programs?

**Answer:** The FAA is implementing two complementary programs to modernize and improve aviation weather: Common Support Services-Weather (CSS-Wx) and NextGen Weather Processor (NWP). Initial deployment of these systems will begin in FY 2019.

These weather programs will provide greater access to advanced aviation-specific weather information to reduce weather-related delays, airline operating costs, and aviation accidents, increasing operational safety and efficiency. The weather programs are meeting their acquisition milestones on or ahead of schedule.

These milestones include Critical Design Review (CDR) for CSSX-Wx in June 2016 and for NWP in November 2016. Software development and testing is continuing this year, with key site

installation scheduled for FY 2018 and Initial Operational Capability (IOC) at the key sites and In-Service Decision in FY 2019.

By FY 2022, NextGen weather capability will be available at 2 central facilities, 21 Air Route Traffic Control Centers (ARTCCs), the Air Traffic Control System Command Center (ATCSCC), 33 Terminal Radar Approach Control (TRACONs), 3 Combined Center Radar Approach Control (CERAPs), and 60 Airport Traffic Control Tower (ATCTs).

**Question:** How do you ensure that air traffic controllers collaborate on the development of these technologies?

**Answer:** The FAA and the National Air Traffic Controllers Association (NATCA) have developed a constructive and collaborative relationship aimed at advancing NextGen. The FAA engages NATCA in the Pre-implementation and Implementation phases of all NextGen programs.

### **PRE-IMPLEMENTATION**

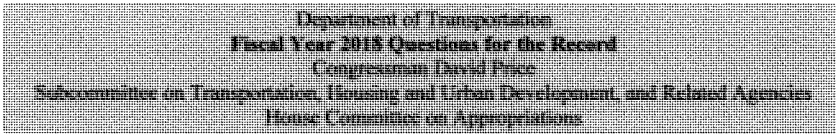
- Assist in defining the scope and priorities of projects that we undertake
- Participate in program/project management reviews and technical interchange meetings as needed
- Participate laboratory activities such as Human-In-The-Loop Simulations and field demonstrations
- Participate in the development and validation of operational concepts, requirements and the planning and execution of shadow and operational evaluations

### **IMPLEMENTATION**

As members of National Operational (Ops) Team, controllers are involved with the design and development of NextGen systems and technologies as subject matter experts (SME) as follows:

- Participate in system design reviews (SDR)
- Participate in detailed design reviews
- Participate in operational evaluation activities
- Participate in system test and key site activities
- Participate during safety review and are part of the safety review board
- Engage as part of the team to develop airspace procedures for field implementation

By focusing together with NATCA on milestones related to our programs we are on or ahead of schedule with many of our large investment programs.



### ***Responses to Congressional Inquiries***

**Question:** What is the policy at the Department with regard to responses to congressional inquiries?

**Answers:** The policy of the Department is to be responsive to members of Congress.

**Question:** More specifically, is there a policy or guidance that would prohibit or delay responses to Ranking Members of Congressional Committees or subcommittees of jurisdiction?

**Answers:** Both as Secretary of Labor and as Secretary of Transportation, I have tried to be as responsive as I can be to the legislative branch, and I value the conversations I have had with members of Congress on both sides of the aisle. As a Department, we will continue to be as responsive as possible to all reasonable requests.

As the Department Of Justice (DOJ) opinion itself makes clear, it is a legal interpretation about the relative role of committee chairs as opposed to other members, which is based on the consistent practice over a long period of time.

Here is a quote from first paragraph of the DOJ opinion:

*"...the Executive Branch's longstanding policy has been to engage in the established process for accommodating congressional requests for information only when those requests come from a committee, subcommittee, or chairman authorized to conduct oversight."*

The DOJ opinion also says with regard to responding to requests from individual members who are not committee chairs:

*"...the Executive Branch has historically exercised its discretion in determining whether and how to respond, following a general policy of providing only documents and information that are already public or would be available to the public through the Freedom of Information Act".*

In terms of requests from members who are not committee chairs, regardless of party, the DOJ opinion makes clear in its final paragraph that the response depends on the circumstances. *"Whether it is appropriate to respond to requests from individual members will depend on the circumstances. In general, agencies have provided information only when doing so would not be overly burdensome and would not interfere with their ability to respond in a timely manner to duly authorized oversight requests. In many instances, such discretionary responses furnish the*

*agency with an opportunity to correct misperceptions or inaccurate factual statements that are the basis for a request."*

**Question:** Is there a policy or guidance that would prohibit or delay responses to Democratic Members of Congress?

**Answers:** No.

**Question:** If such policies or guidance are in place to prohibit or delay responses to Ranking Members or all Democratic Members, was such developed in consultation with the White House or the Office of Management and Budget?

**Answers:** There is no such policy or guidance in place.

**Question:** Please provide the Department's definition of oversight activities.

**Answers:** The policy of the Department is to be responsive to members of Congress.



### *Air Traffic Control*

**Question:** Please provide a list of all environmental liabilities associated with air traffic control assets and an estimate for the cost to remediate each environmental liability. Please provide estimates in 2017 dollars. If estimates in 2017 dollars are unavailable, please provide the year of the estimate. If individual estimates are unavailable, please provide an aggregate estimate and the methodology used to arrive at such estimate.

**Answer:** The FAA's annual Performance and Accountability Report (PAR) includes the environmental liability estimate which is calculated as the sum of the environmental remediation liability, and the environmental cleanup and decommissioning liabilities.

The FY 2016 report estimates FY 2016 environmental remediation of \$491,767,000 and the environmental cleanup and decommissioning liability of \$458,392,000 for a total environmental liability of \$950,159,000 in FY 2017 dollars. As for the specific liabilities, **Attachment 1** lists the basis of the FY 2016 environmental remediation liability estimate and **Attachment 2** lists the basis of the FY 2016 environmental cleanup and decommissioning liability estimate.

*See Attachments 1 and 2 [tables] at the end of the document*

**Question:** Please provide a list of all radio spectrum associated with the air traffic control system and an estimate for the cost to relocate ATC systems to a different spectrum band. Please provide estimates in 2017 dollars. If estimates in 2017 dollars are unavailable, please provide the year of the estimate. If individual estimates are unavailable, please provide an aggregate estimate and the methodology used to arrive at such estimate.

**Answer:** The **attached chart [attachment 3]** provides an inventory of radio spectrum that currently supports the aviation system. Providing a cost estimate for relocating ATC systems to a different spectrum band would be extremely challenging. Since relocating spectrum is an opportunity to consolidate functions and generate efficiencies in the spectrum being vacated as well as the systems being relocated, generating a cost estimate would depend on the specific project. Currently, the FAA is undertaking one such project, the Spectrum Efficient National Surveillance Radar (SENSR) program, to make available the band 1300 – 1350 MHz for reallocation to shared Federal and non-Federal use through updated radar technology, in collaboration with the Department of Defense (DoD), Department of Homeland Security (DHS) and National Oceanic and Atmospheric Administration (NOAA).

The FAA will generate a cost estimate for executing the activities specified in the Spectrum Pipeline Plan for the SENSR program. The estimate will leverage guidance provided in the Government Accountability Office's Cost Estimating and Assessment Guide as well as FAA-specific guidelines for cost estimating. The Lifecycle Cost Estimate will describe all costs associated with the planned activities, by system, year, type of activity, and agency office or

bureau. An independent government cost estimate, focused on vendor cost requirements, will also be developed to support acquisition activities.

Though the SENSr Program is currently refining cost estimates, a rough order of magnitude (ROM) Solution Implementation cost estimate of \$12 billion was developed for the Office of Management and Budget using 2016 dollars. This cost estimate, however, was developed without the industry feedback on requirements (currently in process) and the follow-on Down-Select process (not yet in process). It was also based on previous investment analysis associated with a ground-based radar solution and was limited to performance requirements largely in support of FAA, but not necessarily DoD, DHS, and NOAA mission needs. Further, this estimate does not imply a pre-supposition on any particular industry solution, only includes Solution Implementation costs and does not cover full lifecycle costs (e.g., recurring operations, maintenance).

**See attachment 3 [chart] at the end of the document.**

**Question:** Secretary Chao's testimony asserts that a new air traffic control structure will "allow for greater precision in managing the airspace, thus enhancing safety and alleviating flight delays". Delays under the operational control of the air traffic control system have declined from more than a third of all delay-minutes in 2004 to less than a quarter of delay-minutes in 2016. During the same time period, delays under the operational control of airlines have increased. How will a new air traffic control structure reduce flight delays? Please differentiate between delays within the control of airlines and delays within the control of the air traffic control system.

**Answer:** The proposed air traffic control structure may help reduce flight delays by allowing deployment of the new capabilities under development at the FAA earlier than would be possible under the current budget and acquisition processes. Many of these new capabilities are dependent upon the airlines and other stakeholders equipping their fleets with advanced avionics compatible with emerging technology; airlines would need to accelerate their avionics upgrade investment for the public to experience reduced delays earlier than currently planned.

The FAA records operational flight delays by facility, which is different from but complementary to the Bureau of Transportation statistics quoted in the question. In general, the FAA does not attribute delays to either air traffic control or airlines.

The two largest categories of air traffic delay are weather (67%), and volume (24%). Most of the remaining delays (9%) are attributable to events associated with lack of runway availability (e.g., construction, or other types of obstructions), and other events (e.g., security and VIP movements, etc.).

Weather, which is beyond the control of either air traffic or airlines, reduces airport and airspace capacity. New technology that the FAA is developing might alleviate some of the weather related delays, such as those associated with low visibility that make up 15% of all delays; however, other forms of disruptive weather such as thunderstorms, wind, snow/ice, or hurricanes are not addressed with technology, and delays associated with those types of events will likely persist.

Volume related delays are a result of too much air traffic demand for the available airport or airspace capacity. Volume delays occur at high-demand destinations like New York, but also as a result of air carrier business models such as relying on hubs to connect passengers between flights with sharp peaks and valleys of activity rather than spreading out flights to different airports and different arrival and departure times. During these periods of compacted demand, minimal disruptions to normal operations can result in extended delay periods.

**Question:** Under the Administration's proposal, would the FAA retain responsibility for equipage mandates and/or incentives?

**Answer:** An equipage mandate would require rulemaking, which, as with other rulemakings, would remain FAA's responsibility. As with any rulemaking, this effort would involve stakeholder input, such as from the proposed not-for-profit air navigation service provider, aircraft operators, and the international community.

The Secretary would be responsible for ensuring access to all airspace, air traffic services, and airport users. Therefore, any type of incentives for equipage under consideration that could have implications on access would fall under the Secretary's responsibilities. As in the case of a rulemaking, implementing equipage incentives would also involve input from the stakeholder community.

**Question:** Please provide a list of offices or sub-offices at the FAA that the Administration believes perform inherently governmental duties.

**Answer:** According to the FAA's FY 2017 FAIR Act Inventory recently submitted to the Office of Management and Budget, the FAA has 12,608 Full-Time Equivalents (FTE) that are classified as Code I - Inherently Governmental. This represents approximately 27 percent of the FAA's 46,000 total FTE. These Inherently Governmental FTE reside in every office in the FAA, although their distribution varies widely by office.

FY 2017 Breakout	I - Inherently Governmental	A - Commercial	B - Commercial	Total
ATO	1,979	18,752	11,306	32,037
AVS	6,844		644	7,488
AST	100	4		104
AFN	1,919	95	1,229	3,243
ANG	149	727	36	912
AHR	274	44	229	547
AOA AAE	34	10		44
ACR	12	68		80
AGI	10			10
AOC	34			34
AGC	107		129	236
APL	122	33		155
ASH	474		46	520
ARP	550		60	610
<b>Total</b>	<b>12,608</b>	<b>19,733</b>	<b>13,679</b>	<b>46,020</b>

*FAA, Piston Aviation Fuels Initiative (PAFI)*

**Question:** Congress has funded the PAFI process at \$7 million per year since it began. Why does the FAA consistently request less funding for PAFI than what Congress provides?

**Answer:** The Piston Aviation Fuel Initiative (PAFI) was originally established at the request of a broad cross section of aviation and petroleum industry and consumer representatives to develop a path forward for the identification, evaluation, and deployment of unleaded fuel replacements for current low lead aviation fuel. At the beginning of the PAFI program, the FAA agreed with its industry partners that it would be a 5-year program for approximately \$5.6 million per year. We have based our annual budget requests on this original agreement.

**Question:** Does the FAA require fleet-wide certification authority in order to make unleaded avgas available to General Aviation? If so, has the FAA relayed that request to authorizing Committees?

**Answer:** Yes, the FAA requires fleet-wide certification authority. Existing certification procedures are constrained by the need to conduct an evaluation and approval of each engine and aircraft model to use the new fuel, whereas the PAFI program plan relies on evaluation of the new fuels for use on broad populations of engines and aircraft. With this additional authority, the Administrator would be able to authorize these existing populations of engines and aircraft to operate on the new unleaded fuels. The Department's understanding is that draft language for this authority exists within both the House and Senate proposals for the FAA Reauthorization.

**Question:** At the conclusion of PAFI, is it necessary for a rulemaking process to take place? If so, would the FAA seek expedited rulemaking authority from Congress?

**Answer:** Rulemaking will not be necessary to permit aircraft and engines to operate with the new unleaded avgas, but will be necessary to require aircraft owners and operators to use the new unleaded avgas. The FAA can authorize broad populations of aircraft to operate with the new fuels once the FAA Administrator is granted the additional authority we have requested in the FAA reauthorization language. However, it is widely accepted that transition to unleaded avgas will not take place without some form of federal requirement to ban the use of lead in aviation fuel.

The Environmental Protection Agency (EPA) has been petitioned to evaluate, under the Clean Air Act, whether emissions of lead from aircraft operating on leaded fuel are reasonably anticipated to endanger public health. If the EPA makes a positive finding of endangerment, the FAA will be required to regulate the physical or chemical properties of avgas to eliminate these harmful emissions. This activity would entail regulatory activity by the FAA, which would, in effect, ban the use of leaded avgas.

**Question:** Does FAA foresee any obstacles that could prevent the timely conclusion of the PAFI program by the end of 2018?

**Answer:** The PAFI test program is proceeding largely according to schedule, although some testing is being delayed by technical issues and industry company resource availability. Some findings from the test program to date have identified impacts that will require mitigation strategies to minimize disruptions to the production/distribution infrastructure, and to the general aviation fleet transition upon introduction of the PAFI fuels. The impact on the PAFI program schedule will depend on how many of these issues the program uncovers, and the extent of testing necessary to identify suitable mitigations. The extent of these impacts is dependent on the properties of the PAFI fuels themselves, and will be different for each PAFI fuel. While we currently anticipate that the program can be completed on time, significant testing remains and further impacts could be identified which will require additional evaluation. The program has already been expanded to accommodate additional testing based on test results to date.

**Question:** Does the FAA have the authority to order and enforce a ban on unleaded avgas?

**Answer:** No, the FAA does not currently have authority to order and enforce a ban on leaded avgas. Under the Clean Air Act, if the Environmental Protection Agency (EPA) determines that lead emissions from General Aviation aircraft endanger public health, the FAA will be required (will then have the authority) to regulate avgas. Without an endangerment finding by the EPA, the FAA does not have this authority. The EPA has been petitioned to evaluate whether emissions of lead from aircraft operating on leaded fuel are reasonably anticipated to endanger public health, but has not yet made this determination.

*FTA, Capital Investment Grants*

**Question:** On June 1, 2017, FTA accepted projects in Pittsburgh and Phoenix into project development and advanced the Canarsie Line project in New York into engineering. Will FTA continue to rate, review and advance projects into the project development and engineering phases? What does FTA plan to do with projects in the engineering phase that have met the statutory requirements for a full funding grant agreement?

**Answer:** Consistent with Federal law, FTA is advancing CIG projects through the steps in the program as they meet the statutory criteria requirements for advancement. This includes advancement into Project Development and Engineering. As proposed CIG projects become ready for a funding agreement commitment, FTA will review current and future year funding resources, coordinate with the project sponsor, and determine next steps.

**Question:** For each small starts project that received funding in the Consolidated Appropriations Act, 2017, please provide an estimate of when funds will be awarded to each project sponsor.

**Answer:** FTA will award construction grants for all Small Starts projects appropriated CIG funds in FY17 and prior years when the projects meet the requirements for such an award. Providing an exact timeframe for these awards is difficult given the sometimes iterative nature of determining all requirements have been met. Below is list of tentative timeframes for each award.

<b>AZ</b>	<b>Tempe, Tempe Streetcar</b>	<b>Fall 2017</b>
<b>CA</b>	Sacramento, Downtown Riverfront Streetcar	Early 2018
<b>CA</b>	San Raphael to Larkspur Regional Connector	Fall 2017
<b>FL</b>	Fort Lauderdale, Wave Streetcar	Summer 2017
<b>FL</b>	Jacksonville, First Coast Flyer East Corridor BRT	Fall 2017
<b>IN</b>	Indianapolis, Red Line All-Electric BRT	Fall 2017
<b>MI</b>	Grand Rapids, Laker Line BRT	Fall 2017
<b>MO</b>	Kansas City, Prospect MAX	Fall 2017
<b>NM</b>	Albuquerque, Rapid Transit Project	Fall 2017
<b>WA</b>	Everett, Swift II BRT	Fall 2017
<b>WA</b>	Seattle, Seattle Streetcar Center City Connector	Late 2017

**Question:** Does the Department plan to issue updated policy guidance for the Capital Investment Grants program? If so, when will the updated policy guidance be published?

**Answer:** The Fixing America's Surface Transportation (FAST) Act specifies that FTA must issue policy guidance regarding each time significant changes are made to the process and criteria, but not less frequently than once every 2 years. FTA most recently issued policy guidance in June 2016. To comply with the requirements of FAST, FTA intends to issue policy guidance again in 2018.

***OST, National Infrastructure Investments (TIGER) Grants***

**Question:** Please provide an estimate of when the Administration will issue a notice of funding availability for National Infrastructure Investments (TIGER) grants funded under the Consolidated Appropriations Act, 2017.

**Answer:** Addressing our crumbling infrastructure is a top priority of this Administration. That is why the Department recently completed the development and release of a revised Notice of Funding Opportunity (NOFO) seeking applications for approximately \$1.5 billion for the Infrastructure for Rebuilding America (INFRA) discretionary grant program. Additionally, the Department is actively working to finalize the new TIGER selection criteria and release the updated TIGER NOFO in the upcoming weeks.



*FRA, Rail Grants*

**Question:** Please provide an estimate of when the Administration will issue a notice of funding availability for the Federal-State Partnership for State of Good Repair, Consolidated Rail Infrastructure & Safety Improvements, and Restoration & Enhancement grants funded under the Consolidated Appropriations Act, 2017.

**Answer:** The Federal Railroad Administration is currently drafting Notices of Funding Opportunity for the three competitive grant programs appropriated funds in FY 2017 – Federal-State Partnership for State of Good Repair, Consolidated Rail Infrastructure and Safety Improvements, and Restoration and Enhancement Grants. The Department intends to issue these notices in the fall.

**Question:** Please provide a description of the Administration's plans for the Gateway Project. Please include a finance plan for each component.

**Answer:** The Department of Transportation is currently working with Gateway Program sponsors – including Amtrak, the Gateway Development Corporation, and other Northeast Corridor stakeholders – to evaluate funding and financing needs and identify measures to streamline the project delivery process to complete projects in a more cost-effective manner.

Additionally, the Department recently approved the Record of Decision for the North Portal Bridge, released the Draft Environmental Impact Statement for the Hudson Tunnel project, issued its Northeast Corridor Record of Decision and approved a \$500 million TIFIA loan for the Moynihan Station project.

**Question:** Please provide an update on the Southeast Corridor Rail Commission.

**Answer:** In 2016, the Federal Railroad Administration (FRA) initiated a multi-state planning study to develop a 40-year vision for a high-performing passenger rail network in the Southeast region of the U.S. FRA strongly believes that developing rail plans in the context of a broader regional framework can yield many benefits, including:

- Better integrating rail projects with other transportation modes;
- Promoting greater involvement by affected stakeholders and building consensus;
- Identifying priorities that support both the logical sequencing of implementing projects and the efficient use of limited funding; and
- Resulting in more cost-effective investments.

A major component of FRA's Southeast Regional Rail Planning Study is the identification and development of a governance framework to guide the implementation and refinement of the Southeast stakeholders' 40-year vision. During the study's June 2017 stakeholder workshop, FRA met with representatives from the states of Virginia, North Carolina, South Carolina, Georgia, Florida, Tennessee, and the District of Columbia specifically to discuss the funding provided in the FY 2017 Consolidated Appropriations Act for the Southeast Rail Commission. Over the coming months, the stakeholders agreed to begin implementing a more formal

governance structure to continue collaborating on mutually-beneficial projects and identify further areas of study in the regional rail planning process. FRA and the Southeast stakeholders plan on releasing the Southeast Regional Rail Planning Study in early 2018.

**Question:** Please provide an update on the implementation of projects contained in the NEC Future program.

**Answer:** The NEC FUTURE Program identifies key passenger rail improvements required to repair and grow capacity on the Northeast Corridor to accommodate future demand and maintain the economic competitiveness and vitality of the Northeast. The next step is to issue the Record of Decision (ROD) which will identify an investment program for the Northeast Corridor but will not supply or direct funding for particular projects.

FRA's release of the NEC FUTURE ROD will not result in construction. NEC FUTURE is a Tier 1 or programmatic study of the Northeast Corridor. It will be up to individual project sponsors, whether states, Amtrak, or others, to move forward with specific projects identified in the ROD. Following the release of the ROD, Tier 2 or project-level studies of specific improvements are necessary for many of the proposed projects. Each Tier 2 project will require further analysis, design, and environmental review, as well as funding, before construction can occur.

*Amtrak Long-Distance Trains*

**Question:** Please provide a list of the termination costs for each of Amtrak's long-distance trains. If a liability extends into multiple fiscal years, please provide the cost in each fiscal year.

**Answer:** While the Department has summary data regarding long-distance operations and finances, Amtrak will be able to provide a comprehensive detailed response regarding this information.

The operation of long-distance rail services has proved inefficient and incurs the vast majority of Amtrak's operating losses. The FY 2018 budget request's proposal to re-evaluate federal support for long distance trains will allow the Department to allocate limited resources in areas where passenger rail makes sense now.

The Department looks forward to continuing to work with Congress and Amtrak to increase the return on Federal investment and to mitigate any potential adverse effects to the changes required.

**Question:** Please provide an estimate of the changes in ridership patterns and financial support required for each state-supported rail route as a result of the termination of long-distance trains.

**Answer:** While the Department has summary data regarding long-distance operations and finances, Amtrak will be able to provide a comprehensive detailed response regarding this information.

The operation of long-distance rail services has proved inefficient and incurs the vast majority of Amtrak's operating losses. The FY 2018 budget request's proposal to re-evaluate federal support for long distance trains will allow the Department to allocate limited resources in areas where passenger rail makes sense now.

The Department looks forward to continuing to work with Congress and Amtrak to increase the return on Federal investment and to mitigate any potential adverse effects to the changes required.

***Reorganization Plans***

**Question:** Please provide an update on any plans or planning the Department has to reorganize the Department.

**Answer:** The President's Executive Order (EO) on Reorganizing the Executive Branch requires all agencies to submit a plan on how they will address the requirements of the EO to streamline the government and reduce duplication and waste. The Department is diligently working to complete the draft plan to address these requirements and meet the deliverable deadline with the goal of finalizing the plan for the September 2017 submission.

Department of Transportation  
 Fiscal Year 2017 Questions for the Record  
 Congressman David Young  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

***Technology in Infrastructure Construction***

I am excited about President Trump's recent announcement DOT will be moving forward with a regulatory relief effort to streamline approval processes in order to build projects at an expedited rate. I would appreciate your feedback on how this effort could help to speed adoption of precision GPS applications that deliver infrastructure projects on time and on budget.

McAninch Corporation of Iowa was an early adopter of precision technologies. McAninch has demonstrated that integrating these technologies benefits taxpayers by delivering cost effective, and higher quality roadways; benefits roadway users with improved safety (as a result of better engineering) and reduced traffic congestion. Unfortunately, regulations and bureaucracy are preventing us from realizing the full benefit of these precision technologies. For example, equipment operators used to get instructions from stakes in the ground that had to be moved and reset as the work unfolded. Now with GPS technology, the work can be done without the stakes, but outdated specifications and regulations will still sometimes require these stakes to be set as part of the permitting process. These outdated regulations create a disincentive for innovation.

**Question:** Why use precision GPS technology if you still have to set the stakes anyway? Will the regulatory relief effort underway at Department of Transportation consider how regulations should be updated to reflect and promote the benefits of cutting edge technologies?

**Answer:** The Department is committed to removing barriers to new technologies. That is why we are fully vetting current and proposed regulations and guidance as part of the overall Regulatory Reform effort, with a specific intent to eliminate overly burdensome requirements and reduce barriers preventing technological efficiency. DOT's current Federal standards for highway construction allow the Automated Machine Guidance (AMG) method, which uses data from sources such as 3D engineered models to guide construction equipment during earth work and paving operations. The use of AMG improves construction efficiency, quality, and safety while reducing schedule, cost, and the environmental impacts. AMG equipment also has the potential to achieve designed grades on the first pass, reducing impacts on budgets and schedules compared with traditional staking. Using data from technologies such as 3D modeling in combination with GPS, automated machine guidance can increase productivity by up to 50 percent on some operations and cut survey costs by as much as 75 percent. DOT does not currently have permitting standards that require the setting of surveying stakes. As part of the Regulatory Reform effort, the Department will assess where state and local laws present barriers to technology adoption, and will continue to encourage our state and local partners to revise their laws and standards, as appropriate.

DOT Secretary  
**Fiscal Year 2018 Questions for the Record**  
 Congresswoman Valadeo  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

***Caltrain***

I have concerns regarding the Peninsula Corridor Electrification Project, otherwise known as “Caltrain”. As you know, before a Full Funding Grant Agreement (FFGA) is signed by the Secretary, it must go to Congress for a 30 day review period. On January 18, 2017, the Caltrain FFGA was sent to Congress for review. In your budget hearing, you testified that during that time period “disputes, rebuttals and challenges can occur, and that really did not happen.” However on January 24, 2017, a mere 6 days later after receiving the FFGA, the 14 Members of the California Republican delegation sent you a letter requesting no additional money be granted to the California High Speed Rail Authority or to the State of California until an audit can be done on the projects and its finances. Furthermore, in your hearing, you said you had “no choice” but to sign the FFGA. However, 49 USC 5309(k)(2)(B) specifies “The Secretary shall enter into a full funding grant agreement based on the evaluations and ratings required under subsection (d), (e), or (i), as applicable, . . . .”

**Question:** Did our letter raise no concerns regarding the local financial commitment? The Proposition 1A funding is currently being litigated, and if it is decided that the Authority cannot use that money for the project, they will have to find another source of local funding. If that is the case, what will be your plan for the financial future of the project?

**Answer:** Your letter was taken quite seriously by USDOT. Federal Transit Administration (FTA) is required by law to evaluate the local financial commitment of projects seeking CIG funding. As part of its evaluation, FTA ensures that all non-CIG funding is committed before proceeding with award of a Full Funding Grant Agreement. The Proposition 1A funding for the Caltrain commuter rail project was approved by voters and committed to the project through enacted state legislation on three separate occasions. Most recently, State Assembly Bill 1889 was passed in October 2016, which reconfirmed the funding could be used on the Caltrain project.

*UAS*

In addition to recreational usage, Unmanned Aircraft Systems, or drones, have various business applications in a variety of industries including agriculture, supports many businesses within my Central California Congressional District. Accordingly, Congress provided more than 20 million dollars over the requested amount for FY17 to further support and accelerate the safe integration of drones into the national airspace, including funds to support the continued development of an unmanned traffic management system.

**Question:** Secretary Chao, do you believe unmanned traffic management system implementation is important to the long-term success of the United States drone industry? In particular, how will it ensure safety, security, and privacy?

**Answer:** Yes, the implementation of an unmanned traffic management (UTM) system is important for building capacity and protecting safety. The UTM system leverages industry capabilities to provide management services for UAS operations in congested airspace where there is significant traffic, such as class B airspace in major metropolitan markets. In this airspace, there is already significant existing traffic, and future UAS traffic flying in that same airspace will need to be carefully managed to ensure there is no negative impact on current capacity or safety. It is envisioned that an unmanned traffic management system will manage the exchange of information required to ensure safe operations and will support and implement the policies and requirements established for safety, security, and privacy by:

- Maintaining a real-time connection between small UAS and a database of static and dynamic airspace restrictions.
- Maintaining authorized areas of operations for small UAS operators based on the ability of their individual systems to meet the performance requirements for the proposed type of operation, e.g. communications, navigation (the ability to remain within a defined geo-fence), provision of required intent for proposed operations, and the recording of a UAS's position during operations.
- Providing the ability to access any or all of the above information and correlate it with a required individual vehicle identification system.

***Gross Vehicle Weight Limits***

Our baseline Gross Vehicle Weight limit for federal interstate highways has not been updated since 1982. Recent DOT studies, in 2016 but also dating back to 2002, have noted the absence of Gross Vehicle Weights and axle configuration information on accident reports for large commercial trucks as a gap for determining whether or not we can update limits for federal interstate highways in a safe way.

**Question:** Would the department or administration be opposed to Congress creating a program that would enable DOT to have access to that information they have said is not available?

**Answer:** Inclusion of truck weight and axle configuration information on crash reports, if possible to collect, may help identify trends. Nevertheless, that information will not be sufficient to allow a determination regarding the safety of higher weight trucks or the linkage between truck weight and the cause of a crash.

FHWA is currently working with the Transportation Research Board (TRB) to develop a Truck Size and Weight Research Plan to identify research and data solutions, timelines, costs, and other components of a robust research framework relating to data deficiencies in the Comprehensive Truck Size and Weight Limits Study. The resulting research plan is expected in FY 2019. Under such a research program, future assessments of truck size and weight limits and potential alternative configurations could be aided by improved data and models.



*Autonomous Vehicles*

While Autonomous vehicles have the potential to reduce the number of accidents, it is *inevitable that there will still be accidents*. Particularly, when you have human-operated and self-driving vehicles sharing the road. Today, when determining liability for an auto accident, authorities are able to use first-hand accounts from witnesses to determine what happened.

As driving becomes increasingly automated, it will be necessary to determine what automated driving technology was engaged and how the vehicle was being operated at the time of an accident.

**Question:** Secretary Chao, what do you think is the best way to make sure that those who need to investigate an accident, like law enforcement and insurance claims adjusters, have access to necessary information?

**Answer:** Event data recorders (EDR) capture important crash-related data to aid in the investigation of a crash. While EDRs are optional, manufacturers have installed EDRs in over 99% of the latest model year vehicles. If EDRs are installed on vehicles, they must be consistent with NHTSA standards, 49 CFR Part 563, including the requirement to make commercially-available tools capable of accessing and retrieving the EDR data. It is likely that automated vehicle manufacturers will also choose to install EDRs.

However, at present, there are no standardized data recording parameters specific to automated vehicle technology. Because of the unique features and operations of highly automated vehicles, updated standards for EDRs may be necessary to benefit crash investigations involving highly automated vehicles. In the coming months, following the release of the Department's new Autonomous Vehicle Guidance, DOT anticipates working with SAE International and stakeholders to begin the necessary work to establish uniform data elements for automated vehicle technology crash reconstruction purposes. If data elements for automated vehicle technology are included in EDRs, access to that data by law enforcement or insurance companies is subject to State law, but NHTSA standards ensure that the tools are commercially available for use if allowed under State law.

Department of Transportation  
Fiscal Year 2018 Questions for the Record  
Congresswoman Katherine Clark  
Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
House Committee on Appropriations

*Electronic Stability Control*

The NHTSA budget estimates for 2018 indicate that the Agency is considering deregulatory activities on a number of final rules including Federal Motor Vehicle Safety Standards and other regulations. The regulations specifically outlined in budget estimate for potential deregulatory action include electronic stability control (ESC) for heavy trucks. This rule was originally published after vehicle safety technologies such as ESC were found to mitigate vehicle accidents and to save lives.

**Question:** Please outline for the Committee the Department's rationale for considering a deregulatory action on the electronic stability control rule.

**Answer:** In June 2015, NHTSA issued a final rule that requires truck tractors and certain buses over 26,000 pounds to be equipped with electronic stability control systems to help these vehicles avoid losing control in curves or slippery roads and rolling over. After the final rule was published, NHTSA received several petitions for reconsideration, including among other things concerns from industry about the appropriateness of the compliance test for certain types of vehicles. NHTSA is in the process of evaluating the issues raised in those petitions for reconsideration. As part of that process and any process for deregulatory action, NHTSA would consider compliance cost savings and the impact to safety.

Secretary, Department of Housing and Urban Development  
**Fiscal Year 2018 Questions for the Record**  
 Congressman Mike Quigley  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

***Budgets Cuts to TIGER, Army Corps etc***

Secretary Chao, we all understand that America's infrastructure is in a woeful state of disrepair. The American Society of Civil Engineers has, rather generously I think, given us an overall grade of D+ and it is crystal clear that we need to commit ourselves as a government to addressing the many varied needs of our transportation and infrastructure systems.

Though we disagree on many, many things, I have been pleased to hear the President repeatedly call for a large investment in infrastructure.

However, I cannot understand how on the one hand, the Administration can decry the state of our infrastructure system and call for as much as \$1 trillion to address its shortcomings, while on the other hand calling for the complete elimination or severe cut of many of the infrastructure programs we have today.

**Question:** What sense does it make to reduce funding for the Army Corps of Engineers or completely eliminate the \$500 million (and already underfunded) TIGER program at a time when we all know roads, bridges, locks, dams, rail systems and public transit are in dire need of capital?

**Question:** What sense does it make for the President to simultaneously advocate for increased funding for infrastructure while cutting existing funding at the same time?

**Answers:** The Department takes a holistic approach when considering how best to make national infrastructure investment decisions. The TIGER program, first enacted as part of the Recovery Act in 2008, has not been formally authorized as part of a long-term surface transportation bill. Many projects funded by TIGER are also eligible under DOT's other mandatory highway and transit formula programs. Furthermore, the Infrastructure for Rebuilding America (INFRA) discretionary grant program provides DOT the ability to award competitive grants to projects of national or regional significance and is authorized at \$4.5 billion dollars through 2020. DOT's credit and finance programs also have additional capacity for financing many transportation projects. Therefore, the Department will continue to use all Congressionally funded programs to meet our national infrastructure needs. Given the fact that Congress has appropriated \$500 million in FY 2017 for the TIGER program, the Department will execute this program in accordance with Congressional requirements to seek the best possible transportation outcomes for our nation.

***Public Private Partnerships***

Secretary Chao, the President and yourself have long spoken about the need to address our country's crippled infrastructure system. However, the President has been reluctant to commit the kind of public funding that is needed to invest in all sorts of vital infrastructure; instead, he and you have discussed incentivizing public-private partnerships to encourage private dollars to be more involved in the process.

Given the lack of funding the President provided in this budget for direct investment and the failure of this Administration of to present any type of independent infrastructure bill or plan, it seems that public private partnerships are a key piece of the plan to address our many infrastructure challenges.

While P3's are undoubtedly important and have helped produce great results in the past, many people have loudly objected to an overemphasis on P3's because they only make sense in places where a private firm could make a profit.

For example, carrying more than half of the country's transit riders nationwide, the large urban transit systems serve a critical roll in the country's economic welfare. However, these systems collectively have a state of good repair need of more than \$85M over the next decade. In Chicago, Metra's SOGR need is more than \$13B alone.

**Question:** How does the Administration's infrastructure proposal plan to address this need given that most of these old assets do not lend themselves to private investment?

**Answer:** The Department is committed to protecting the interests of taxpayers in the development and delivery of public-private partnerships (P3s). There is a broad spectrum of potential opportunities for potential private investment in infrastructure and it is important to recognize that there is not a one-size-fits-all approach. The various P3 models vary with respect to the degree of asset ownership, development integration, risk transfer, extent of private financing, and types of funding sources. In some cases, a P3 financing may rely on a project-specific revenue source, such as toll revenues or dedicated fees. However, successful P3s for other types of projects, such as public transit systems, do not necessarily require a project-specific revenue source. These types of P3s may rely upon an Availability Payment structure, in which regular payments are made from the public-sector partner to the private partner, in accordance with an established formula in the P3 contract, and these payments can be reduced if the private partner does not meet asset performance targets. This type of P3 is a potentially attractive option for many transit systems.

Transit systems that are interested in exploring potential P3 options are encouraged to contact the Department for technical assistance. The Department, through its Build America Bureau, develops and promotes best practices in innovative finance and P3s and provides extensive technical resources for states, municipalities, and other public and private sector entities that seek to leverage private sector funding for infrastructure development. The Bureau offers P3 resources and best practices for a variety of different transportation project types, including

public transit projects. This includes P3 toolkit educational materials, training opportunities, project-specific technical assistance, peer knowledge exchanges, value for money evaluation tools, and other expert resources to support the knowledgeable implementation of P3 projects to address a wide variety of infrastructure needs. The Department seeks to ensure that state and local government decision-makers have access to the expertise and resources needed to responsibly and thoroughly evaluate the feasibility of various P3 and other innovative finance structures.

*Streamlining and FAST -41*

Last week, the President spoke about the need to streamline transportation and infrastructure projects already in the pipeline and framed this as a key but overlooked piece of the puzzle in fixing our infrastructure mess.

However, the FAST Act includes a provision to speed up project permitting, provision known as FAST-41 calls for the creation of a steering council to work on project streamlining.

**Question:** For all his talk about efficiency and streamlining, isn't the President's recent executive order expediting DOT reviews duplicative and redundant with FAST -41? Doesn't that redundancy make the process more confusing and less efficient?

**Answer:** The President's recent Executive Order continues to push the Federal government toward a series of common sense measures, such as concurrent environmental reviews, improved technology tools, and publicly available and transparent project databases. These measures compliment the initiatives Congress put in place with FAST-41, and will further improve the efficiency of the environmental and historic preservation review process.

In an article in the Hill last week, it was reported that you and the President were considering instituting page limits for environmental impact statements for DOT projects under review.

It strikes me that a blanket page limit on EIS', without regard to type, location, or complexity of specific project being considered is exactly the type of one-size-fits all, arbitrary bureaucratic restriction the President rails against.

**Question:** How will you ensure that environmental impact statements, which are crucial to ensuring that our transportation and infrastructure projects don't irreparably harm the communities in which they take place, continue to be a key and useful part of the project planning process?

**Answer:** The President supports using the most efficient methods available for conducting environmental reviews. The President's Council on Environmental Quality (CEQ) regulations direct that Environmental Impact Statement documents should "normally be less than 150 pages and for proposals of unusual scope or complexity shall normally be less than 300 pages," and the Administration is committed to encouraging agencies to follow these guidelines. The regulations also make clear that the responsibility of the agency in preparing the EIS is to be concise, clear, and to the point, focusing on significant environmental issues and reducing paperwork and the accumulation of extraneous background data. Documents that meet these requirements will result in more timely decisions and improved project outcomes.

*Budget cuts' impact on grant disbursement*

Here on this committee, we work hard to ensure that programs like Core Capacity, TIGER, and others are funded to the fullest extent possible. After that, it's largely DOT's job to disburse grants to transit agencies all over the country, like CTA in Chicago, for a variety of uses.

**Question:** If, as we have heard, DOT is the subject of substantial budget cuts, particularly in areas such as FTA that have relatively small staffs as is, how do you foresee that impacting the speed and efficiency with which infrastructure projects are analyzed and cleared? And how to propose to remedy any resulting slowdowns?

**Answer:** While the FY 2018 President's Budget request does reallocate resources, the budget proposal ensures that the Department is efficiently allocating transportation funding, and works to increase the performance of Departmental programs.

With this in mind, the Department does not anticipate that this performance-based budget will result in programmatic "slowdowns" or impede Modal Administrations' continued coordination with State and local grantees. Overall, the President's Budget request for DOT maintains virtually the same staffing level in FY 2018 as in FY 2016, with funding requested for more than 55,000 employees.

### *Airplane Noise*

I hear frequently from my constituents about the impacts of airplane noise from planes landing and taking off. In my district, at O'Hare airport, the noise impacts have become worse since the start of the O'Hare Modernization Program shifted approach routes over neighborhoods that had not previously been exposed to noise impacts.

In addition, NextGen technology, which has made the final few miles before an airplane lands more efficient, has also served to exacerbate noise impacts on nearby residents by concentrating the areas affected. In essence, fewer people are impacted by noise, but those that are under the flight paths suffer a lot more.

Along with other members of the Quiet Skies caucus, I have asked this committee to consider appropriating funds for a health impact study on airplane noise. Noise, and the stress, sleeplessness, and anxiety it can produce is without a doubt a public health concern and should be treated as one.

**Question:** Would you support a study conducted by leading researchers from universities and government agencies around the country into the potential adverse health impacts of airplane noise?

**Answer:** The FAA has been conducting research on both cardiovascular health and sleep disturbance over a number of years and would support continued studies on these topics.

The FAA's research is being conducted through the agency's Center of Excellence for Alternative Jet Fuel and the Environment (ASCENT). The work builds on FAA-sponsored work that was previously done in the FAA Center of Excellence for Aircraft Noise and Aviation Emissions Mitigation (PARTNER). In December 2015, PARTNER completed its Center of Excellence mandate and research. Specific information regarding the cardiovascular health and sleep disturbance projects can be found at:

- <https://ascent.aero/project/noise-exposure-response-sleep-disturbance/>
- <https://ascent.aero/project/noise-impact-health-research/>
- <http://partner.mit.edu/projects/noise-exposure-response-sleep-disturbance>
- <http://partner.mit.edu/projects/aviation-related-noise-effects-elderly>

The cardiovascular health research utilizes existing cohort studies and modeled participant noise exposure levels to understand whether or not aviation noise has an impact on cardiovascular health. If a link is established, then this effort will also quantify the impact at varied noise exposure levels.

Research on sleep disturbance has been focused on the development and testing of a low cost and low intrusion methodology to gather sleep disturbance information. An initial pilot study was used to test the methodology. This led to improvements that are currently being tested in a second pilot study. These pilot studies have paved the way for a national study, which is currently being developed.



The research community recognizes that long term exposure to environmental noise may affect human health. Most, if not all, research conducted to date has been unable to determine the magnitude of how aircraft noise impacts human health. The FAA hopes that the continuation of its research efforts will provide the necessary information to determine whether and to what extent aircraft noise impacts human health.

### ***Long Distance Train Routes***

Long distance Amtrak train routes are vital for many Americans located in rural or far flung places. Thousands of people depend on them daily, especially in the Mid-West. In fact, in the last 10 years, ridership on the eight long-distance train routes in the Mid-West increased by 16%.

Moreover, many of the tracks and other infrastructure used and paid for by long distance Amtrak service are necessary for local and short distance trains across the country.

It is also important to note that a majority of these long distance routes start or end in Chicago's Union Station, providing a critical commercial influx for the city. In fact, Amtrak own Union Station and the increase in ridership across Amtrak and Metra is a major impetus for the \$1 billion in station improvements that are currently being planned.

However, the Administration's FY 18 budget completely eliminates all of Amtrak's long distance trains- something that would have devastating consequences for my constituents in Chicago and millions more across the country, in both Red and Blue districts.

**Question:** Isn't the private commercial development in Chicago around Union Station and Amtrak customers exactly the type of thing this Administration purports to want to incentivize? How then can the Administration justify cutting all Amtrak long-distance rail service?

**Answer:** Chicago Union Station supports approximately 80,000 passengers a day, a majority of which are Metra commuter rail passengers. This station is also served by multiple Amtrak state-supported routes. As such, customers would continue to drive the private commercial development in Chicago around Union Station.

**Question:** How will DOT ensure that the thousands of customers that depend on long distance rail are able to travel where they need to go?

**Answer:** Current Amtrak ridership is a key indicator of transportation demand across the United States. Amtrak long distance trains have relatively low ridership – 15 percent of Amtrak passengers in FY 2016. The President's Budget's focuses on areas where Americans are telling us they want to go—where ridership is strong on state-supported routes across the entire country and on the Northeast Corridor.

### *Miscellaneous Questions*

**Question:** Secretary Chao, FHWA Illinois Division has threatened to withhold Federal funds from the state of Illinois if the Illinois Department of Transportation tries to increase its usage of Recycled Asphalt Shingles or RAS in its asphalt projects. This effort by FHWA Illinois to maintain the status quo is refuted by years of solid performance and credible research showing that increased RAS usage is as effective as virgin materials, and it is being pushed despite the fact that using RAS creates Illinois jobs, keeps millions of tons of waste out of landfills, and saves taxpayer money without compromising quality. I'm interested to know if you are aware of this issue and what plans you have to ensure that FHWA and its division offices are working cooperatively with stakeholders and promoting the use of recycled materials in accordance with Congressional directive, FHWA policy, and documented research?

**Answer:** Significant advances in technology over the past decade have increased the types of recycled/reclaimed materials used in highway projects. The Federal Highway Administration (FHWA) supports research, field trials, and project demonstrations using recycled/reclaimed materials if the material does not adversely affect the performance, safety or the environment of the highway system. A number of State departments of transportation have reported premature cracking in relatively new asphalt pavements where recycled asphalt shingles (RAS) were used to replace a portion of the total asphalt binder in new pavements.

Although Illinois leads the country in RAS usage according to a recent industry survey, the Illinois Department of Transportation (IDOT) highlighted performance concerns with RAS in a July 3, 2014, memo stating that "caution needs to be used when incorporating hard recycled asphalt binders as they contribute to brittleness and increased cracking". FHWA's Illinois Division sent a letter on July 29, 2014 acknowledging IDOT's concerns, made several recommendations to address the performance issues and emphasized that compliance with IDOT's statewide special provision on the use of RAS was necessary to ensure that projects remained eligible for Federal-aid funding. IDOT agreed with the FHWA recommendations, including the formation of an independent task force. Today, FHWA and IDOT continue to work together to monitor the performance of pavements as evidenced by the development of new performance testing protocols to determine the optimal use of recycled materials.

Due to nationwide performance concerns with the use of RAS, FHWA issued a memo (<https://www.fhwa.dot.gov/pgc/results.cfm?id=5614>) in December 2014 recommending States follow AASHTO provisional standard PP 78-14 when designing projects with RAS. When there are known performance concerns with the use of RAS within a State, the use of this provisional standard is required for Federal-aid participation. Provisional standard PP 78-14 has now been revised, approved by all States, and will be published as provisional standard PP 78-16 in August 2017. Also, FHWA is conducting a nationwide survey on State usage of RAS, which will be published later this summer. The results of the survey will help shape future FHWA RAS guidance, technical assistance, and research.

**Question:** Secretary Chao, the state of Illinois recently passed local flexibility legislation mirrored on Section 1404(b) of the FAST Act in order to promote local innovation and control by allowing localities to choose alternative Federally-recognized design publications. This effort is stalled, however, by the Federal Highway Administration's cramped interpretation of Section 1404(b) as the agency has only accepted two publications related solely to bicycle and pedestrian projects. What plans do you have to fully implement this section so that it applies to all road projects, not just a limited subset, and when can we expect these additional publications to be recognized?

**Answer:** The FAST Act Section 1404(b) has been fully implemented. To be eligible for consideration under this section of the law, the local jurisdiction must be a direct recipient of Federal funds for a specific project, and the project must be on a roadway under the ownership of the local jurisdiction and not be on the Interstate System. The local jurisdiction must obtain approval from the State in which it resides to use a publication that is different from the publication used by the State. The FHWA must also recognize such publication.

The design publications that FHWA currently recognizes are those listed in either the FHWA Memorandum dated August 20, 2013, regarding Bicycle and Pedestrian Facility Design Flexibility (available at [www.fhwa.dot.gov/environment/bicycle\\_pedestrian/guidance/design\\_flexibility.cfm](http://www.fhwa.dot.gov/environment/bicycle_pedestrian/guidance/design_flexibility.cfm)) or the related Questions and Answers (available at [www.fhwa.dot.gov/environment/bicycle\\_pedestrian/guidance/design\\_flexibility\\_qa.cfm](http://www.fhwa.dot.gov/environment/bicycle_pedestrian/guidance/design_flexibility_qa.cfm)). The list of additional recognized design publications will grow as qualified local jurisdictions submit their requests in compliance with section 1404(b) requirements. Once these conditions are met, the local jurisdiction must adopt the design publication and ensure that designs fully comply with all applicable Federal laws and regulations. For other questions and answers related to Section 1404(b), please visit: <https://www.fhwa.dot.gov/design/standards/161006qa.cfm>

**Question:** Do you agree that every mode of transportation is subsidized by the federal government? Why is intercity passenger rail singled out for elimination of federal funding in the Administration's budget? Shouldn't intercity passenger rail receive the same treatment as other forms of transportation in the Administration's budget?

**Answer:** The President's FY 2018 Budget represents a bold change of course for our Nation and challenges all of us to rethink the way we are setting our priorities. It calls on us to reexamine our current spending and our continuing commitment to programs that may not be meeting their intended purpose, have outlasted their usefulness, or simply need to be replaced with new initiatives that will better address our requirements for the future. Some funding reductions are in recognition that our resources are limited and that we have an obligation to future generations to keep our spending under control.

**Question:** Passengers do not draw a distinction between "long-distance" or "state-supported" trains; they simply take the train that best fits their travel schedule and destination(s). There are

80 station stops served by long-distance passenger rail serve across the Midwest, many of them in rural communities not served by other forms of intercity transportation. Elimination of long distance routes would result in at least 50 of those Midwestern towns and cities losing Amtrak service entirely. What happens to passengers in these cities and towns, many with no air or bus service?

**Answer:** The relatively low ridership of long distance routes is an indicator that the current service is not meeting Americans' expectations. We need to ensure that all Americans have transportation options that are based on a sound return on investment. The President's Budget refocuses our attention and funding across all Federal programs so we can ensure we have the most efficient use of Federal funds, can better leverage resources from the private sector and states and local partners, and provide efficient mobility for all Americans.

**Question:** How do you reconcile the President's stated admiration of other countries' modern transportation systems, including their intercity passenger rail systems, and the Administration's plans to cut funding for intercity passenger rail? Does the federal government have no interest, or role to play, in developing a viable national passenger rail system?

**Answer:** The President's FY 2018 Budget represents a bold change of course for our Nation and challenges all of us to rethink the way we are setting our priorities. It calls on us to reexamine our current spending and our continuing commitment to programs that may not be meeting their intended purpose, have outlasted their usefulness, or simply need to be replaced with new initiatives that will better address our requirements for the future. Some funding reductions are in recognition that our resources are limited and that we have an obligation to future generations to keep our spending under control.

**Question:** Eight long-distance Amtrak trains serve the Midwest. Altogether, these routes have 80 station stops across the Midwest, many of them in rural communities not served by other forms of intercity transportation. Ridership growth on long-distance trains in the Midwest is a long-term trend, despite service delays or cancellations due to flooding or other weather issues, construction, or issues with the host railroad: According to Amtrak ridership data compiled by the Midwest Interstate Passenger Rail Commission, ridership on long-distance trains that serve the Midwest grew 3 percent over the past five years (FY 2011 to FY 2016), and grew 16 percent over the past 10 years (from FY 2006 to FY 2016). Why cut a service that is growing in use and popularity? What would you say to our citizens who are demanding and relying on rail service for their transportation needs about the Administration proposing to eliminate that service?

**Answer:** While ridership has grown in some segments, the number of riders serviced compared to the large losses incurred is not acceptable. The relatively-low ridership of long distance routes is an indicator that the current service is not meeting Americans' expectations. We need to ensure that all Americans have transportation options that are based on a sound return on investment. The President's Budget refocuses our attention and funding across all Federal programs so we can ensure we have the most efficient use of Federal funds, can better leverage

resources from the private sector and states and local partners, and provide efficient mobility for all Americans.

**Question:** For the year-to-date through April, ridership from FY 2016 to FY 2017 increased between 1 and 4.5 percent on four of six long-distance trains in the Midwest. For the two trains that had decreased ridership, the drops were miniscule – 0.2 percent and 1.2 percent. Meanwhile, ticket revenue on all long-distance trains in the Midwest increased during that same period, between 1 percent and almost 7 percent. Again, why cut a service that is growing in use and popularity, and what would you say to our citizens who are demanding and relying on rail service for their transportation needs about the Administration proposing to eliminate that service?

**Answer:** While ridership has grown in some segments, the number of riders serviced compared to the large losses incurred is not acceptable. The relatively-low ridership of long distance routes is an indicator that the current service is not meeting Americans' expectations. We need to ensure that all Americans have transportation options that are based on a sound return on investment. The President's Budget refocuses our attention and funding across all Federal programs so we can ensure we have the most efficient use of Federal funds, can better leverage resources from the private sector and states and local partners, and provide efficient mobility for all Americans.

**Question:** The Passenger Rail Investment and Improvement Act of 2008 required states to assume financing intercity passenger rail "corridor" services of 750 miles or less. These use the same tracks and stations, and the same ticketing/reservation systems, as the long-distance trains. Those fixed asset costs remain even if you remove the long-distance service. If long-distance trains are eliminated, will states be required to further stretch their own transportation budgets and pick up more of those costs? Will the federal government help them to cover those costs?

**Answer:** The Department recognizes that there are many cost, revenue, and operational impacts related to shutting down Amtrak's long distance routes. This includes potential impacts to Amtrak's Northeast Corridor and state-supported routes due to shared network costs that will remain but no longer be allocated to long distance trains. Refocusing Amtrak's attention and Federal investment to the areas of the network that are most successful—state-supported routes and the Northeast Corridor—will benefit those users. The Department looks forward to continuing to work with Congress and Amtrak to increase the return on Federal investment and to mitigate any potential adverse effects to the changes required.

**Question:** States provide nearly 50 percent of annual Amtrak revenue (\$500 million). Do you agree that states should be consulted before any changes are made to long-distance service?

**Answer:** Amtrak's annual revenue was over \$3.2 billion in FY 2016, with state-supported train revenues and associated payments from state sponsors totaling over \$900 million. However, states do not directly support the operations of Amtrak's 15 long distance routes. The FY 2018

President's Budget works to re-evaluate and assess current programs to ensure that they are effective investments of transportation funding. The Department looks forward to continuing to work with Congress and Amtrak to increase the return on Federal investment and to mitigate any potential adverse effects to the changes required.

**Question:** Despite repeated statements that this Administration would not sign any new full-funding grant agreements for Capital Investment Grant projects, you recently signed an FFGA for the Caltrain project in California. This program has been key to the Red and Purple Modernization Phase One project in Chicago. Will you likewise move forward with FFGAs for other projects that are key for communities across the country?

**Answer:** As proposed CIG projects become ready for a funding agreement commitment, FTA will review current and future year funding resources, coordinate with the project sponsor, and determine next steps.

**Question:** You and this administration have stated that the full cost-burden of Capital Investment Grant projects should fall to local communities. While some local communities have voted to raise transportation revenues, they did so with a promise that they would have a federal partner. What do you have to say to the American public about breaking faith with the voters, who raised local revenues with the promise that they would have a federal partner?

**Answer:** The Capital Investment Grants (CIG) are an important funding mechanism for the Department and the budget requests \$1.2 billion for this transit program, and an overall transit spending level of \$11.2 billion. As proposed CIG projects become ready for a funding agreement commitment, FTA will review current and future year funding resources, coordinate with the project sponsor, and determine next steps.

Additionally, DOT continues to offer other programs that support surface transportation needs. The Nationally Significant Highway and Freight Projects discretionary grant program, also known as Infrastructure For Rebuilding America (INFRA) Grants, provides DOT the ability to award competitive grants to projects of national or regional significance and is authorized at \$4.5 billion through 2020. DOT's credit and finance programs also have additional capacity for transit projects.

**Question:** Why should federal taxpayer dollars be used to fund local roadway interchange and intersection improvements but not the regional BRT system in Indianapolis that supports the regional economy? How is a local roadway intersection improvement project of greater national importance than a regional transit project?

**Answer:** Infrastructure improvement priorities and projects are state and locally driven decisions. Projects must meet eligibility requirements for a specific category of federal aid and must be reflected in the overall transportation improvement plan that has emerged from state and local planning process. Local roadway interchange and intersection improvements are typically

funded with Federal Aid Highway formula funds while regional BRT systems that supports the regional economy seek Federal Transit discretionary funds.

**Question:** How does this administration justify that our interstate highway system is of national importance, but our long-distance passenger rail service is not?

**Answer:** Strong transportation options are certainly of national importance. That is why it is so vital that we allow Amtrak to focus on the successful state-supported and Northeast Corridor routes. The President's budget focuses on reducing the need for Federal support on some routes and supporting the successful segments of our passenger rail services.

**Question:** The administration has called for federal dollars to be spent in ways that leverage non-federal funding – for a ratio of 1:5 in an infrastructure package. Both the Capital Investment Grants program and TIGER program have proven success in leveraging non-federal funding. The TIGER program averages a 1:3.5 ratio, meaning that every federal dollar spent leverages an average of \$3.5 non-federal dollars. Is that correct?

**Answer:** When considering both construction and planning projects, we are reviewing past grant performances, and plan to offer a proposal that would improve on this.

**Question:** Despite these programs' proven track record of success, the administration's FY 2018 budget significantly reduces or eliminates their federal funding support. Do you support continued funding for these programs, which successfully leverage non-federal dollars?

**Answer:** It is important that we review all infrastructure needs to ensure that funding is allocated efficiently and effectively to maximize returns on infrastructure investments. The administration views metropolitan transit projects as investments best lead by the States and localities these projects will benefit.

**Question:** If not, what assurance can you give Congress and the American people that investing their tax dollars through an unproven, new program will achieve better results in leveraging non-federal dollars than existing programs?

**Answer:** The Administration is looking to maximize non-federal leverage in several ways. First, we are taking every opportunity to revise existing discretionary programs to ensure leveraging non-federal dollars is highlighted as a key priority in the selection criteria. The new Infrastructure For Rebuilding America (INFRA) Grants Notice of Funding Opportunity that was recently published is an example of this Administration's commitment to broadening the federal government's ability to afford more investment in infrastructure. Secondly, we are looking at best practices and lessons learned from past infrastructure investments to craft a new initiative that achieves innovative improvements while also retaining leverage strategies that have proven successful. The Department believes that awarding projects that leverage non-federal sources,



will expand the overall pool of resources being used to build and restore our nation's infrastructure.

**Question:** As we all know, the TIGER program is one of the only programs where locals can come directly to the federal government to seek funding for their projects. What is your position on local communities having access to federal dollars? Should locals have direct access to federal dollars or should all transportation funding decisions be put under state control? If the funding for the TIGER program is eliminated, what are the other ways that locals can seek direct federal funding?

**Answer:** The recently released Infrastructure for Rebuilding America (INFRA) Notice of Funding Opportunity promotes leverage of more non-federal funding, by seeking greater state, local, and private sector partnering. Local entities are eligible to directly seek INFRA grants through a competitive application process similar to TIGER. In addition, DOT's credit and finance programs also have additional capacity for financing many transportation projects, and local entities are eligible to seek credit and financing from these programs. The Department will continue to use all Congressionally funded programs to meet our national infrastructure needs as well as develop new and innovative approaches that improve the way transportation infrastructure projects are financed, developed, operated, and maintained.

Department of Transportation  
 Fiscal Year 2018 Questions for the Record  
 Congressman Aguilar  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

***Tiger Grants and the Redlands Passenger Rail Project***

The TIGER grant program is a highly popular program that provides funding to infrastructure projects that will significantly improve public transportation services. In the district that I represent in California, the Redlands Passenger Rail Project (RPRP) was awarded \$8.7 million through the TIGER grant program in 2016. The project will create a rail extension that will run between the San Bernardino Transit Center and the University of Redlands. The line stops at important locations, such as the VA Health Care center, educational facilities and job centers. The project will help alleviate congestion along the I-10 highway, which is one of the most congested highways in the country. Additionally, the project will create 3,000 jobs in the region. This project will contribute to our economy and provide low-income residents with an alternative and affordable transit route. The Redlands Passenger Rail Project is just one of many projects that the TIGER grant will support.

**Question 1:** Given the clear benefits of this program in my district alone, I want to ask you: What data did the Department of Transportation rely on to decide that the elimination of the TIGER grant program would be beneficial to our national infrastructure system?

**Answer:** The Department has taken a holistic approach when considering how best to make national infrastructure investment decisions. The TIGER program, first enacted as part of the Recovery Act in 2008, has not been formally authorized as part of a long-term surface transportation bill. Many projects funded by TIGER are also eligible under DOT's other mandatory highway and transit formula programs. Furthermore, the Infrastructure for Rebuilding America (INFRA) discretionary grant program provides DOT the ability to award competitive grants to projects of national or regional significance and is authorized at \$4.5 billion dollars through 2020. The recently released INFRA Notice of Funding Opportunity promotes leverage of more non-federal funding, by seeking greater state, local, and private sector partnering.

In addition, DOT's credit and finance programs also have additional capacity for financing many transportation projects. Together, these different infrastructure finance programs and innovative approaches represent important parts of the President's overall Infrastructure Initiative that will leverage additional non-federal resources. The Department will continue to use all Congressionally funded programs to meet our national infrastructure needs as well as develop new and innovative approaches that improve the way transportation infrastructure projects are financed, developed, operated, and maintained. Given the fact that Congress has appropriated \$500 million in FY 2017 for the TIGER program, the Department will execute this program in accordance with Congressional requirements to seek the best possible transportation outcomes for our nation.

***Capital Investment Grants and the Redland Passenger Rail Project***

The Redlands Passenger Rail Project has been approved entry into the Small Starts Program. I have concerns about reports that the Department of Transportation will only grant funds to those projects that already have signed a Full Grant Agreement with the Department. This project will provide transportation to previously underserved communities, thereby providing opportunities in a region of California that continues to struggle economically in the wake of the Great Recession. The Redlands Passenger Rail Project has completed several stages of the Capital Investment Grant review process. Specifically, the project has been granted entry into the project development stage and has submitted a ratings package to the department. Preparing the necessary documents to complete the evaluation process required to receive reimbursements through the Capital Investment Grant program. For example, preparing a ratings package requires a significant amount of time and dedication from local transportation agencies.

**Question 2:** Did the Department of Transportation conduct a full cost-benefit analysis to determine how reducing the budget for the Capital Investment Grant Program might affect employment numbers? If a cost-benefit analysis was conducted, did it include information on how withholding awards from projects that have not entered full-funding grant agreements would affect the local economy of those projects? If Congress appropriates funds for the Capital Investment Grant program for FY 2018, will the Department still refuse to sign Full Funding Grant Agreements for projects, such as the Redlands Passenger Rail Project? If grant agreements will not be awarded, what is the Department's justification for refusing funds for projects that have undergone an expensive and thorough review process?

**Answer:** While the administration views future metropolitan transit projects as investments best lead and managed by States and localities, the Department recognizes signed appropriation bills as enacted law. The Department will continue to implement the Capital Investment Grants program in accordance with program provisions as authorized in statute. As it applies to appropriation bills, the Department will execute and allocate appropriated Capital Investment Grants funding in accordance with enacted bill language and accompanying bill reports.

*Capital Investment Grants and Jobs in the Manufacturing Industry*

The policy justification in President Trump's budget states the Capital Investment Grant Program only benefit local communities and should therefore be paid for locally. The grant program supports commuter rails that allow the workforce to travel to work. There are thousands of manufacturing jobs throughout the United States that benefit from projects that are in the pipeline to receive Capital Investment Grants. Many of these manufacturing jobs are located in rural areas.

**Question 4:** President Trump has stated that a priority for his administration is to support the creation of more manufacturing jobs. How do you justify the elimination of a program that stimulates job growth in the manufacturing industry?

**Answer:** The administration views future metropolitan transit projects as investments best lead by the States and localities these projects will benefit. Several large metropolitan regions have recently passed measures that create dedicated revenue streams for transit infrastructure improvements. Dedicated revenue streams allow these regions to utilize innovative financing arrangements, such as the Department's TIFIA program or public-private partnerships, to advance local transit plans. Using dedicated revenue streams to leverage private investment serves as one of many strategies for financing future transit development.

Additionally, the President and his infrastructure team are currently reviewing the country's pressing infrastructure needs. In the coming months, the infrastructure team will develop a comprehensive proposal that will accelerate project delivery, spur private sector innovation and investment, and ensure that the Government effectively invests Federal infrastructure funding.

***Return on Infrastructure Investments and Geospatial Technology***

As a member of this Committee, I believe that we have a responsibility to ensure that funds we provide to the Department of Transportation are being invested wisely and that project outcomes are successful. To my understanding, the Department of Transportation currently does not have the capability to evaluate the progress of all infrastructure projects in real-time and across project types, such as bridges, roads, and airports. There is technology available that can help the Department of Transportation to better track the progress of specific infrastructure projects. For example, FEMA utilizes geospatial technology for its flood mapping, which provides the public with nearly real-time updates on floods throughout the United States. I believe it would be beneficial if DOT could employ similar geospatial technology that provides the public with updates on infrastructure projects within their region. This technology would be beneficial to commuters at the local level. However, it would also help the DOT to better understand the development of projects in designated regions and the rate of return on investments. For example, this technology could help us better understand how infrastructure projects improved congestion after the project is completed, which may guide the agency in future investment decisions.

**Question 4:** Do you think that DOT may be open to looking more into this type of technology?

**Answer:** The Department of Transportation utilizes geospatial technology in a wide range of applications. Examples include:

- The Department's National Transportation Atlas Database, authorized under 49 USC 6309, which is a series of geospatial databases that depict transportation networks; flows of people, goods, vehicles, and craft over those networks; and social, economic, and environmental conditions that affect, or are affected, by those networks;
- The development of flight route / enroute navigation charts, pipeline inspection boundaries, railroad networks and grade crossings, and more.

Furthermore, DOT participates in the National Spatial Data Infrastructure (NSDI) and serves as the lead for the Transportation Theme of the NSDI, maintaining a number of National Geospatial Data Assets (NGDAs) and coordinating with other key Federal agencies on non-DOT data that covers the transportation system. DOT also serves as the co-lead of the newly created Address Theme of the NSDI, alongside the Census Bureau.

Even with these large investments in geospatial data and technology, the Department continually seeks ways to improve its data sets and analyses in support of the Department's mission. In years past, authorizing legislation has sought to increase transparency of infrastructure projects. Most recently, the Moving Ahead for Progress in the 21st Century (MAP-21) (Pub. L. 112-141) required the Department to publicly report on funding status of infrastructure projects funded under apportioned and allocated programs (23 USC 104(g)). In support of this requirement, both the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA)

upgraded their grants management systems to facilitate the granular tracking and reporting required under this provision. FHWA upgraded its Fiscal Management Information System (FMIS) to collect detailed geospatial information from the States, which will help facilitate the kind of tracking that is pondered under this request.

While the Department does have the necessary technology to support transparency and geospatial visualization considered as part of this question, the primary barrier to realizing this vision is the States' and transit agencies' ability to provide the necessary data to communicate project lifecycle status. If Congress were to require this level of transparency, the Department would likely need to make some information technology investments in its own systems, as well as provide technical assistance to State and local agencies, to ensure the quality of data flowing into Departmental systems.

### ***Infrastructure Priority List***

Earlier this year, President Trump published a list of fifty infrastructure projects throughout the U.S. that he will prioritize. The plan invests \$137.5 billion in these projects. The DOT's FY 2018 fact sheet notes that the DOT will partner with entities that can provide the most efficient results on infrastructure projects.

**Question 5:** What measures were taken to determine that specific projects would be completed more efficiently than others? What data does DOT have available to demonstrate that the priority projects in President Trump's list would be completed more efficiently than projects sponsored by local transportation and infrastructure agencies?

**Answer:** The Administration has not developed a prioritized list of infrastructure projects. However, on January 24, the President signed the Executive Order on EXPEDITING ENVIRONMENTAL REVIEWS AND APPROVALS FOR HIGH PRIORITY INFRASTRUCTURE PROJECTS that does seek to expedite high priority infrastructure projects. Upon request by the Governor of a State, or the head of any executive department or agency, or on his or her own initiative, the Chairman of the White House Council on Environmental Quality (CEQ) shall, within 30 days after a request is made, decide whether an infrastructure project qualifies as a "high priority" infrastructure project. This determination shall be made after consideration of the project's importance to the general welfare, value to the Nation, environmental benefits, and such other factors as the Chairman deems relevant.

Additionally, the Administration has released high level principles regarding infrastructure development as part of the FY 2018 President's Budget. The Department has communicated its desire to change the way project sponsors think about delivering transportation projects, and believes that with the right incentives, project sponsors across the country can make dramatic, long-term improvements in the way we deliver and maintain our transportation infrastructure. The Department has placed a strategic focus on improved performance and accountability, innovation, streamlined permitting processes, and an increased share of non-federal funding in infrastructure investment. Lastly, the Department believes that local agencies play a vital role in developing and restoring our nation's infrastructure in the most efficient way possible, and the Department will work closely with state and local agencies as a strong and responsible partner.

*Transportation Infrastructure and Economic Mobility*

Research has demonstrated that commute times can be a critical predictor of economic mobility. The Census has found that more than 125,000 people from San Bernardino County commute to Los Angeles on a daily basis. By car, the commute is more than one hour. The City of San Bernardino, which I represent, has a median income of \$37,047 per household, which is \$24,771 less than the median income in California.

**Question 6:** How will the DOT ensure that investments are made in projects that support states and localities to promote economic mobility for their residents?

**Answer:** The vast majority of Federal highway funds are distributed to States by formula. State departments of transportation and their local partners typically make the decisions on how to invest those funds. This happens through the Federally mandated Statewide and metropolitan transportation planning processes, which require public involvement. The U.S. Department of Transportation offers tools and technical assistance to help State and local governments identify gaps in their transportation systems and services. FHWA developed the Connectivity Evaluation Resource to demonstrate the concept of connectivity and highlight examples of how practitioners are communicating connectivity measures within their communities and identifying improvement strategies.

The resource can be found at <https://www.fhwa.dot.gov/livability/tools/cer/>. In addition, the recently enacted performance management rules will ensure the most effective investment of Federal transportation funds, and including carrying out the goals of congestion reduction, improving the efficiency of the surface transportation system, and supporting regional economic development.

The Department also offers States and localities the flexibility to design transportation systems that focus on connecting people to their desired destinations. All of this helps States and localities promote economic mobility for their residents.



### ***Pipeline and Hazardous Materials***

The FY 2018 budget proposal reduces the budget for the Pipeline and Hazardous Materials Safety Administration by \$2 million. The Safety Administration is meant to ensure that maintenance requirements for oil pipelines are met. In 2016, there were 636 reported oil leaks, which killed 17 people and injured 84. Reducing the budget for this program will limit the funding opportunities available to mitigate risk associated with pipelines that transfer hazardous materials, such as oil and natural gas. In 2015, there was a natural gas leak in Aliso Canyon, which is about an hour away from the district that I represent. The leak at Aliso Canyon was the largest methane gas leak in United States history.

**Question 7:** How does DOT plan to ensure that proper safety precautions are taken to avoid oil leaks?

**Answer:** Safety is our top priority and the President's Budget ensures the Pipeline and Hazardous Materials Safety Administration (PHMSA) can meet its mission to protect people and the environment by advancing the safe transportation of energy and other hazardous materials that are essential to our daily lives.

PHMSA's mission is to ensure safe operation of liquid and gas pipelines as well as underground natural gas storage. With over 2.7 million miles of pipeline infrastructure crossing the country and approximately 400 underground natural gas storage sites, PHMSA must work closely with pipeline and underground natural gas storage operators. Together we ensure that pipelines and underground natural gas storage sites are well designed, constructed, operated, and maintained. If a leak occurs, PHMSA's safety standards require operators along with first responders to quickly safeguard people and the environment.

PHMSA's request accomplishes all of this with investments in programs and people, safety oversight, and new technology and innovation as discussed below:

#### **Programs and People**

- PHMSA, along with its certified state pipeline safety programs, invest in people and training to ensure that pipeline facilities – both oil and natural gas – are operated safely. In response to the growth of the energy sector over the past two years, PHMSA has significantly increased the number of safety inspectors. PHMSA inspectors complete intensive training at our Training and Qualification Center as part of a three-year training plan that prepares them for the challenging review of complex facility construction and operation.
- PHMSA certifies the quality and reimburses state partners' pipeline safety programs up to 80 percent of their costs for safety inspections of the pipeline facilities they manage.
- PHMSA awards more than \$47.0 million in grants to reimburse state pipeline safety programs' cost to respond to pipeline incidents, conduct inspections, and enforce pipeline safety regulations.

#### **Safety Oversight**

- PHMSA and its state partners routinely conduct risk-based inspections on pipeline facilities in the United States, including oil, natural gas, and liquefied natural gas facilities. PHMSA and its state partners verify that pipelines and facilities are operated safely by conducting frequent field visits to the facilities.
- PHMSA uses pipeline operating information to assign safety inspectors to the operators and facilities that pose the greatest potential risks to people and the environment. These inspections and resulting corrective actions ensure problems are identified before they occur so the pipeline industry can move energy to market uninterrupted by leaks or incidents.
- PHMSA and its state partners inspect pipeline companies in the design phases of pipeline projects to help prevent safety problems. PHMSA's engineers review construction documents, materials specifications, and construction and operation safety assurance plans prior to and during construction to make sure new pipelines can safely move high volumes of energy products to market.
- PHMSA issues safety standards and advisories to help pipeline operators move energy products safely to market. PHMSA issued new safety standards and will conduct safety checkups for underground storage fields, preventing leaks, like the 2015 Aliso Canyon leak.
- PHMSA issues enforcement cases to pipeline, liquified natural gas, and underground natural gas storage companies when needed to ensure they operate safely and requires them to correct unsafe conditions.
- PHMSA ensures pipeline companies have oil spill response plans that reduce the economic, health and environmental impact of any oil discharged into navigable waters in the U.S.

#### **New Technology and Innovation**

- PHMSA promotes the development and use of new technologies that improve pipeline safety. PHMSA's research and development program invests in research to solve pipeline safety challenges.
- PHMSA advances pipeline-related technology and innovation through its Competitive Academic Agreement Program (CAAP) directing research funding to universities specializing in Science, Technology, Engineering and Mathematics (STEM) to solve highly specialized pipeline safety problems.

Department of Transportation  
 Fiscal Year 2018 Questions for the Record  
 Congressman David P. Joyce  
 Subcommittee on Transportation, Housing and Urban Development, and Related Agencies  
 House Committee on Appropriations

*WMATA Safety Concerns*

On May 12, 2017, John P. Rowley III was the victim of an attack in the Washington Metropolitan Area Transit Authority Gallery Place subway station. This is one of an alarming number of incidents in recent months that have led to growing concern over rider safety. His testimony, which follows, has also been submitted to the Senate Appropriations Subcommittee on Transportation, Housing and Urban Development, and Related Agencies:

The DC Metro subway system is unsafe. On Friday May 12, 2017, I was attacked by a group of “juveniles” in an unprovoked and vicious assault on the Gallery Place subway platform during rush hour. I was thrown into a moving train and sustained serious injuries from which I am still recovering. This was no robbery attempt, and although the assailants said nothing whatsoever before attacking, their “high-fiving” and laughter as I lay bleeding, showed that this was just their way of having a good time on a Friday night.

I left my law office that day in downtown Washington, D.C. to meet a friend after work. We had been planning to attend a Washington Nationals baseball game together, but because the game had been rained out, we agreed to meet anyway. Just before 6:00 p.m. I traveled on Metro’s Red Line to the Gallery Place stop where my friend’s office is located. I departed the train and walked down the platform with the intention of heading towards the exit. As I came to the end of the platform, I noticed a group of 6 or more young men loitering at the point I intended to make the turn from the platform into the station. As I approached, I was viciously attacked by 5-6 (according to eye witnesses) “juveniles” who, without saying anything to me, blocked my way and knocked me to the ground. For the next several minutes, I was punched, thrown down onto the subway platform, kicked in the face, and then pushed into the train I had just exited – and which by that point had begun to accelerate out of the station.

I sustained a number of injuries including a broken hand, a deep laceration to my finger, and bruises to my face, head and other parts of my body. The investigating detective told me that surveillance camera videotape showed that my head either hit the moving train or came within inches of doing so. I would have been even more severely injured had it not been for a Good Samaritan – a GW law student named Andrew Miller – who tried to intervene and suffered injuries including a concussion that required his own visit to the hospital. (Dozens of people were on the platform – this was Friday rush hour after all – but, with the exception of a few kind women who screamed for the attackers to stop, did nothing to help.). Local Washington media has covered our story, including my meeting with Andrew to thank him in person for stepping in and possibly saving my life. The two

primary assailants have been identified, arrested, and are being prosecuted due to the excellent, determined, investigative work of Metro Detective Barlow. In so far as I know, the others in the group have not been identified.

Following the immediate attention I needed for my injuries, including undergoing general anesthesia to have four pins inserted into my broken hand, I began to turn my attention to the incident itself and the circumstances that enabled it to occur. I learned that this assault was not that unusual in Metro stations and that people are attacked on a regular basis by “juveniles” and other miscreants who hang out in or near stations including, notably, Gallery Place. According to WMATA’s own crime statistics as reported on its webpage, two aggravated assaults occur on Metro every week. These are reported and, I assume prosecuted incidents. Since all assaults are not reported or successfully prosecuted, the actual level of violence in the Metro system likely is even higher. A similar attack on Metro passengers occurred on April 29 at the SW Waterfront station. According to media reports, surveillance video from that attack shows assailants knocking a woman to the ground and viciously kicking her in the face. A group of “juveniles” is seen on the video and, seconds later, one of them commits another assault, this time sucker punching a woman in the head from behind and knocking her to the ground. The group is then seen running away and laughing.

This situation would be an outrage anywhere – but it is especially unacceptable in our nation’s capital. Commuters are not safe, and tourists, such as your constituents, and indeed, your own staff traveling to and from work, may not appreciate the threats they face from riding Metro. I know I didn’t. WMATA has not devoted sufficient attention and resources to the safety of passengers, and it will be a long time before my wife and I or our children ever use the Metro system again.

As the investigation into my attack has proceeded through the criminal justice system, I have been impressed with the dedicated, hard-working, and committed members of Metro’s police force and detectives. They have worked hard to find my assailants and bring them to justice. However, WMATA clearly has inadequate resourcing – or is not competently using existing resources to address the level of demonstrated risk posed by the current situation. As anyone who regularly rides Metro can attest, there is an inadequate number of uniformed police on Metro trains and in Metro stations. There were no officers on the platform when I was attacked, and by the time they arrived, the attack was over, and the assailants had dispersed. I have since learned that the surveillance cameras at the Gallery Place station are not state-of-the-art and, in my case, that made it difficult to identify the attackers. I also wonder why the Metro stations are so poorly lighted. Is that intentional?

Again in this year’s FY18 budget request U.S. taxpayers are being requested to fund \$150 million in a special appropriation for physical improvements to Metro that are required after years of neglected or deferred maintenance. I agree that these infrastructure improvements are critical in order to sustain the system’s operation and prevent addition serious and life-threatening fires that have become all too commonplace. However, Operation SafeTrack will not rectify the safety and security issues that I encountered.

Personal safety will remain an extremely serious issue, resulting in the real possibility of significantly decreasing ridership – and in turn significantly reducing needed fares to support Metro's operation – unless visitors and residents of the nation's capital region can regain confidence that they may travel Metro without being assaulted, raped, or robbed.

Therefore, I request that in the FY18 appropriations bill, you require WMATA to conduct a study concerning the levels of police presence and additional safety enhancements required to deter criminals who so brazenly attack Metro riders. The study should include a review of what other large subway systems, such as New York City, have done to reduce crime on their systems, including cost estimates and a multi-year plan for funding, should resources be constrained.

While the study is being conducted, and until additional recommendations are presented to your subcommittee, I encourage you to provide the necessary resources in this year's appropriation for adding police to the WMATA force and directing that Metro employ its police officers in ways that have been proven to effectively reduce crime. Much data confirms that police patrols serve as deterrents to crime, and I am convinced that a visible police presence would have prevented the attack I suffered. Further, I encourage you to direct Metro to turn its lights back on in all of the stations across the system. While dimming lights for energy conservation and to save money is a worthwhile goal, it should not serve as another factor that encourages crime and makes it harder for cameras to capture the incidents that do occur. Finally, I request that resources be committed to purchasing state-of-the-art video equipment in all Metro stations so that when criminals do act, the best technology can be utilized to confirm their identity and bring them to justice.

Thank you for your consideration of my request. With your support, it is my sincere hope that no one else will endure the trauma of being assaulted simply because they decided to take Metro to see a friend on a Friday night in our nation's capital.

**Question:** In light of these growing and senseless crimes, I request the Department provide the House Appropriations Subcommittee on Transportation, Housing and Urban Development, and Related Agencies with an overview of any Federal Transit Administration plans to address these safety threats, as well as any present challenges - technical, funding, or personnel related – that could delay swift implementation of enhanced security measures.

**Answer:** FTA's safety authority does not extend to personal security of transit patrons. An assault against a transit patron is a crime, which is within the purview of local law enforcement. In addition, the Transportation Security Administration (TSA) has the prerogative and responsibility for all rulemakings on security in public transportation. While FTA's safety authority focuses primarily on the safety of operations and infrastructure, some of the steps that a rail transit agency takes to ensure the personal safety and security of its riders and employees may overlap with any security requirements that the TSA may impose.

With respect to funding, the Transit Security Grant Program (TSGP) is one of the Department of Homeland Security's grant programs that directly support transportation infrastructure security activities and is currently the primary vehicle providing funding assistance for security enhancements to eligible domestic mass transit and passenger rail agencies and employs risk-based prioritization for funding decisions. A rail transit agency's capital expenses for passenger and employee safety and security, such as security cameras, also are eligible for reimbursement under the Federal transit program.

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