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TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2012

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

ON

S. 1596

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENTS OF TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2012, AND FOR OTHER PURPOSES

Department of Housing and Urban Development
Department of Transportation
National Railroad Passenger Corporation (Amtrak)
Nondepartmental witnesses

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TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2012

THURSDAY, MARCH 3, 2011

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

The subcommittee met at 10:01 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Pryor, Collins, and Blunt.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. SHAUN DONOVAN, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

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

Good morning, Mr. Secretary, and we are delighted to have you here. We are holding our first hearing this year on the Department of Housing and Urban Development's (HUD) budget for the fiscal year 2012.

Today is also the first hearing with our new ranking member, Senator Collins. She and I have worked together over the years on many issues from women's health to veterans and particularly on the critical issue of port security. So she is a great partner. I know she works very hard to get results and demonstrates dedication to both her State and to very good policy for this country. So it is a delight to have you join us.

Senator COLLINS. Thank you.

Senator MURRAY. I also want to recognize one of our new members, Senator Blunt, who is with us as well. We have got a number of new members on this subcommittee, and we look forward to working with all of them.

And Secretary Donovan, I want to welcome you back to this subcommittee as well to talk about your Department's budget request and housing policy and the condition of the housing market.

The subject of today is HUD's budget for fiscal year 2012. Yet, even as we sit here, about halfway through the fiscal year, the Federal Government still lacks a final budget for fiscal year 2011. We are continuing to debate the budget as millions of families and communities across our country are waiting anxiously to hear about the fate of the programs that they really depend on.

There is a lot of discussion in the country today about the deficit and the fiscal health of our Nation, and that debate is very critical. We have got to tackle the deficit and we have got to make sure our children and our grandchildren are not forced to bear the burden of overwhelming debt. So we are going to have to make some very tough decisions. And as we work to cut that spending, we have got to make sure we do not do anything that will impact our economic recovery at the same time, and make sure that as a country we are continuing to make the investments that are necessary to strengthen our communities and remain competitive.

And finally, I just want to say that we cannot continue to focus all of our attention on this one small part of the budget, the discretionary domestic spending. It is, I think, a very short-sighted approach and will not get us to where we need to be in correcting our Nation's fiscal imbalance.

I am concerned about the House budget that was passed. For example, they eliminated the new HUD-Veterans Affairs Supportive Housing (VASH) vouchers, something that I am very passionate about that provides housing and case management to our homeless veterans, and it has literally taken veterans off our street that I have talked to. I know that this makes a huge impact in putting them into permanent housing. It really is a model program, bringing together two big agencies, HUD and the Department of Veterans Affairs (VA), to use their resources effectively together. And I am impressed that research has proven that permanent supportive housing like this really saves taxpayers money, because it reduces the prevalence of more expensive outcomes like emergency rooms or the judicial system.

So we have to make our decisions wisely as we move forward on the fiscal year 2012 budget, and I look forward to working with this subcommittee to do that.

The topic of housing is a fitting way to begin our discussion on the budget for fiscal year 2012 since it is critical to the financial security of families and our Nation's economy. We learned these lessons all too well during the housing boom and bust. The overconfidence of lenders and investors, and the perpetual appreciation of home prices coupled with inadequate regulatory oversight really fueled that boom, and that market's fall has devastated families and neighborhoods and, of course, our economy. Millions of Americans have lost their homes and many more who did not participate directly in the market run-up have seen their wealth eroded as their home values have declined.

I recently held a roundtable discussion in Seattle and heard story after story after story from families who had been devastated by foreclosure. They had done the right thing. They found themselves in trouble, were trying to work within the system and the programs that we have put out there to modify their home loans, and again and again they were getting the run-around from everyone. That is not right, and the sloppiness and incapacity of some of our servicers are now today causing some even greater strain on families as they try to recover.

We also recently learned that military families have been overcharged fees and even foreclosed upon despite the protections that we do have in place for them through the Servicemembers Civil Relief Act. I know that banks are now trying to step up to the plate and do this right, and I appreciate them doing that. But a lot has to change and we have got a lot of work ahead of us. So I want to take some time to talk with you about the steps that can be taken today to make sure that our families are getting through this process and treated fairly.

As we work to solve these problems for our families, we also need to think about the future of the housing finance system and make sure we avoid another situation that would require taxpayer dollars to cover private-sector losses, as has been the case with the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). The Dodd-Frank Wall Street Reform and Consumer Protection Act addressed many of the failures of our system and the regulatory structure, but that was just the beginning. We have to address Fannie Mae and Freddie Mac so we no longer promote a system of private profits and public loss. But we have to do it carefully so we do not undermine the fragile housing recovery or make home ownership unaffordable to many Americans.

I know the administration recently released its report to the Congress on options for reforming the Nation's housing finance structure. Each of those options offers tradeoffs that we are going to have to consider carefully—tradeoffs between the level of appropriate risk for the taxpayer, and the Government's presence in the marketplace, and the ability of Americans to obtain a mortgage. So I expect to hear more from you on that as well today.

While we continue to address the Nation's housing market, we have to also remain focused on HUD's core programs. The President's budget for fiscal year 2012 includes program funding of $47.8 billion. That level of funding is offset by the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) receipts for a total request for new funding of $41.7 billion, 2.8 percent less than the fiscal year 2010 levels.

The President's budget continues to prioritize maintaining housing for our Nation's most vulnerable with his request for the Section 8 voucher program, project-based Section 8, public housing, and the renewal of homeless projects, and that is a goal most of us share. Yet, this funding represents nearly 75 percent of HUD's total budget, which is why dramatic cuts to HUD's total budget could devastate other programs that also provide critical services to vulnerable Americans or result in the loss of public housing units that cannot be maintained. Investments in programs like the Community Development Block Grant (CDBG) program, which attracts new businesses to our communities and provides critical access and creates jobs; the new Homelessness Prevention and Rapid Rehousing Program; the Sustainable Communities Initiative, which helps our communities make smarter decisions about their investments—all of these are really important to our future.

So, today, I have a number of questions for you, Mr. Secretary. I am concerned about the troubled housing authorities. These public housing authorities (PHAs) represent only a small portion, as we know, of all the PHAs, but we cannot ignore them, and we have to demand accountability.

So I will have a number of questions as we move forward, and I will submit my entire statement for the record. I know what we face ahead of us is very challenging.

I am going to turn to my counterpart, Senator Collins, for her opening statement, and to our members who I know have some opening statements as well, and to your opening statement.

PREPARED STATEMENTS

I have been called to an emergency meeting, if you will, for working on our final budget proposal that we have got to get through the Congress so people know where we are moving ahead. So, a little after 10:25 a.m., I am going to turn this over, with great confidence, to my ranking member, Senator Collins, to run this in a bipartisan fashion here this morning for all of our members to be able to open their questions.

Also, Senator Kirk regrets that he couldn't be present, but he has submitted a statement for the record.

But right now, I will turn it over to you, Senator Collins, for your opening statement.

[The statements follow:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

This morning we are holding our first hearing of the year on the Department of Housing and Urban Development's (HUD) budget for fiscal year 2012.

Today is also the first hearing with our new ranking member, Senator Collins. Senator Collins and I have worked together on many issues, from women's health to veterans and particularly on the critical issue of port security. She is a great partner, who works to get results and demonstrates dedication both to her State and to good policy. As a member of our subcommittee, she is familiar with the issues in our bill, and I look forward to working with her to meet our Nation's transportation and housing needs.

We also have several new members of the subcommittee, and I look forward to getting their input as we develop the budget for fiscal year 2012.

Finally, I want to welcome Secretary Donovan back before our subcommittee to discuss his Department's budget request, our Nation's housing policy and the condition of the housing market.

FISCAL YEAR 2011 AND THE HOUSE'S YEAR-LONG CONTINUING RESOLUTION

The subject of this hearing is HUD's budget for the fiscal year 2012. Yet even as we sit here today—nearly halfway through the fiscal year—the Federal Government still lacks a final budget for fiscal year 2011. The Congress continues to debate that budget as millions of families and communities across the country wait anxiously to learn the fate of the programs they depend upon.

As we all know, there is a great deal of discussion today about the deficit and the fiscal health of our Nation. And this debate is critical. We need to tackle the deficit and make sure our children and grandchildren aren't forced to bear the burden for of overwhelming debt. We are going to have to make some tough decisions. But as we work to cut spending, we need to make sure we don't do anything to undermine our economic recovery.

We also need to make sure that as a country, we are continuing to make the investments necessary to strengthen our communities and remain competitive in the future.

And finally, we can't focus all of our attention on one small part of the budget—domestic discretionary spending. That's a short-sighted approach that won't get us where we need to be in correcting our Nation's fiscal imbalance.

Unfortunately, the spending plan recently passed by House Republicans takes our country in the wrong direction. It threatens our economic recovery, slashes investments in our communities, and puts vulnerable Americans at risk.

For example, the House Republican budget eliminates funding for new HUD–Veterans Affairs Supportive Housing (VASH) vouchers that provide housing and case management services to homeless veterans—a program that has literally taken veterans off the street and put them into permanent housing. This is a model program—it brings HUD and the Department of Veterans Affairs (VA) together to use their resources more effectively to achieve results. And research has proven that permanent supportive housing like this saves taxpayer money by reducing the prevalence of more expensive outcomes such as emergency rooms or the judicial system. But funding to continue this effort and meet the critical goal of ending homelessness among our veterans in 5 years was left on the cutting room floor in an effort to meet an arbitrary bottom-line.

That's wrong. And it's just one example from a House Republican plan that focuses on short-term, slash-and-burn cuts—while neglecting a long-term plan for responsible deficit reduction that supports our economic recovery.

So as we look at the fiscal year 2012 budget, I will be taking a different approach. I will be analyzing how taxpayer dollars can be invested most effectively to:

—Continue our economic recovery;
—Strengthen our communities;
—Protect our most vulnerable families;
—Get workers back on the job; and
—Manage our Federal resources efficiently.

THE HOUSING MARKET AND GOVERNMENT-SPONSORED ENTERPRISE REFORM

The topic of housing is a fitting way to begin our discussion on the budget for fiscal year 2012, since it is critical to the financial security of families and to our Nation's economy.

We learned this lesson all too well during the housing boom and bust. The overconfidence of lenders and investors in the perpetual appreciation of home prices, coupled with inadequate regulatory oversight, fueled the boom—while the market's fall devastated families, neighborhoods and our economy. Millions of Americans have lost their homes, and millions more who didn't participate directly in the market run-up have nonetheless seen their wealth eroded as home values declined.

I recently held a roundtable discussion in Seattle and heard story after story from families facing foreclosure. These families were doing the right thing. They found themselves in trouble but were working within the system to get a modification and save their homes. But again and again, they were getting the runaround from their banks.

This is not right. The sloppiness and capacity challenges of servicers are causing even greater strain on families across the country. We have also learned that military families have been overcharged fees and even foreclosed upon despite protections granted to them by the Servicemembers Civil Relief Act. So, quite frankly, I am fed up. It seems to me that the problems have been clearly identified, and yet my constituents continue to face the same challenges. This needs to change. I want to talk with you about what steps can be taken to ensure that families going through this process are treated fairly by servicers.

And as we work to solve these problems for our families, we also need to think about the future of the housing finance system and make sure we avoid another situation that would require taxpayer dollars to cover private-sector losses as has been the case with Fannie Mae and Freddie Mac. The Dodd-Frank Wall Street Reform and Consumer Protection Act addressed many of the failures of our system and the regulatory structure, but that was just the beginning.

We must address Fannie Mae and Freddie Mac so we no longer promote a system of private profits and public loss. But we must approach this reform carefully so that we don't undermine the fragile housing recovery, or make home ownership unaffordable to most Americans.

The administration recently released its report to the Congress on options for reforming the Nation's housing finance structure. Each of these options offers tradeoffs that we must consider—tradeoffs between the level of appropriate risk for the taxpayer and the Government's presence in the marketplace and the ability of Americans to obtain a mortgage. I expect that today you can discuss these tradeoffs so that we all approach this reform with our eyes wide open.

BUDGET REQUEST FOR HUD'S CORE PROGRAMS AND PROMISING INITIATIVES

While we continue to address the Nation's housing market, we must also remain focused on HUD's core programs.

The President's budget for fiscal year 2012 includes program funding of $47.8 billion. This level of funding is offset by the Federal Housing Administration and

Ginnie Mae receipts, for a total request for new funding of $41.7 billion—2.8 percent less than the fiscal year 2010 levels.

The President's budget continues to prioritize maintaining housing for our Nation's most vulnerable with his requests for the Section 8 voucher program, project-based Section 8, public housing, and the renewal of homeless projects, a goal I think most of us share. Yet this funding represents nearly 75 percent of HUD's total budget, which is why dramatic cuts to HUD's total budget could devastate other programs that also provide critical services to vulnerable Americans, or result in the loss of public housing units that can't be maintained.

Preserving core housing assistance programs may also reduce our ability to invest in initiatives that can improve outcomes for communities, strengthen our economy, or save money over the long-term—investments in programs such as:

—CDBG, which can help attract new businesses to communities, improve access to critical services and create jobs; or

—The new homelessness prevention and rapid re-housing programs, which produce better outcomes for homeless families and are more cost-effective than shelter stays; or

—The Sustainable Communities Initiative, which can help communities make smarter decisions about how and where to build housing and transportation and better use HUD funding in the future.

OVERSIGHT OF HUD PROGRAMS

Whether these programs are new or have been around for decades, we must demand that they achieve results and provide a return on our investments. That is why oversight is such a critical part of this subcommittee's work. So, today, I will have questions about the Department's management of its Section 8 and public housing programs. I am concerned about recent reports of troubled housing authorities.

While these public housing authorities (PHAs) represent only a small portion of all PHAs, the issues surrounding them cannot be ignored.

HUD must demand accountability from all of its grantees. And it is incumbent upon them to monitor the use of program resources, identify problems, and implement solutions before the problems become too large.

I will also have questions about the budget request for technology investments. Improving HUD data is critical to effective oversight. This year's budget request proposes changes to the funding structure for IT investments and requests no new funding for the development of new systems.

I want to ensure that the administration's request will not compromise HUD's ability to develop these critical new systems and deliver important results on-time and on-budget.

CLOSING

This subcommittee's work this year will be challenging. We must consider how to fund the many transportation and housing needs of our Nation, which are critical to improving our communities and strengthening our economy. And the decisions about what investments we can make will be made in an increasingly constrained budget environment. I look forward to hearing from the Secretary today, and to working with my subcommittee colleagues to best address the Nation's housing and transportation needs.

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

PREPARED STATEMENT OF SENATOR MARK KIRK

Thank you Chairwoman Murray and Ranking Member Collins. It is a pleasure to join you on the subcommittee after previously serving on the House Appropriations Committee for several years.

I also would like to welcome Secretary Donovan, and thank him and his staff for coming before the subcommittee to talk about the Department of Housing and Urban Development's (HUD) fiscal year 2012 budget request.

Illinois is one of the most geographically diverse States in the Nation. We have a heavily urbanized region in the Chicago area, growing suburban and ex-urban population centers outside of the city, smaller but significant population centers in every part of the State and large amounts of rural area. Each of these regions has very different needs, but all have low-income populations that utilize HUD-backed programs. According to Housing Action Illinois, nearly 400,000 individuals in Illinois live in HUD-assisted units. But we live in an extremely challenging fiscal environment.

I applaud the Secretary for making some tough decisions in the fiscal year 2012 budget request such as eliminating the $18 million Brownfields Economic Development Initiative and the $27 million Self-Help Homeowner Opportunity Program. Cuts also were made to HOME Investment Partnerships and construction components.

Every week, numerous housing and community advocates come to my office to discuss the future of HUD funding. HUD programs are targeted toward our neediest Americans, and every cut hurts. But if we only targeted unpopular programs for spending reductions, we would do little to fight our out-of-control spending.

During first 9 weeks of 2011, Federal debt increased at an average of $35.6 billion per week. At the end of 2010, total public debt outstanding stood at $13.9 trillion; and the end of February, it had increased to $14.2 trillion—a $300 billion increase. The Department of the Treasury has auctioned nearly $1.1 trillion since the beginning of the year. That is an average of $121.5 billion per week.

We have passed a 2-week funding stopgap measure filled with relatively uncontroversial cuts and program terminations. But soon we will need to make even tougher decisions about how to get our fiscal house in order. The House-passed long-term continuing resolution made many in the housing assistance system very nervous.

As a matter of principle, I am opposed to zeroing-out effective programs. Rather, a policy of shared sacrifice will help us right our economic ship of state. But we have to start a dialogue about what we as a Nation can afford, and I do not believe we can afford our current spending habits. I look forward to working with the chair and the ranking member to support efforts that will make our country stronger in the long term on the premise that we should spend within our means.

STATEMENT OF SENATOR SUSAN COLLINS

Senator COLLINS. Thank you, Madam Chairman Murray. I very much appreciate the confidence that you have expressed. You have been a strong and dedicated leader of this important subcommittee. I am just delighted to be your new ranking member. I expressed to you earlier in the year the hope that I would get this position because I have so enjoyed our previous work together, and I look forward to accomplishing great things and to working with all of our subcommittee members.

I look forward to partnering with you in advancing investments in transportation infrastructure, as well as working to meet the housing and economic development needs of our families and communities.

I am particularly pleased that we share a commitment to combating homelessness, particularly among our veterans. The State of Maine has been a leader in new approaches to helping those who are homeless, and last year we opened a facility in Saco, Maine to accommodate veterans who find themselves in need of a home.

When the men and women of our armed forces return home, we have an obligation to welcome them all the way home. On any given night, nearly 76,000 veterans find themselves homeless and more than 136,000 experience homelessness at some point during the year.

Today, the number of homeless Vietnam veterans is greater than the number of Americans who died in that war. And veterans who served in Iraq and Afghanistan already are appearing in the homeless population. As a Nation, we must ensure that in the land of the free there is always a home for the brave. And that is why I strongly support Senator Murray's efforts to reinvigorate the HUD–VASH program.

Maine has also been evaluating the Housing First model for aiding those who are homeless. Just this past summer, Secretary Donovan joined us as we celebrated the opening of Florence House, a comprehensive center for homeless women in Portland, Maine. I worked to secure $343,000 in Federal funds to help with the planning and the development of Florence House, which offers a safe environment for homeless women who otherwise would be spending their nights in shelters or, worse yet, on the streets.

The Housing First model is proving its effectiveness. According to Preble Street, an organization in Maine that advocates for the homeless and disadvantaged, of the 25 women who have moved into the apartments at Florence House when it first opened, not a single one has returned to the streets or to shelters.

A study of another complex in Maine further illustrates that Housing First models make economic sense, as the chairwoman points out. And I want to share with my colleagues this study from Maine. Healthcare costs plummeted by 70 percent, the cost of the ambulance use declined by 71 percent, and emergency room visits decreased by 74 percent. Furthermore, jail time decreased by 88 percent and police contacts decreased by 81 percent. So this model appears to deliver astonishing results.

Another important issue that I want to explore is the future of the FHA and its role in the mortgage crisis that contributed to this recession. I am interested in understanding how HUD plans to reinvigorate the private market and what protections HUD is implementing to protect taxpayers against the risk of loss from mortgage defaults. We need to better sort out the role of FHA versus Ginnie Mae, Freddie Mac, and Fannie Mae, and I realize the roles are different.

At a time when the budget is under much stress due to an unsustainable national debt, it is simply unacceptable that fraud and corruption continue to plague far too many PHAs. Alarming reports raise serious concerns about the lack of effective oversight by HUD of PHAs. HUD has an obligation to ensure that taxpayer dollars are not lost to fraud and corruption and that families live in decent, safe, and sanitary housing. I am appalled to learn of numerous investigations uncovering outright embezzlement by senior management of PHAs and cases of negligent oversight, including a young child suffering a near-fatal asthma attack due to dangerous levels of mold in an apartment in one of these PHAs.

Madam Chairman Murray, these are just some of the issues that I am particularly interested in and that confront our subcommittee. It is an honor to serve with you and I look forward to working with you as we consider HUD's fiscal year 2012 budget request.

PREPARED STATEMENT

And finally, Secretary Donovan, welcome. I look forward to working with you and learning more about your budget request. Thank you very much.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN COLLINS

Thank you, Chairman Murray. You have been a strong and dedicated leader of this subcommittee. I am delighted to be your new ranking member and have enjoyed our previous work together.

I look forward to partnering with you in advancing investments in transportation infrastructure as well as working to meet the housing and economic development needs of our families and communities. I am particularly pleased that we share a commitment to combating homelessness, particularly for veterans. Maine has been a leader in new approaches to helping those who are homeless and last year opened a facility in Saco to accommodate veterans who find themselves in need of a home.

When the men and women of our armed forces return home, we have an obligation to welcome them all the way home. On any given night, nearly 154,000 veterans find themselves homeless, and twice as many experience homelessness at some point during the year.

Today, the number of homeless Vietnam veterans is greater than the number of Americans who died in that war. And veterans who served in Iraq and Afghanistan already are appearing in the homeless population. As a nation, we must ensure that in the land of the free, there is always a home for the brave. I support Senator Murray's efforts to invigorate the Department of Housing and Urban Development–Veterans Affairs Supportive Housing program.

Maine has also been evaluating the Housing First model for aiding those who are homeless. This past summer, Secretary Donovan joined us as we celebrated the opening of Florence House, a comprehensive center for homeless women in Portland, Maine. I worked to secure $343,000 to help with the planning and development of Florence House, which offers a safe environment for homeless women and helps eliminate the need for women to spend nights in the shelter or on the streets.

The Housing First model is proving its effectiveness. According to Preble Street, an organization in Maine that advocates for the homeless and disadvantaged, of the 25 women who moved into the apartments at Florence House when it opened, none have returned to shelters. A study of another complex in Maine further illustrates that Housing First models make economic sense. According to this study, healthcare costs plummeted by 70 percent. The cost of ambulance use declined by 71 percent and emergency room visits decreased 74 percent. Furthermore, jail time decreased by 88 percent and police contacts decreased by 81 percent.

Another important issue is the future of the Federal Housing Administration and its role in the mortgage crisis that contributed to this recession. I am interested in understanding how HUD plans to reinvigorate the private market and what protections HUD is implementing to protect taxpayers against the risk of loss from mortgage defaults.

At a time when the budget is under much stress due to an unsustainable national debt, it is simply unacceptable that fraud and corruption continue to plague far too many public housing authorities (PHAs). Alarming reports raise serious concerns about the lack of HUD's oversight of PHAs. HUD has an obligation to ensure that taxpayers dollars are not lost to fraud and that families live in decent, safe, and sanitary housing. I am appalled to learn of numerous investigations uncovering embezzlement by senior management of PHAs and cases of negligent oversight, including a young child suffering a near fatal asthma attack due to dangerous levels of mold.

Chairman Murray, these are just some of the issues that confront our subcommittee. It is an honor to serve with you, and I look forward to working with you as we consider HUD's fiscal year 2012 budget request.

Secretary Donovan, welcome. I look forward to working with you and am interested to hear more about HUD's fiscal year 2012 budget request.

Senator MURRAY. Thank you very much, Senator Collins.

Senator Pryor.

PREPARED STATEMENT

Senator PRYOR. Thank you, Madam Chair. I will just submit mine for the record. Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR MARK PRYOR

First, I want to thank the Chair, Senator Murray, and Ranking Member Collins for their leadership and for conducting this important hearing to examine the President's fiscal year 2012 budget request for the Department of Housing and Urban Development (HUD).

I think that it is important that we work together with HUD to provide the necessary tools and funding mechanisms to support HUD's mission to bolster the economy through a stronger housing market. It is also critical that we work with HUD to ensure adequate consumer protection. With that said, we all know that many tough decisions lie ahead as we strive to put our Nation's fiscal house in order, and I believe that no stone can remain unturned as we seek to do so. Effective oversight will be crucial in preventing and detecting cases of waste and abuse, and I am hopeful that the Secretary will join us in seeking to increase efficiency within HUD.

As this subcommittee reviews the fiscal year 2012 budget request for HUD, I look forward to working with the chair and ranking member to ensure that tax payer dollars are spent responsibly.

Again, I thank Senators Murray and Collins for conducting this hearing. I look forward to Secretary Donovan's testimony and look forward to discussing the fiscal year 2012 budget request.

Senator MURRAY. Thank you very much.
Senator Blunt.

STATEMENT OF SENATOR ROY BLUNT

Senator BLUNT. Thank you, Madam Chairman Murray and Ranking Member Collins. I am glad you are holding this hearing today. I am pleased to join the subcommittee. My previous efforts with housing have been several years as the vice chairman and then the chairman of the Missouri Housing Development Commission, and I look forward to reengaging in this area.

I also want to welcome Secretary Donovan, and thank you for appearing before the subcommittee.

Just yesterday, as you know, the Senate passed a 2-week temporary continuing resolution (CR) to fund the operations of Government through the next 2 weeks. We are then going to have to deal with that, apparently, 2 weeks from now.

But talking to you now about the fiscal year 2012 funding bill is an important time. Taxpayers deserve a leaner, more efficient Government. Duplicative programs and costly programs are going to have to be carefully evaluated to see how we can end any duplication without failing to serve the specific areas that that duplication was put in place to ensure got served.

The administration continues to recommend funding for a cross-agency initiative called Sustainable Communities. I look forward to talking about that and approach that with my belief that, really, the local community is going to make the best decisions about how to spend the money we spend.

In addition to that, the rest of America, for two decades, has had to focus on how do you produce better results and spend less money, and everybody that has been competitive in the international environment they work in has had to think about that all the time. We have to think about that as well. I look forward to, Mr. Secretary, to your thought process as we try to figure out how we spend less and have better results and frankly produce more. Everybody else in America does that. I believe we can do that too.

Some of what we are going to have to do is decide where we are spending money that we have to stop spending money, but some of it is just a renewed focus on how do we take all the tools available to us and produce a better result than we were when we were only measuring how much we cared by how much we spent. It is time we measured how much we cared by the results we got, and

I am confident you believe that as well and look forward to your testimony today and working with you.

PREPARED STATEMENT

And, Madam Chairman, working with you and Senator Collins is something I look forward to. So thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR ROY BLUNT

Thank you Madam Chairman Murray and Ranking Member Collins for holding today's hearing. Also, welcome Secretary Donovan and thank you for appearing before our subcommittee. As a new member of this subcommittee, I look forward to working with your agency to build a stronger, more effective housing plan in our country.

Just yesterday the Senate passed a 2-week, temporary continuing resolution to fund the operations of Government through the remainder of fiscal year 2011. With the short-term budget still in flux, it is essential that our fiscal year 2012 funding bill be discussed and debated as soon as possible so that States, localities, and community organizations can plan for the future. Taxpayers want and deserve leaner, more efficient government. Duplicative programs and costly bureaucracy can no longer be the status quo.

The administration continues to recommend funding for the cross agency initiative known as Sustainable Communities. At a time when we need to get serious about our bloated spending, I have serious concerns with siloing much needed dollars into a newly created initiative with goals set by Washington. I know that the city of St. Louis for instance, can leverage dollars for sustainability in a much better way than the Federal Government can. We need to target funds at the State and local level that will build on the community development and housing assistance that has already begun and spend the money we are spending with a new focus on results. Better results for less costs has been a daily experience in America's private sector for two decades. I look forward to your efforts for better results at less cost.

Senator MURRAY. All right. Thank you very much.

Mr. Secretary, we are delighted to welcome you to this subcommittee again and welcome you to give your opening remarks.

SUMMARY STATEMENT OF HON. SHAUN DONOVAN

Secretary DONOVAN. Thank you, Chairwoman Murray. It is great to be back. And Ranking Member Collins, welcome. I very much look forward to working with you as well. To all the members of the subcommittee, thank you for the opportunity to testify today about HUD's fiscal year 2012 budget proposal.

This afternoon I would like to discuss the investments it calls for to help America win the future by out-educating, out-innovating, and out-building our competitors. I will also highlight the steps our proposal takes to improve how we operate HUD's programs and the tough choices it makes to ensure we take responsibility for our deficits.

Madam Chairwoman, in developing this proposal, we followed three principles.

The first is to continue our support for the housing market while bringing private capital back. Two years ago, with the housing market collapsing and private capital in retreat, the administration had no choice but to take action. The critical support FHA provided has helped more than 2 million families buy a home since that time and nearly 1.5 million homeowners refinance into stable, affordable products with monthly savings exceeding $100.

And while FHA and Ginnie Mae will continue supporting the housing recovery in the year ahead, we also must help private capital return to the market. This is a process that HUD began many months ago, and I want to thank the Congress for passing legislation in the last session to reform FHA's mortgage insurance premium. With this authority, FHA announced a premium increase of 25 basis points last month. Because of these reforms and others, FHA is projected to generate approximately $9.8 billion in receipts for the taxpayer in fiscal year 2011. Indeed, the reforms that are generating these receipts today have set the stage for more private capital to return in the years to come, while ensuring that FHA continues to play an important role in helping the housing market recover, and remains a vital source for financing for underserved borrowers and communities.

Just as important, while HUD's fiscal year 2012 request is $47.8 billion in gross budget authority, because of FHA and Ginnie Mae receipts, the cost to the taxpayer for this budget is only $41.7 billion, fully 2.8 percent less than our fiscal year 2010 budget and more than meeting the President's commitment to a 5-year domestic discretionary spending freeze.

The second principle we used to develop our budget was to protect current residents and improve the programs that serve them. While the median income of American families today is more than $60,000, for families who live in HUD-assisted housing, it is $10,200 per year, and more than one-half are elderly or disabled.

At the same time, having seen from 2007 to 2009 the largest increase in the history of HUD's worst case housing needs survey, it is clear that the recession hit these families hard. That is why 80 percent of our proposed budget keeps these residents in their homes and provides basic upkeep to public housing while also continuing to serve our most vulnerable populations through our homeless programs.

Because the cost of serving the same families grows each year, protecting existing families in our programs required us to make tough choices with the remaining 20 percent of the budget, including the decision to reduce funding for the CDBG, HOME Investment Partnerships, and new construction for HUD-supported housing programs for the elderly and the disabled, all between 5 and 10 percent. These are difficult cuts. I saw for myself, as a local housing official, the difference these funds can make, supporting senior housing, boys and girls clubs, YMCAs, and other providers of critical community services. But American families are tightening their belts, and we need to do the same.

At the same time, this budget makes a strong commitment to doing more of what works and to stop doing what does not. By including the Section 8 Voucher Reform Act in the budget, we will simplify and streamline the voucher program and save $1 billion for the taxpayer over the next 5 years while supporting the ability of PHAs in small towns and rural areas to better serve the working poor. Indeed, thanks to the Congress' work on the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, the budget funds a new rural housing stability program that reflects the unique and growing needs in those communities.

PUBLIC HOUSING AUTHORITIES

This budget also holds our partners accountable for the funding they have received from HUD. To fully fund the Public Housing Operating Fund, we require PHAs with excess reserves to contribute $1 billion. These resources were set aside so that our PHAs could continue operating during a rainy day, and I think we would all agree that that rainy day is here.

TRANSFORMATION INITIATIVE

These efforts point to a broader commitment expressed through our Transformation Initiative (TI) to improve HUD's programs. TI funds are replacing data systems in our largest program—Housing Choice Vouchers—that date from the early 1990s so we can hold PHAs accountable for managing their budgets, just like families and businesses are doing across the country. The flexibility you provided with TI allows us, for the first time, to offer technical assistance across all of our community planning and development programs and to launch a new initiative to improve the financial management and accountability of troubled housing authorities. And by supporting research, evaluation, and program demonstrations, TI improves HUD's own accountability by identifying what we do well and what we need to do better.

HUD–VASH

These needed reforms allow us to propose increased investments in programs we know work, like the HUD–VASH program for homeless veterans. This effort is built on a solid body of evidence that permanent supportive housing both ends homelessness and saves money for the taxpayer by putting an end to the revolving door of emergency rooms, shelters, and jails. I could not put it more eloquently than the two of you did at the opening of this hearing.

HOMELESSNESS

As such, this budget would increase funding for homeless programs by more than 29 percent over 2010 to keep the President's commitment to Opening Doors, the first Federal strategic plan to end homelessness, which the administration unveiled last June to end chronic veterans homelessness by 2015 and homelessness among families and children by 2020. All told, this combination of tough choices and needed reforms allows us to serve more than 4.5 million families in our core rental assistance programs, 86,000 more than in 2010.

RURAL HOUSING STABILITY PROGRAM

Our third and final principle for developing this budget is to continue critical initiatives that have been part of our budget over the last 2 years but, in this fiscal climate, to propose no new initiatives. The President has made clear that winning the future depends on America winning the race to educate our children, but that is not possible if we are leaving a whole generation of children behind in our poorest neighborhoods. That is why I would like to thank this subcommittee for working with us last year to fund the Choice Neighborhoods Initiative, and it is why we have again proposed $250 million for 2012. This funding will allow communities to use the mixed use and mixed finance tools pioneered by former HUD Secretaries Jack Kemp and Henry Cisneros with the HOPE VI program to transform all federally assisted housing in a neighborhood.

PUBLIC HOUSING PRESERVATION PROGRAM

Similarly, ensuring that America out-builds our competitors requires us to protect and preserve public housing for the future. Right now we are losing 10,000 units from our public housing stock every year. At the same time, there are billions of dollars of private capital sitting on the sidelines that could put tens of thousands of construction workers to work rebuilding this housing. That is why we have proposed a $200 million demonstration in our budget to preserve up to 255,000 public housing units using long-term project-based rental assistance contracts. As we have seen in the Section 8 program and the low-income housing tax credit, opening up these properties to private capital not only brings new funding to affordable housing, but also a new sense of discipline that extends from the way these properties are financed to the way they are managed.

SUSTAINABLE COMMUNITIES INITIATIVE

Last, Madam Chairwoman, American businesses, large and small, cannot out-innovate their competitors when their workers spend 52 cents of every $1 they earn on housing and transportation combined, and moving products on our roads costs five times as much wasted fuel and time as it did 25 years ago. That is why we request another $150 million for our Sustainable Communities Initiative, which implemented as part of our 2010 budget, helps regions and communities develop comprehensive housing and transportation plans that create jobs and economic growth. In a community like Austin, Texas, which is linking its long-term regional transportation plan to 37 mixed-income communities near transit and job centers, you can see how the grants it provides are not about one-size-fits-all rules that tell communities what to do, but saving the taxpayer money by coordinating investments more effectively and efficiently.

The demand for these kinds of innovations explains the extraordinary demand for our grant program, and it was not just coming from our largest metro areas. Indeed, one-half of our regional grants were awarded to rural regions and small towns.

And so, Madam Chairwoman, HUD's fiscal year 2012 budget proposal is not just about spending less, it is also about investing smarter and more effectively. It is about out-educating, out-building, and out-innovating our competitors. It is about making hard choices to reduce the deficit, and putting in place much needed reforms to hold ourselves to a high standard of performance. But most of all, it is about the results that we deliver for the people and places who depend on us most.

PREPARED STATEMENT

For HUD, winning the future starts at home, and with this budget of targeted investments and tough choices that I respectfully submit, we aim to prove it.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

Chairwoman Murray, Ranking Member Collins and members of the subcommittee, thank you for the opportunity to testify today regarding the fiscal year 2012 budget for the Department of Housing and Urban Development (HUD), Creating Strong, Sustainable, Inclusive Communities and Quality Affordable Homes.

I appear before you to discuss this budget in an economic environment that is significantly improved from when the President took office. An economy that was shrinking is growing again—and instead of rapid job loss, more than 1 million private-sector jobs were created in the last year. But we know there's still more work to be done to ensure that America and its workers can compete and win in the 21st century. And we have to take responsibility for our deficit, by investing in what makes America stronger and cutting what doesn't, and in some cases making reductions in programs that have been successful.

HUD's fiscal year 2012 budget tackles these challenges head on: by helping responsible families at risk of losing their homes and by providing quality affordable rental housing; by transforming neighborhoods of poverty to ensure we are not leaving a whole generation of our children behind in our poorest communities; by rebuilding the national resource that is our federally assisted public housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires, and by leveraging private-sector investments in communities to create jobs and generate the economic growth we need to out-innovate, out-educate, and out-build the rest of the world.

This budget also reflects the need to ensure that we are taking responsibility for our country's deficits. As a down payment toward reducing the deficit, the President has proposed a freeze on nonsecurity discretionary spending for the next 5 years, cutting the deficit by $400 billion over 10 years and bringing this spending to the lowest share of the economy since President Eisenhower. Every Department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. HUD's fiscal year 2012 budget more than meets the President's goal—the Department's $47.8 billion in gross budget authority is offset by $6 billion in projected Federal Housing Administration (FHA) and Ginnie Mae receipts credited to HUD's appropriations accounts, leaving net budget authority of $41.7 billion, or 2.8 percent less than the fiscal year 2010 actual level of $42.9 billion. To maintain this commitment to fiscal discipline, we have protected existing residents and made the difficult choice to reduce funding for new units and projects, including cuts to the Community Development Block Grant (CDBG), HOME Investment Partnerships (HOME), and new construction components of the Section 202 Supportive Housing Programs for the Elderly (Section 202) and Section 811 Supportive Housing Program for Persons with Disabilities (Section 811).

And because winning the future also means reforming Government so it's leaner, more transparent, and ready for the 21st century, we are also reforming the administrative infrastructure that oversees those programs. The budget includes key provisions from the Section 8 Voucher Reform Act (SEVRA) legislative proposal that will simplify and rationalize the rent setting provisions of our three largest rental assistance program. The budget requests for Housing Choice Vouchers (HCVs), project-based rental assistance, and public housing reflects a savings of about $150 million in the first full year and would yield more than $1 billion in savings over the next half decade. Additionally, the Transformation Initiative (TI)—important funding and programmatic flexibility the Congress provided in 2010—will enable the Department to offer cutting-edge technical assistance that improves the management and accountability of local partners, and conduct the kinds of research and demonstrations that ensure that we are funding what works and identifying what doesn't and what we need to do better.

RESPONDING TO THE CRISIS

Much has happened in the 2 years since HUD submitted its fiscal year 2010 budget. Only weeks before, the Bush administration and the Congress had taken dramatic steps to prevent the financial meltdown, the Nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months and house prices had declined for 30 straight months.

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

The results of these extraordinary but necessary actions are clear. More than 4.1 million borrowers have received restructured mortgages since April 2009, including more than 1.4 million Home Affordable Modification Program trial modification starts, more than 650,000 FHA loss mitigation and early delinquency interventions, and nearly 2 million proprietary modifications under HOPE Now—more than twice the number of foreclosures completed in that time. The private sector has now created jobs for 13 straight months.

HUD's careful and effective stewardship of $13.61 billion in American Recovery and Reinvestment Act (ARRA) funding has been essential to economic recovery. To date, HUD has obligated 99.6 percent of its ARRA grant and loan funds and expended more than 63.5 percent of this funding—more than 5 months ahead of the aggressive timelines the administration set down and to which the Vice President has held every Department accountable. These funds have led to the development and renovation of more than 400,000 homes (Public Housing Capital Fund, Native American Housing Block Grant, Tax Credit Assistance Program, CDBG, Lead Hazard Reduction and Healthy Homes grants). Through homelessness prevention assistance (Homelessness Prevention and Rapid Re-Housing Program (HPRP)), local partners have prevented or ended homelessness for more than 850,000 people. Last, through the Lead Hazard Reduction and the Healthy Homes programs, more than 3,800 children have been protected from lead paint-based hazards and other home health and safety risks. As a result of these activities, in the third quarter of calendar year 2010 alone, HUD ARRA recipients reported more than 31,000 jobs saved or created.

WINNING THE FUTURE

Now, having prevented our economy from falling into a second Great Depression, the administration is focused on ensuring that America wins the future that makes strategic investments in our communities but also takes responsibility for our deficit. For HUD, that meant using three core principles to develop our budget:

—Continuing to provide critical support for the housing market while bringing private capital back into the market;
—Protecting current residents—and improving the programs that serve them; and
—Proposing no new initiatives—while continuing to invest in initiatives that have been part of our budget the last 2 years and are critical to winning the future.

As such, the Department's budget for fiscal year 2012 follows the roadmap the President has laid out for keeping America at the forefront of the rapidly changing global economy. Specifically, this budget helps America:

Out-Educate

America cannot out-educate the rest of the world if a lack of quality, affordable housing prevents Americans from accessing good schools in safe neighborhoods, or if homelessness threatens the schooling of a young child. That is why the budget continues to support the Choice Neighborhoods Initiative (which links HUD's investments in housing to education funding provided through the Department of Education's Promise Neighborhoods Initiative), and proposes to target housing vouchers—coupled with educational and other supportive services—to homeless and at-risk families with school-age children.

Out-Innovate

A clean-energy economy is vital for America to compete in the new century. Through ARRA's dramatic investments to green America's housing stock, HUD will improve the efficiency of 245,000 HUD-assisted affordable homes, provide comprehensive energy retrofits that will reduce energy costs by as much as 40 percent in an additional 35,000 public-housing units, and complete green retrofits of 19,000 units of privately owned, federally assisted multifamily housing. The funding in this budget will continue to improve energy efficiency and save money for the taxpayer by allowing us to track and monitor energy use in our portfolio while we work more closely with the private sector to scale-up energy retrofits that pay for themselves through loan products like the FHA PowerSaver and expanded FHA risk-sharing. In addition, we will continue to partner with the Department of Energy to leverage weatherization assistance funds for many of these properties.

Out-Build

The President's focus on repairing our existing infrastructure and building new ways to move people, goods and information will not only put people to work now, but also spur investments that build a stronger economy. Building on the successful Partnership for Sustainable Communities with the Department of Transportation (DOT) and the Environmental Protection Agency (EPA), HUD's budget includes $150 million to create incentives for communities to develop comprehensive housing and transportation plans that aim to help regions and communities approach their infrastructure investments in a smarter and more strategic way and reduce the combined cost of housing and transportation for families. Just as we cannot compete in the new economy if we fail to rebuild our highways and transit systems, nor can we ignore the importance of affordable housing in communities. For this reason, the budget proposes a $200 million rental assistance demonstration to rehabilitate—cost-effectively—some of our most valuable affordable housing assets: America's federally subsidized affordable housing stock. We estimate that this proposal will leverage $7 billion in private debt and equity capital and, in the process, support significant job creation in communities across the country.

Reform Government So That It's Leaner, Smarter, More Transparent, and Ready for the 21st Century

President Obama said in his State of the Union Address that removing overlapping and contradictory rules and regulations is essential to generating economic growth. That's why we continue to make it our focus to improve and simplify the way HUD works with other agencies. The level of interagency cooperation with both our Federal and non-Federal partners is unprecedented—from the Sustainable Communities Partnership (discussed above) to initiatives targeting housing and services to the homeless (with the Department of Health and Human Services, and the Department of Education) to a multi-agency economic development initiative led by the Economic Development Administration in the Department of Commerce (DOC). This Department with support from HUD is committed to removing barriers to local innovation at the Federal level. Through our TI, HUD can continue to deliver the kind of cutting-edge technical assistance and research that our local stakeholders are seeking to innovate and grow their economies and is critical to improving the management and accountability of HUD's local partners. Indeed, this improved partnership with local stakeholders also means holding them accountable for their use of Federal resources. As noted, TI is already supporting research and demonstrations that will allow the Department to closely monitor local strategies for expending taxpayers' money. And through the newly instituted HUDStat internal reporting system (discussed further below), the Department is holding itself accountable for the funds it invests.

MEETING OUR RESPONSIBILITIES

The need for HUD's investments is clear. The devastating effect that the economic downturn has had on the housing circumstances of poor Americans was underscored in early February, when HUD released its Worst Case Housing Needs study results. HUD defines worst case needs as: renters with very low incomes who do not receive Government housing assistance and who either pay more than one-half their income for rent, live in severely inadequate conditions, or both. The report showed an increase of 20 percent in worst case needs renters between 2007 and 2009. This is the largest increase in worst case housing needs in the quarter-century history of the survey, and caps an increase of 42 percent since 2001. These numbers show the scale of the challenge inherited by the Obama administration, with a historic increase in need during the 2 years before we took office. Indeed, the critical housing assistance offered by HUD through ARRA is a key part of HUD's response to this challenge.

In short, this budget will achieve substantial results not only for vulnerable, low-income Americans but also for hard-hit local and State economies across the country. Its carefully targeted investments will enable HUD programs to:

—house almost 2.5 million families in public and assisted housing (more than 60 percent elderly and/or disabled);

—provide tenant-based vouchers to more than 2.2 million households (more than 45 percent elderly and/or disabled), an increase of more than 86,000 from 2010; and

—nearly double the annual rate at which HUD assistance creates new permanent supportive housing for the homeless

As in fiscal year 2011, HUD's fiscal year 2012 budget is structured around the five overarching goals the Department adopted in its Strategic Plan 2010–2015. These goals reflect the Department's—and my—commitment to "moving the needle" on some of the most fundamental challenges facing America as we try to win the future. Indeed, every month, I hold HUDStat meetings on one or more of these goals, to assess progress and troubleshoot problems in order to:

—ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other Federal agencies; and

—hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

Goal 1.—Strengthen the Nation's Housing Market To Bolster the Economy and Protect Consumers

We project that FHA will continue to support the housing market, insuring $218 billion in mortgage borrowing in 2012. These guarantees will support new home purchases and re-financed mortgages that significantly reduce borrower payments. Over the last 2 years, FHA has helped more than 2 million families buy a home—80 percent of whom were first-time buyers. FHA also has helped nearly 1.5 million existing homeowners refinance into stable, affordable products, with monthly savings exceeding $100 in most cases. FHA financing was used by 38 percent of all home buyers, insuring, along with the Department of Veterans Affairs (VA) and Federal farm programs, 81 percent of all loans to African Americans and 73 percent to Hispanics in 2009. But FHA is also a vital resource for homeowners facing foreclosure. FHA's loss mitigation program minimizes the risk that financially struggling borrowers go into foreclosure. Since the start of the mortgage crisis, it has helped more than 500,000 homeowners.

Paving the Way for Private Capital To Return

It is critical, however, that we pave the way toward a robust private mortgage market. This was a central goal of the administration's recently released report on Reforming America's Housing Finance Market, which proposed to wind down Fannie Mae and Freddie Mac, fix fundamental flaws in the mortgage markets, better target the Government's support for affordable housing, and provide choices for longer-term reforms.

Taking steps to bring private capital back is a process that HUD began many months ago—and I want to thank you for passing legislation in the last Congress to provide more flexibility to FHA's mortgage insurance premium structure. With this authority, FHA announced a premium increase of 25 basis points last month.

Indeed, FHA has already taken significant steps to facilitate the return of private capital, making the most sweeping combination of reforms to credit policy, risk management, lender enforcement, and consumer protection in FHA history. These reforms have strengthened its financial condition and minimized risk to taxpayers, while allowing FHA to continue fulfilling our mission of providing responsible access to home ownership for first-time home buyers and in underserved markets.

FHA implemented a two-step credit score policy for FHA purchase borrowers. Purchase borrowers with credit scores less than 580 are now required to contribute a minimum down payment of 10 percent. Only those with stronger credit scores are eligible for FHA-insured mortgages with the minimum 3.5-percent down payment.

The goal of these reforms is to balance the need to provide access to our mortgage markets with the need to protect taxpayers from financial risk. That's also why in October 2009, we hired the first chief risk officer in the organization's 75-year history—and last July, FHA received congressional approval to formally establish this position and create a permanent risk management office within FHA, for which the risk officer is now Deputy Assistant Secretary. With this new office and additional staffing, FHA is expanding its capacity to assess financial and operational risk, perform more sophisticated data analysis, and respond to market developments.

Further, FHA has strengthened credit and risk controls—toughening requirements on FHA's Streamlined Refinance program, making several improvements to the appraisal process and to condominium policies, and implementing the two-step credit score policy discussed above. We are very grateful for the support that the Congress has provided with our efforts to reduce fraud and risk. Through the $20 million Combating Mortgage Fraud funds that the Congress granted HUD in fiscal year 2010, we have already begun to implement several risk management and systems modernization reforms to incorporate modern risk and fraud tools and counterparty data consolidation.

Additionally, FHA introduced policy changes and improved lender oversight and enforcement to increase the quality of FHA-insured loans. In April 2010, we published a rule eliminating FHA approval for loan correspondents and increasing net worth requirements for lenders, thereby strengthening FHA's counterparty risk management capabilities.

As a result of these actions, FHA finds itself in a stronger position today. In particular:

—The quality of loans made in fiscal years 2009 and 2010—the years FHA has done the most significant volume—is much improved. Fiscal year 2010 is the highest-quality FHA book-of-business on record.

—Credit score distribution continues to be significantly improved. The average credit score on current insurance endorsements has risen to nearly 700. And for the second straight quarter, average credit scores are equal across refinance and purchase books of business.

—Loan performance, as measured by early period delinquency and seasonally adjusted serious delinquency rates, continues to show significant improvement.[1]

The Department is equally focused on assisting consumers throughout the home ownership process, from increasing their knowledge of the mortgage products they are considering to protecting them from fraud in any phase of that process. Accordingly, the budget also includes $168 million for housing and homeowner counseling through HUD and the Neighborhood Reinvestment Corporation (NeighborWorks). More than 4 million households have benefited from housing counseling since April 2009.

Goal 2.—Meet the Need for Quality, Affordable Rental Homes

With more than one-third of all American families renting their homes, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families.

Why HUD Investments Are Vital

While the median income of American families today is more than $60,000, families who live in HUD-assisted housing have a median income of $10,200 per year—and more than one-half are elderly or disabled. The extraordinary vulnerability of residents in HUD-assisted programs is why we have chosen to protect the funding that houses these families. Indeed, fully 80 percent of our proposed budget keeps current residents in their homes and provides basic upkeep to public housing while also continuing to serve our most vulnerable populations through our homeless programs.

HUD's fiscal year 2012 budget requests $19.2 billion for the HCV program to help more than 2 million extremely low- to low-income families with rental assistance live in decent, safe housing in neighborhoods of their choice. The budget funds all existing mainstream vouchers and provides new vouchers targeted to homeless veterans, families, and the chronically homeless. The administration remains committed to working with the Congress to improve the management and budgeting for the HCV program, including reducing inefficiencies, and re-allocating Public Housing Authority voucher reserves based on need and performance.

[1] HUD's Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund fiscal year 2010 can be found at http://www.hud.gov/offices/hsg/rmra/oe/rpts/actr/2010actr__subltr.pdf.

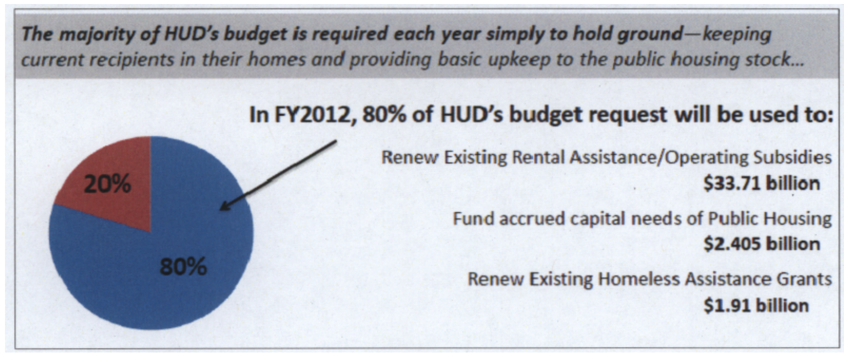

FIGURE 1

The budget also provides $9.4 billion for Project-Based Rental Assistance to preserve approximately 1.3 million affordable units through increased funding for contracts with private owners of multifamily properties. This critical investment will help extremely low- to low-income households to obtain or retain decent, safe and sanitary housing. Similarly, in combination with full funding of the Public Housing Operating Fund,[2] the $2.4 billion requested for the Capital Fund will help to preserve the more than 1 million units within that program's portfolio.

TOUGH CHOICES—PUTTING EXCESS PUBLIC HOUSING OPERATING FUND RESERVES TO WORK

This budget also holds our partners accountable for the funding they have received from HUD. Indeed, while the growing need demonstrated by the Worst Case Housing Needs survey clearly justifies fully funding the Public Housing Operating Fund at $4.96 billion, we are requiring that PHAs contribute $1 billion from their excess reserves. Many PHAs have set aside these reserves so that our PHAs could continue to effectively manage and operate public housing properties during a rainy day—and it is clear that rainy day is here.

Out-Building Our Competitors—Rebuilding Our Nation's Affordable Housing Stock

The preservation of critically needed hard units of rental housing in this country is among our top priorities, particularly as the number of renter households with severe affordability issues has increased significantly in recent years. Our preservation agenda includes regulatory and administrative changes to make it easier for owners to preserve HUD-assisted housing as well as creating tools that will put the Department's stock of affordable housing on sound financial and regulatory footing for the long-term. To this end, the budget includes $200 million for a demonstration and rigorous evaluation of the conversion of up to 255,000 public housing units to some form of long-term project-based rental assistance contracts that will enable PHAs to leverage private debt and equity capital to make repairs. Through similar conversions, the demonstration will preserve 7,600 privately owned, HUD-assisted units in so-called "orphan" programs at risk of leaving the affordable housing stock. This funding request will allow us, working with key stakeholders, to develop new preservation tools to help ensure that we protect our affordable rental housing stock.

The President's budget also includes two revenue proposals to reform the Low Income Housing Tax Credit (LIHTC) that will complement the Department's overall preservation agenda:

[2] One billion dollars of the amount needed to fully fund the Operating Fund at $4.962 billion represents excess reserves held by PHAs, which have grown substantially over the past several years. The Department will ensure that PHAs have sufficient remaining reserves to stay on sound financial footing.

—Replace the current cap on household income at 60 percent of area median income (AMI) with the option that properties serve households whose average income is no greater than 60 percent of AMI and with no individual household more than 80 percent of AMI. These changes to the low-income occupancy threshold requirements will accomplish three things:
  —allow greater income-mixing at the project level, creating opportunities for workforce housing;
  —help align LIHTC with HUD's and the U.S. Department of Agriculture's (USDA) affordable housing programs (which define low-income at 80 percent of AMI); and
  —lead to the creation of more units targeted to the lowest income households.[3]

—Make the 4-percent credit a more viable source of funding for the preservation of the Federal affordable housing stock by allowing allocating agencies to give a limited number of qualifying properties a 30-percent-basis boost in the context of preserving, recapitalizing, and rehabilitating existing affordable housing, including housing targeted by our rental assistance demonstration as well as other programs. This means that a greater amount of equity could be raised per credit even at the higher yields required by investors for 4-percent investments, which in turn will generate more interest in LIHTC preservation deals within the investor and developer community.

Finally, the budget once again calls for funding of the National Housing Trust Fund (NHTF) at $1 billion. The recent Worst Case Housing Needs report underscores the reality that, since well before the recent recession, extremely low-income renters (those whose household incomes are less than 30 percent of median) face the most severe housing shortage and cost burden of any Americans. In addition, the report shows that for renters less than 30 percent of AMI, the shortage of affordable and available units increased from 5.2 million to 6.4 million from 2007 to 2009, with just 36 affordable and available units per 100 extremely low-income renters in 2009, down from 44 units just 2 years prior. Enacted in 2008, the NHTF was designed to provide capital resources to build and rehabilitate housing to fill this precise—and growing—gap in the Nation's rental housing market. The administration wants to work with the Congress to provide this crucial funding.

Goal 3.—Utilize Housing as a Platform for Improving Quality of Life

HUD, as well as State and local policymakers and our private-sector partners recognize that stable, affordable housing provides an ideal, cost-effective place to deliver healthcare and other social services focused on improving life outcomes for individuals and families.

Out-Innovating—Solving Homelessness, Saving the Taxpayer Money

Nowhere is this clearer than in the successful efforts in communities around the country to address homelessness. These efforts have yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost saving in public health, criminal justice, and other systems.

This year, we have made a specific effort to target homeless veterans. As our young men and women return from Afghanistan and Iraq, they deserve to be treated with dignity and honor. Yet our Nation's veterans are 50 percent more likely than the average American to become homeless. More than 11,000 servicemembers returning from those wars have already been forced to live on the streets or in homeless shelters. And more Vietnam-era veterans remain homeless today than troops who died during the war itself. Nowhere is our obligation to our citizens, and to those who have defended our Nation, more important, more visible, or more urgently necessary than in our commitment to end homelessness.

[3] It is important to note that this income averaging proposal would increase our ability to preserve HUD-assisted properties. The 69,224 households living in public housing and 23,271 households in multifamily housing have incomes more than 60 percent of AMI. This proposal allows these units to be counted in basis, increasing the equity flowing to these projects for preservation.

IMPACT ANALYSIS—HOW HUD AND VA ARE PARTNERING TO END VETERANS HOMELESSNESS

The Homelessness Prevention and Rapid Re-housing Program, created by the Recovery Act, has helped local partners prevent or end homelessness for more than 850,000 people—including about 18,000 veterans. And its effects have had an equally innovative impact on how the Federal Government responds to homelessness—particularly veterans' homelessness.

HUD and VA are collaborating on HUD–VASH, which combines HUD's HCV rental assistance with VA's case management and clinical services. This partnership is critical to ending veterans' homelessness. When President Obama was sworn into office, the program helped less than 1,200 veterans lease properties. One of the reasons veterans couldn't use HUD–VASH vouchers was that they couldn't provide something as simple as a security deposit.

HPRP helped many veterans overcome these kinds of obstacles to find a home. By the end of 2010, HUD–VASH had accelerated its pace of housing veterans by nearly 20 times—helping more than 21,000 veterans.

As the outgoing Chair of the U.S. Interagency Council on Homelessness, I am pleased that this budget provides more than $2.5 billion to make progress toward the ambitious goals of Opening Doors: the Federal Strategic Plan To Prevent and End Homelessness, which was released by the administration in June 2010. Opening Doors establishes a 5-year timeline for ending chronic and veteran homelessness and commits to ending family and youth homelessness over a decade. This budget will enable our stakeholders to make substantial progress on these ambitious timelines. It includes:

—More than $2.3 billion for Homeless Assistance Grants to maintain existing units and expand prevention, rapid-re-housing, and permanent supportive housing;

—$145 million in new housing vouchers and related administrative fees for more than 19,000 homeless veterans and other homeless individuals and families who receive education, healthcare and other services through the Departments of Education, Health and Human Services, and Veterans Affairs.

—$50 million to test new incentives—including service coordinators and special payments—to encourage housing authorities and private landlords to serve more homeless persons.

These funding increases will enable HUD to assist approximately 78,000 additional homeless individuals and families.

The budget also provides a total of $953 million for the Section 202 and Section 811 programs. This not only preserves assistance in all existing units, but also includes $499 million for new construction to respond to the overwhelming demand among low-income elderly, including frail elderly, and disabled individuals for affordable housing that allows them to continue living independently in the community. The administration remains committed to further updating and reforming these crucial programs, building on a foundation that was provided by two bipartisan bills passed in the 111th Congress. Those bills offered key steps forward—for Section 811, authorizing HUD to provide operating-assistance-only funding through States which demonstrated an integrated healthcare and housing approach to serving disabled households and for Section 202, authorizing key preservation tools including new Section 8 contracts to maintain long-term affordability on aging properties. In 2012, the administration will have in place the framework to ensure that these programs better leverage other housing and healthcare resources, afford streamlined processing to improve timeframes, and are targeted to elderly and disabled individuals who can best benefit from affordable housing.

TOUGH CHOICES—REDUCED FUNDING FOR SECTION 202 AND SECTION 811 NEW CONSTRUCTION

While the budget provides nearly $500 million for new construction in the Section 202 and Section 811 programs, this does represent a 15-percent cut from HUD's fiscal year 2010 enacted. Given the progress of program reforms paired with the overwhelming need for affordable housing among these vulnerable populations, these are difficult cuts. But with the proposed reforms, HUD will seek ways to maximize use of new construction funds.

Goal 4.—Build Inclusive Sustainable Communities Free From Discrimination

Each year HUD dedicates approximately one-quarter of its funds to the capital costs of housing and economic development projects throughout the country, which become even more critical for communities hardest hit by our country's economic downturn. As with HUD's rental assistance programs, HUD's capital grants—including the Public Housing Capital Fund, HOPE VI capital grants, 202 capital advances, 811 capital advances, CDBG, HOME, Housing Opportunities for Persons With AIDS (HOPWA), and Emergency Solutions Grants—tend to assist areas of great need. For example, 61 percent of HUD capital dollars are invested in cities and counties with an unemployment rate greater than the national average. Indeed, the average HUD capital dollar is dedicated to a city or county with an unemployment rate of 10.5 percent, nearly 1 full percentage point more than the national unemployment rate.

Through these grants, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, and offer choices that help families live closer to jobs and schools. These priorities reflect a core belief: when you choose a home—you also choose transportation to work, schools for your children, and public safety. You choose a community—and the amenities available in that community. Programs such as CDBG, the Rural Innovation Fund, and Choice Neighborhoods are targeted to areas of need, to provide locally driven solutions to overarching economic development challenges.

Strategic Investments in America's Economic Future—the Community Development Block Grant

The budget proposes a 7.5-percent reduction in CDBG funding, relative to the fiscal year 2010 appropriated level for CDBG formula program. This reduction acknowledges two realities. The first is the need to take responsibility for our deficit, even if it means reducing support for important, effective programs such as CDBG. Second, it demonstrates the administration's continued commitment to assisting local governments and States in improving living conditions in low- and moderate-income neighborhoods across the country.

As the Federal Government's primary community development program, CDBG serves as the backbone of State and local community and economic development efforts. In fiscal year 2010, CDBG was estimated to reach more than 7,250 local governments through various components of the CDBG programs—the Entitlement Communities Program, the Urban County Program, the State Program, and the Insular Area Program. In fiscal year 2010, CDBG investments directly created 19,293 jobs, not including any indirect effect on additional jobs. More than 109,000 households received some form of housing rehabilitation assistance. More than 10 million people benefited from CDBG-funded public service activities and more than 4 million benefited from CDBG-financed public improvements.

State and local governments are facing unprecedented budget shortfalls and fiscal constraints. These constraints make CDBG funding more essential than ever for local communities; CDBG funding is increasingly one of the few resources available at the local level to support housing rehabilitation, public improvements, and economic development assistance—despite growing needs, local governments have often had no choice but to eliminate some of these activities from their own budgets.

TOUGH CHOICES—REDUCING FUNDING FOR CDBG, HOME, AND THE UNIVERSITY COMMUNITY PARTNERSHIP

This budget reduces funding for CDBG by 7.5 percent or $300 million, and HOME by 9.5 percent or $175 million, relative to current funding levels, while eliminating funding for the University Community Partnership. While the budget does provide $5.5 billion in CDBG and HOME funds-substantial, flexible resources that allow State and local grantees to improve infrastructure, build and rehab affordable housing, provide rental assistance, and create and retain jobs—these are difficult cuts, particularly given the financial challenges States and localities are facing. But American families are tightening their belts—and we need to do the same.

Out-Building the Rest of the World—Sustainable Communities

Attracting new businesses to our shores depends on urban, suburban, and rural areas that feature more housing and transportation choices, homes that are near jobs, transportation networks that move goods and people efficiently, all while lowering the cost and health burdens on families, businesses, and the taxpayer. Unfortunately, today, congestion on our roads is costing us five times as much wasted fuel and time as it did 25 years ago, and Americans spend 52 cents of every $1 they earn on housing and transportation combined.

Communities from Dallas to Salt Lake City have demonstrated that by better linking housing, transportation and economic development, parents can spend less time driving and more time with their children; more families can live in safe, stable communities near good schools and jobs; more kids can be healthy and fit; and more businesses have access to the capital and talent they need to grow and prosper. Indeed, communities that have planned for growth by linking these together have a built-in competitive edge when it comes to attracting the jobs and private investment they need to win the future.

Regions across the country understand this, which is why this budget continues one of the most groundbreaking cross-agency collaborations in recent history: the Partnership for Sustainable Communities, which includes HUD, DOT, and EPA.

When the Obama administration announced the availability of regional and local planning grants for sustainable communities, demand was extremely high, as we received applications from all 50 States and two territories—from central cities to rural areas, small towns, and tribal governments. Over one-half of HUD's Sustainable Communities Regional Planning Grants were awarded to regions with populations less than 500,000 and rural places with fewer than 200,000 people. And of the 62 planning grants awarded jointly by HUD and DOT almost 30 percent went to rural communities.

At a time when every $1 the Federal Government invests in jumpstarting the economy is critical, the Partnership helps ensure that all agencies are coordinating efforts and targeting resources more strategically. Reflecting this new collaboration, the initial round of grants was judged by a multidisciplinary review team, drawn from eight Federal agencies and from partners in philanthropy. We have heard clearly from local businesses and elected officials that the joint grants supported by the partnership are helping them achieve their own local visions: working across their own jurisdictional lines to coordinate land use, housing, and transportation investments on regional and community levels; creating more sustainable development patterns that reduce the crushing financial housing and transportation cost burden too many working families face today; and putting in place an infrastructure that will make them competitive in the global, 21st century economy.

HUD's fiscal year 2012 budget requests another $150 million to create incentives for more communities to develop comprehensive housing and transportation plans that result in jobs, economic growth, easier commutes, and more efficient transport of goods. Up to $5 million will be used to develop more sophisticated data tools to help owners and operators identify and implement energy-efficiency measures that can lower the cost of heating, cooling and lighting in their HUD-assisted properties.

IMPACT ANALYSIS—HOW SUSTAINABLE COMMUNITIES FUNDING CREATES JOBS

In the fall of 2010, HUD and DOT awarded nearly $170 million in planning grants to regions and communities across the country. HUD awarded a $3.7 million regional grant to a consortium of public and private partners in Austin, Texas, which is developing a long-range regional transportation plan connecting a network of 37 mixed-use, mixed-income communities closely linked to transit and job centers. Specifically, with this planning grant, the city intends to build a trucking/air/rail transportation hub near the Austin International Airport that will employ 2,000 people from the region. In addition, Austin's use of these funds will help 3,000 small, family-run businesses expand or open a second location contingent on each of these businesses hiring one new worker who has been unemployed for 1 year or more. This will create an additional 3,000 jobs in an area of the country where small businesses are the major driver of growth. Last, with the expertise of private, higher education, and public partners, the consortium is using the grant to redevelop up to 10 strategically located properties for workforce housing and small businesses, directly and indirectly creating as many as 2,000 additional jobs.

Austin's Department of Economic Growth and Redevelopment Services estimates that HUD's grant will help create at least 7,000 permanent jobs and thousands more in the construction sector, generating an additional $1.1 billion of economic growth over the next 5 years and saving the taxpayer $1.25 billion through better connected housing and businesses, more people employed and fewer people dependent on Government services.

Out-Educating the Rest of the World—Choice Neighborhoods

The President has made clear that winning the future depends on America winning the race to educate our children. But that's not possible if we are leaving a whole generation of children behind in our poorest neighborhoods. That is why the budget also brings Federal partnerships to connect historically isolated people and neighborhoods to local, regional, and national economies by providing a third year of funding ($250 million) for another signature element of the administration's place-based approach—the Choice Neighborhoods Initiative.

Choice Neighborhoods builds upon the HOPE VI program launched by previous HUD Secretaries Jack Kemp and Henry Cisneros and congressional champions like former Senator Kit Bond and current Senator Barbara Mikulski. HOPE VI restored the most severely distressed public housing across America and did so while leveraging double the Government investment in additional private development capital. Choice Neighborhoods will continue transformative mixed-finance investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. It will bring private capital and mixed-use, mixed-income tools to transform affordable housing in five to seven neighborhoods with grants that primarily fund the preservation, rehabilitation, and transformation of HUD-assisted public and privately owned multifamily housing. Like HOPE VI, it will also engage the private sector and the "third sector" of nonprofits, philanthropies, and community development corporations who have become some of our most sophisticated affordable housing developers and important civic institutions.

Choice Neighborhoods is a central element of the administration's inter-agency strategy to provide local communities with the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. This strategy requires HUD, the Departments of Justice, Education, Health and Human Services, and other agencies to work together, co-investing, and pooling their expertise as part of a focused Neighborhood Revitalization Initiative where local actors can seamlessly integrate diverse Federal funding streams to tackle complex problems. In particular, through partnerships with Education's Promise Neighborhoods Initiative, Choice Neighborhoods will help ensure that the President's commitment to out-educating the rest of the world applies to every child in America, regardless of their neighborhood or the kind of housing they grow up in.

The Department's administration of the first rounds of funding for Choice Neighborhoods and the Sustainable Communities Regional and Community Challenges grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past, many Federal grant programs followed a rigid, top-down, one-size-fits-all approach that dictated what local policymakers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs—and believe the results thus far demonstrate that we are making good on that commitment.

Ensuring Rural Communities Can Compete in a 21st Century Global Economy

The administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the 21st century economy. Rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. This administration recognizes that residents of these communities also face unique challenges when it comes to accessing healthcare, grocery stores, and adult education opportunities, among others.

HUD currently invests billions of dollars in rural communities through its core rental assistance programs and block grants. The State CDBG program uses 30 percent of annual CDBG funding for nonentitlement areas across the country. Because small towns and rural areas often lack the basic modern infrastructure that citizens in larger communities can take for granted, States annually spend more than 55 percent of their CDBG funds on basic public improvements such as water and sewer lines, paved streets, and fire stations. And because rural communities need good jobs to sustain themselves, $1 out of every $8 in State CDBG funds is spent on economic development. In fiscal year 2010, State CDBG funds created or retained more than 12,000 jobs for lower-income rural Americans.

In addition to the special category of funding we created for small towns and rural places in the Sustainability Regional Grant Program, this budget requests $790 million to fund programs that are specifically targeted to housing and economic development activities in rural communities including:

—$25 million for the Rural Innovation Fund to support innovative approaches dedicated to addressing the problems of concentrated rural housing distress and community poverty through comprehensive community development, housing, and economic development activities. The fund builds on the Rural Housing and Economic Development program which has built and rehabbed more than 17,000 homes, created credit unions and business incubators that have helped more than 2,000 businesses get off the ground, and supported housing counseling and home ownership programs—over the last decade creating 13,000 jobs, providing job training to nearly 38,000 people and leveraging more than three times the $250 million HUD has invested in this program in other public and private funds providing an excellent return for the taxpayer. With the Rural Innovation Fund, we will support these kinds of efforts on the larger scale these challenges require.

—$25 million for the Rural Housing Stability Program to assist homeless persons in rural communities. Since 2010, HUD has provided targeted Homeless Assistance Grants to persons living in small communities through a set-aside. As part of the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, the Rural Housing Stability program was specifically authorized in order to provide housing, training, and services for homeless individuals and families, as well as those families at risk of becoming homeless.

—$782 million to fund programs that will support housing and development initiatives in American Indian, Alaska Native, and Native Hawaiian communities. As the single largest sources of funding for housing Indian tribal lands today, HUD initiatives in Indian country continue to have some of the Department's most successful track records. Programs like Indian Housing Block Grants, Indian Home Loan Guarantees, and Indian CDBGs support development in remote areas where safe, decent, affordable housing is desperately needed. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program and Native Hawaiian Loan Guarantee Program.

Winning the Future—a Successor to Empowerment Zones

The budget also includes a multi-agency initiative, Growth Zones, to assist communities in using their funds more effectively to support job creation—an improved successor to the Empowerment Zones that expire this year. Coupling targeted tax benefits and grant funding, the budget supports the launch of an interagency effort led by DOC's Economic Development Administration (EDA), and supported by HUD and the Department of Agriculture. In addition, the budget also supports another interagency effort with EDA that helps communities to better employ the Federal investments they already receive (such as CDBG and HOME), promote high-impact strategies, and build the local capacity needed to execute those strategies in economically distressed areas. This effort will enable these communities to create more effective partnerships with businesses and nonprofits that will attract critical private investments to promote job creation. With leveraged support from HUD, other

Federal agencies, and the philanthropic community, the Federal Government offers targeted EDA funds, technical assistance, and a National Resource Bank—a "one-stop shop" of experts that communities can draw upon for a full range of services, including fiscal reforms, re-purposing land use, and business cluster and job market analysis.

Inclusive Communities for All

Finally, a sustainable community is one in which all people—regardless of race, ethnicity, religion, sex, disability, or familial status—have equal access to housing and economic opportunities. Throughout its portfolio of programs, HUD is committed to maintaining that inclusivity and providing accountability in housing and lending practices nationwide. Through inclusive development, education, enforcement of fair housing laws, and participation of historically underrepresented populations in HUD policies and planning, HUD will affirmatively further fair housing and the ideals of an open society. To that end, the Department is requesting $72 million—$11 million more than the fiscal year 2011 request—to support the division of Fair Housing and Equal Opportunity's administration of the Fair Housing Initiative Program (FHIP) and Fair Housing Assistance Program (FHAP).

Goal 5.—Transform the Way HUD Does Business

Winning the future means reforming Government so it's leaner, transparent, and ready for the 21st century. While HUD programs make a big difference in the lives of ordinary Americans, this administration is also committed to making Government more efficient, more effective and more accountable. Particularly in today's tight fiscal environment, the need for responsible budgeting has never been greater—and making smart, responsible choices depends on quality information. That is why this budget demonstrates a strong commitment to conducting the research and collecting the data we need to understand what works, what doesn't, and what we need to do better—so that HUD can better serve the American people, better protect the American taxpayer and better partner with communities to meet the challenges of the decades ahead.

The budget provides up to $120 million for the TI fund. In fiscal years 2010 and 2011, thanks to the TI fund, HUD began to fundamentally alter how we approached our investments in delivering technical and capacity-building assistance, conducting research demonstrations, and maintaining and upgrading our IT systems so that we can hold ourselves and our local partners accountable for the outcomes needed to achieve the Department's strategic goals.

More of What Works and Less of What Doesn't—Research and Demonstrations

A key element of HUD's transformation strategy is to provide a predictable stream of funding for high-quality research and evaluation that can inform sound policymaking. Allocating a small increment of program funds to this account will enable HUD to subject programs continuously to rigorous evaluation. Absent investment in key evaluations, demonstrations and analysis, HUD's capacity to support program refinement, measure progress toward goals and engage in robust policy development is extremely limited. This new era of evidence-based policymaking demands that HUD build back its internal research capacity and work in partnership with the research community to evaluate existing programs and design new policy approaches to solving America's housing and community development challenges.

The Research, Evaluation, and Performance Metrics Initiative will supplement research and technology (R&T) appropriations in order to provide the Nation's basic infrastructure of housing data. The more careful and scientific approach enabled by these additional research investments will highlight for policymakers what works and what needs reform. Systematic research enables HUD to monitor results and undertake timely modifications of programs and policies that fail to produce results. A component of this research and evaluation will develop the right set of metrics to track program performance between evaluations to inform management decision-making. In fiscal year 2010, the Department was able to supplement a $48 million R&T appropriation with $26 million in Transformation Initiative Research, Evaluation, and Program Metrics funds. This funding permits the Department to determine how certain program functions ought to cost or ought to operate.

For example, the current allocation method for HCV administrative fees is not based on rigorous and objective studies, and may over-compensate some public housing agencies (PHAs) while underfunding others. The Department has used TI funds to develop a careful examination of the costs of administering the HCV program at high-performing and efficient PHAs in a wide variety of communities.

For fiscal year 2012, the Department anticipates approximately $25 million to be allocated for research projects. HUD's proposed transformational approach to research would also inform the decisions of a broad network of public and private-sector actors. A key feature of the new approach is to partner with other Federal agencies, such as DOT, the Department of Energy, and EPA, on research topics of mutual interest. HUD will again confer with the Office of Management and Budget and the appropriate congressional appropriations and authorizing committees before finalizing the research agenda for funding under TI. Combined with efforts already in progress, HUD expects that this research will both improve program effectiveness and generate savings over time.

An additional strategic thrust of TI was to enable HUD to design and execute a series of major research demonstrations. These trials of new program ideas provide a controlled mechanism to improve programs and help State and local governments develop more effective strategies for housing and community and economic development. Demonstrations are necessary to test innovative program approaches to improve the delivery and reduce the cost of public services. In short, well-run demonstration programs—such as the Jobs Plus, Moving to Opportunity, and Effects of Housing Vouchers on Families demonstrations of the early 1990s—enable the Federal Government and our local partners to fund what works, and defund what does not. However, demonstrations generally require funding over several years and often allow waiver of program rules when conducted to pilot ideas for existing program changes. Flexible funding may be needed to cover design resources, additional program costs, such as incentives for participating households, and evaluation of the impacts over several years.

Using funding flexibility granted in fiscal year 2010, HUD launched important demonstrations to test policy interventions in the Family Self Sufficiency (FSS) program, rent reforms in our major rental assistance programs, and the first round of Choice Neighborhoods grants, among others. For instance, the FSS program encourages public housing tenants to increase earnings by allowing them to set aside the rent increases they would otherwise pay to further specific goals, such as education and home ownership. TI funds will be used to test whether this is a cost-effective approach to increasing self-sufficiency that can be taken to scale. HUD anticipates allocating $15 million in fiscal year 2012 TI funding to program demonstrations, and, as in fiscal years 2010 and 2011, HUD will confer with both the House and Senate Appropriations Committees before finalizing planned demonstrations under TI. These demonstrations will, in conjunction with HUDStat, be critical for informing funding decisions, as well as the re-engineering and streamlining of business processes and procedures in HUD's programs.

21st Century Technology To Protect the Taxpayer's Investment

Funding for information technology (IT) modernization and development is not requested under the TI fund for fiscal year 2012. Having assessed the fiscal year 2010 planning and implementation efforts, HUD has determined that funding these activities under the Working Capital Fund in fiscal year 2012 will allow the Department to better align the account structure and decisionmaking process with budget planning and investment life-cycle management policies. Within the TI fund, HUD will utilize significant balances from fiscal year 2010, as well as funds available in fiscal year 2011, to continue the execution of priority IT development, modernization, and enhancement efforts, including FHA Transformation and the Next Generation Voucher Management System (NGVMS).

The FHA Transformation project involves the development of a modern financial services IT environment to better manage and mitigate counterparty risk across all of FHA's Insurance Programs. The system will minimize the exposure of our Insurance Funds and support the restoration of the capital reserve ratio to congressionally mandated levels by enabling risk detection, fraud prevention, and the capture of critical data points at the front-end of the loan lifecycle. More simply put—FHA Transformation will enable HUD to identify trends, and seamlessly take action, before problems occur. This approach will protect consumers and the economy by ensuring that safe underwriting standards are adhered to, as FHA approaches $1 trillion of Insurance-in-Force. Importantly, FHA Transformation will also allow HUD to start the careful process of migrating relevant portions of our legacy applications, most of which were built in a 1970s-era programming language, to a more cost-effective platform.

NGVMS performs a department-wide reengineering of the current voucher management business models and processes. NGVMS will replace 20-year-old legacy systems and Excel-based budget spreadsheets with a solution that establishes uniform processes and a standard set of rules and regulations that support all of HUD's rental assistance programs. The system will support enhanced budget planning and forecasting capabilities, improve grantee reporting and data integrity, and ensure that programs comply with the requirements of the selected provisions from the proposed SEVRA.

In addition to improving systems that support HUD's programs, the agency is also investing in technology to improve HUD's administrative processes. For example, the HUD Integrated Acquisition Management System (HIAMS) will automate all phases of the acquisition lifecycle to create greater accountability and transparency, as well as enable timely processing of procurement actions. The agency's current process is manually intensive and highly susceptible to errors. HIAMS will reduce processing inefficiencies, increase visibility into the acquisition process, and enable HUD to obtain services faster. The system utilizes the most widely adopted Federal acquisition management software, a solution that is currently used by more than 80 organizations across the civilian, intelligence, and defense sectors.

Reforming Government and Improving Accountability With Cutting-Edge Technical Assistance

The community development field is evolving to a more comprehensive, sustainable approach to neighborhoods and cities. As noted, HUD has embraced this change with new initiatives like Sustainable Housing and Communities, Choice Neighborhoods, and the Neighborhood Stabilization Program. In order to realize this expanded vision, the Nation needs local practitioners—both local government and nonprofit partners—who understand a more comprehensive approach, who can use current technology to assess needs and to measure success, and who have modern skills to deliver results and save money for the taxpayer.

TI recognizes that enhanced and focused information, and more targeted support for grantees, will result in better program administration and more integrated planning and action that cross programs and jurisdictions. Effective responses to urban and housing challenges increasingly require coordination and awareness of diverse areas of knowledge:

—housing finance as well as land-use planning;

—economics as well as energy efficient design;

—community development as well as transportation planning; and

—accessible design as well as job creation strategies.

TI is helping HUD to develop a new level of technical assistance and capacity building to Federal funding recipients. Traditionally, HUD has delivered compliance-oriented technical assistance, funded through individual program accounts that ensure grantees are fully aware of the rules governing HUD's disparate programs. HUD's fiscal years 2010 and 2011 budgets proposed rolling these accounts into one broad technical assistance effort to be funded from global transfers to the TI fund. Central funding through TI has allowed the Department to develop comprehensive technical assistance efforts that focus on skills needed to improve program outcomes, rather than merely reinforcing program compliance.

In the fiscal year 2012 budget, HUD once again requests discretion to target technical assistance funding to those programs that need it most based on the capacity of current grantees, new program requirements (e.g., the continued implementation of the HEARTH Act, or implementation of new programs such as Choice Neighborhoods or Sustainable Housing and Communities), broader economic and social imperatives (e.g., a spike in homelessness, or the impact of high energy and housing costs on housing affordability), or unanticipated crises (e.g., natural disasters). In order to ensure that these critical but limited resources are targeted appropriately, HUD will continue to evaluate the technical assistance needs of its grantee communities in fiscal year 2011 with TI funds and build on those findings with funds from fiscal year 2012.

In particular, HUD will pilot a new approach—involving 12 other agencies including the White House—aimed at improving the capacity of local governments in chronically distressed cities and developing partnerships to support job creation and economic development. Many of the cities that have historically driven America's economic growth are now amongst its most economically distressed. These cities have struggled to return to a place of economic productivity and opportunity after decades of industrial decline—a challenge exacerbated by the recent economic downturn. This initiative is designed, not to provide additional funding, but instead to ensure that communities are using the resources already available to them more effectively and efficiently so they can compete in the global economy.

As part of this effort, TI will support the creation of a National Resource Bank (NRB). The bank is so named because it will be a repository of technical assistance for local governments across the Nation, but will not provide direct financial resources. NRB will align and aggregate public and private funds to provide cities tailored technical support through a "one-stop shop" of national experts with wide-ranging skills that are critical for economic development. These include fiscal reforms, repurposing land use, and business cluster and job market analysis, to name a few. NRB will help lay the foundation for economic recovery and transformation in these cities through truly place-based support that leverages existing strategic partnerships between local governments, Federal regional office staff, and the philanthropic community and helps to foster further linkages for the long-term benefit of these cities. The local demand for the capacity-building assistance that NRB will provide is broad and sustained. Cities have had few options for building organizational capacity since the 1970s, and recent budget cuts have created even greater strains on capacity at the same time that local challenges are growing more complex. NRB will play an essential role in helping to coordinate and direct Federal technical assistance functions at a time of severe local government need.

CONCLUSION

Madam Chairwoman, this budget reflects the Obama administration's recognition of the critical role the housing sector must play for the Nation to out-build, out-educate and out-innovate our competitors. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

Given the economic moment we are in, HUD's fiscal year 2012 budget proposal isn't about spending more in America's communities—it's about investing smarter and more effectively.

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

I believe winning the future starts at home—and with this budget of targeted investments and tough choices that I respectfully submit, we aim to prove it. Thank you.

Senator MURRAY. Thank you very much, Mr. Secretary, and thank you for your openness and continual communication with us on a lot of questions.

I do have some questions I will submit for the record that I want to make sure I have a chance to talk with you about. I do have to get over to a very critical meeting.

Secretary DONOVAN. Very critical.

Senator MURRAY. And in the spirit of bipartisanship that this subcommittee has always operated on, I am going to turn the gavel over to my able ranking member, Senator Collins, for her questions and I will submit mine for the record. Thank you very much, Senator Collins.

HOMELESSNESS

Senator COLLINS [presiding]. Thank you, Madam Chairman.

Secretary Donovan, as I mentioned, one of my primary concerns is the number of homeless Americans. The Government Accountability Office (GAO), however, recently issued a report that indicated that there was considerable duplication among Federal housing programs aimed at the homeless. For example, GAO reported that at least seven Federal agencies, administering more than 20 programs spending nearly $3 billion, provide some type of shelter or housing assistance. GAO has raised concerns that this leads to fragmentation, duplication of service, unnecessary costs, and points out that this fragmentation can create difficulties for people who are trying to access those services, as well as administrative burdens for providers.

What is your response to GAO's concern that we are not delivering programs to people who are homeless in as efficient a way as possible?

Secretary DONOVAN. First of all, I would say not only do I agree that there is significant work we can do on consolidating and streamlining programs, but also on better coordinating those. The President talked very directly about this in his State of the Union Address.

Homelessness is a very good example where part of what we need to do is simplify and streamline overlapping programs, but we also need to step up our coordination and improve the work between agencies. One of the most important advances we have made was the HEARTH Act which consolidated and improved HUD's programs so that we have a much simpler but more effective set of programs at HUD, and we are in the process of implementing the HEARTH Act through new rules. And you will see, fully reflected in our budget for 2012, full funding for that.

We have a number of other ways that we are consolidating overlapping programs that I would be happy to talk about outside of homelessness, but I do want to mention for a moment the coordination piece of this, which I learned very well working across party lines in my prior work at the local level to create a plan to end homelessness.

VASH is a very good example. When we came into office, there were only about 1,200 veterans who were actually benefiting from VASH despite 20,000 vouchers having been appropriated by this subcommittee. And so we rolled up our sleeves. We sat down, figured out what the blockages were between us and VA, figured out what our roles should be, how we could coordinate better. And I am proud to say that today we have almost 20 times as many veterans who are benefiting from VASH as there were 2 years ago, more than 21,000 today. That is exactly the kind of coordination that we need, and it is an example of how the U.S. Interagency Council on Homelessness is leading the coordination across 19 different Federal agencies to implement our homeless programs.

Senator COLLINS. I think that everyone is for effective coordination, and the partnership with the VA on that program is absolutely critical to reaching the veterans who need help, and I have seen the success in my own State.

But GAO is talking about something far more than that. GAO is raising questions about whether we are delivering services as effectively as possible or whether, in fact, there is a system of such duplication that it is not serving those who need help, nor the providers, nor the taxpayers well.

So I would ask you to take a look at GAO's specific criticisms and get back to our subcommittee about whether there is some overlap and fragmentation that is not serving anyone well.

THE HOMELESS EMERGENCY ASSISTANCE AND RAPID TRANSITION TO HOUSING ACT

On the HEARTH Act, I was the cosponsor of that bill, and it was so important because it does create a more comprehensive approach. It updates the McKinney-Vento Homelessness Assistance Act. HUD, under this bill, is charged with developing a new formula to distribute the funds in a fair way across the Nation. What is the status of that effort? And what factors is HUD weighing in deciding how to distribute those funds?

Secretary DONOVAN. We are, as I mentioned earlier, working actively on the implementation. One of the impacts this year of having a CR continuing for fiscal year 2011 is, unfortunately, that we cannot go ahead and implement yet, but we do plan to have the rules out in the next few months for all the various pieces, and there are a number of different pieces that we are implementing.

And specifically on the formula, we began discussions with stakeholders and others last summer around potential changes to the formula. We expect them to be included as the regulation is released, and we are particularly looking at how to better incorporate need into that formula because the original formula was based primarily on the CDBG formula which is not the best proxy, if you will, for the way that homelessness affects different communities. And so it is particularly around need and the way that it varies across different types of communities that we are looking at, as we look at the formula.

PUBLIC HOUSING AUTHORITIES

Senator COLLINS. You mentioned in your statement that we were losing—I think you said—10,000 units of public housing. As you know, a lot of these housing issues are relatively new to me, and as I have been learning about the various programs, I have wondered why we still have public housing and whether or not we should be moving to a system where we give vouchers so that low-income individuals have more choices about where they live. And it would take more of a private-sector approach as well. It would still have the kinds of benefits for the construction industry that you have talked about because the demand for housing would still be there, but it seems to me you would avoid some of the problems that we have seen with private housing units.

And that question, which came to my mind, was heightened when I read about the truly egregious and outrageous cases of fraud and corruption in some PHAs. I know some do a wonderful job, but some of these cases recently, such as in Philadelphia or where money was wasted on belly dancers, dead residents—it is really very, very troubling.

Has HUD looked at taking a whole different approach to helping low-income people perhaps by expanding the Section 8 voucher program and not trying to replace these public housing units?

Secretary DONOVAN. A terrific question, Senator.

Let me go to the issue of, currently, some of the things we need to do, because I could not agree with you more that we need to look at the system overall, but we also have to make sure in the short run that we are better enforcing against the most troubled housing authorities.

I do want to say more than 95 percent of housing authorities are not troubled. We have a significant system that we use to track and monitor them, but I think it is fair to say that we can step up what we are doing. In Philadelphia specifically, we cut off excessive payments they were making to outside law firms. We have called on the board to step down and, in fact, are coordinating very closely with our inspector general on audits that they are doing there. I was pleased to see yesterday that one of the board members stepped down, and I am hopeful that the remaining board will step down so that we can really move the housing authority forward there.

But one critical thing I would point out in the budget—our TI, in addition to the dedicated team that we are setting up, thanks to that funding, to go in and catch troubles before they develop too significantly by early warning signs through financial information is critically important.

The other thing that TI is doing is allowing us to create new systems for the voucher program and the public housing program which will allow us to dramatically step up our monitoring and enforcement there and, again, to catch problems before they happen.

On your point about the system overall, this is exactly why we have proposed a demonstration in the budget. We, for more than one-quarter of a century, have been using private capital to develop any new unit of affordable housing, including Florence House that we saw together in Maine. We have a low-income housing tax credit system that has worked quite well, and it introduces not just discipline from the private sector that allows not just HUD's eyes but other sets of eyes to make sure the property is working. It also allows a mix of incomes that we know is much more beneficial to the families that are there. And so that is a critical part of what we are trying to do with this budget. I look forward to having further conversations about it.

One of the components of that is to try to expand choice in public housing. Right now, for a family that lives in public housing that may have a job in another town, that may be a decision to give up $4,000 or $5,000 a year in housing assistance because they would have to get back on a waiting list somewhere else. So part of our proposal would allow more flexibility for those families to take a voucher with them and open up a unit in public housing behind them.

So I could not agree more with the direction that you are going. We do need to think about the system structurally for changes. And in fact, Congressman Ellison on the House side introduced a bill called the Rental Housing Revitalization Act that would open up public and private financing, allow public housing to be more integrated, and provide more choice last year, and we look forward to working with you, hopefully, in the Senate on that as well.

Senator COLLINS. Thank you.

Senator Pryor.

Senator PRYOR. Thank you, Madam Chairman, but I think Senator Blunt was here before I was. Go ahead, please.

Senator COLLINS. Senator Blunt. Everybody is so polite here.

BUDGET NUMBERS

Senator BLUNT. I only have a couple of questions, Mr. Secretary.

One, on your overall budget, how does that number compare to the fiscal year 2010 number and the fiscal year 2008 number?

Secretary DONOVAN. I do not have the fiscal year 2008 number in front of me. I will ask my team to look at that, and I should have it in a moment.

Compared to fiscal year 2010, on a net basis, it is about $1.2 billion less than 2010 actuals, or a 2.8-percent reduction on a net basis. It is quite important——

Senator BLUNT. What does that mean "on a net basis"?

Secretary DONOVAN. Our budget has both spending and also has substantial receipts from FHA. So, for example, our proposal to increase the premium for FHA 25 basis points is expected to increase our receipts next year by about $2 billion. This year our expectation is that FHA will earn on its new loans that it is making about $10 billion. So that is an important component of our budget. The more effectively and efficiently we can manage FHA, the more return there is to the taxpayer from that side of our budget.

Senator BLUNT. So that increase in FHA is part of the net reduction?

Secretary DONOVAN. That is correct.

Senator BLUNT. And what about fiscal year 2008? Does your staff have that yet?

Secretary DONOVAN. On a net basis, fiscal year 2008 was $37.7 billion, and that compares to the $41.7 billion that we are requesting this year. So it is an increase from fiscal year 2008.

Senator BLUNT. An increase from fiscal year 2008.

Secretary DONOVAN. Yes.

RURAL HOUSING

Senator BLUNT. On all this discussion about duplicative programs and streamlining, there is some discussion that Section 538 rural housing might be better served as part of a bigger program. We have a lot of rural housing in Missouri, in most of the States, through a not very big program but a much targeted program. What is your view of the best place to administer housing programs that have a targeted audience, a targeted group they are trying to help?

Secretary DONOVAN. It is an excellent question, and in fact, we have already begun, as part of the initiative that the President announced in the State of the Union Address, between HUD, the Department of Agriculture (USDA), and VA, to look at where we might be able to streamline and simplify the overlaps between our lending programs. For example, currently Ginnie Mae is the securitizer for not just FHA but also VA and USDA, and that works quite effectively. So I think there are further things that we could do to share knowledge systems, reduce duplication between all of our credit programs.

I think ultimately I would expect—we are, obviously, just beginning that look—that not everything should be consolidated because USDA, for example, has a presence in many rural areas that we do not have. But it might be that there are certain functions, as Ginnie Mae serves today for USDA, that we might be able to consolidate or streamline across the agencies, and that is exactly what we are looking at through this task force that we have put together as a result of the President's new initiative.

Senator BLUNT. Everybody in Washington now seems to be strongly on the side of minimizing duplication and not having all kinds of money spent for programs that do the same thing. But I just would hope that you will make the case that if the elimination of duplication means that you have to have a different kind of staff serving an area that you do not have a presence in now, that is something that very much needs to be understood. If all we do by eliminating rural housing under USDA is require you to have significant monitoring responsibilities that you currently do not have any way to deal with, be sure that we understand that as part of why this duplication exists and why it makes more sense. It is helpful for me to hear you put it that way as well.

Secretary DONOVAN. Despite the word "urban" in the agency's name, we actually do have a substantial presence in rural areas as well. And in fact, in our budget, we not only have a substantial, more than $800 million set of programs that are directed exclusively to rural areas, things like a Rural Innovation Fund which helps creative nonprofits and others do things like self-help housing or other things that are particularly appropriate for rural areas or in Native American communities, we also for the first time are proposing, thanks to the HEARTH Act that Senator Collins was a cosponsor of, will have a dedicated $25 million program attacking homelessness in rural areas because homelessness, as we learned, is different in rural areas. We are also proposing more than $700 million targeted to Native American communities.

But in addition to that, one thing I would point out—and this is often missed—the CDBG program is a program that does not just serve cities or large counties. Thirty percent of the money goes to States and 75 percent of that State money, about $800 million, is used in rural areas. And so the CDBG program is a critical tool, about $800 million directly to serve housing and other kinds of infrastructure needs in rural areas, and it has a different distribution channel exactly for what you are saying. It reaches those areas more effectively.

Senator BLUNT. Thank you, Secretary.

Thank you, Madam Chairman.

Senator COLLINS. Thank you.

Senator Pryor.

DISASTER RECOVERY REPORT

Senator PRYOR. Thank you very much.

Mr. Secretary, let me start with an issue that is important to Senator Blunt and myself, and that is the New Madrid Seismic Zone, which is the New Madrid fault that begins in the boot heel of Missouri and goes on down into Arkansas and is predicted to be—heaven forbid—a very serious threat in terms of catastrophic damage if it ever happens. In fact, this week we had three earthquakes in Arkansas. One was a 4.7 on the Richter scale. It was felt in four States. And then we had two sort of follow-up earthquakes, 3.8 and 3.6, in that same few-hour span.

The reason I am asking you about this is because last year the President announced that you and Secretary Napolitano would lead a long-term disaster recovery working group which would report to him on your efforts for long-term disaster recovery apparatus in our country. The report was promised in April 2010. That did not happen. We inquired, and the deadline was moved back to August 2010. It still has not been delivered. Do you have any idea when that is going to be ready to be delivered to the President and sent to the Congress?

Secretary DONOVAN. Let me be honest about this, Senator. We had done extensive work on the report. We were close to releasing it. And then the oil spill in the gulf happened, and it made us step back and take a look at the approach that we had taken because, frankly, this was a different kind of disaster than we had primarily focused on, and we had some real-world learning experience that happened over last summer to look at in that. And so we have gone back, done a range of revisions, and we are literally in the process now of working with all the agencies that were involved in trying to make final revisions to that report.

So I would be hopeful that this spring, certainly, that we would have it out. I cannot tell you if it is 1 week or 2 weeks or 2 months, but we are very close through this interagency process of trying to resolve the final comments on it.

And I would say that as an agency that is very much involved like CDBG has been in responding to the long-term implications of disaster, it has been a very important process for us, and we have begun standing up already increased capabilities at HUD, thanks to the support of the subcommittee.

Senator PRYOR. Also, this year, the 2011 national level exercise, which is an exercise to make sure we are prepared for various disasters, will focus on the New Madrid Seismic Zone. I do not know if your Department is participating in that.

Secretary DONOVAN. Yes, we are.

DUPLICATION IN FEDERAL PROGRAMS

Senator PRYOR. I was going to say if you are not, I certainly hope you get involved in that.

Let me also follow-up on one of Senator Collin's questions because her Committee asked for this GAO report, and the GAO report actually singled out several HUD programs. I know in one section of the report, it says there are 12 HUD programs among some 80 economic development programs at four other agencies. These are, as they say, fragmented programs that overlap, in terms of economic development activities. In other words, they do overlap and they are duplicative.

We spend about $6.5 billion on all of those programs.

I do not know if you are familiar with the GAO finding, but if you are, is this an area in your view that needs to be addressed?

Secretary DONOVAN. The GAO report was just issued this week, so we are still in process of reviewing it. I do not have a detailed response for you at this point.

What I will say is there is no question—as the President talked about, in the State of the Union Address, one agency focused on fresh water salmon, a different one focused on salt water salmon—that in the economic development world, that there are overlapping programs. So, for example, we have proposed in this budget a number of consolidations where we think that makes sense. One in terms of new construction would be the Self-help Home Ownership Program (SHOP), which we have proposed to be incorporated into the HOME program as an eligible use rather than having a separate stand-alone program. Those are the kinds of steps that I think we can take.

In addition to that, I do think it is important not only to focus on the consolidations—we will never get down to one program at one agency because, as the discussion we had about rural housing, there are important differences in the programs that they serve. So in addition to the consolidation and simplification, the coordination that we have set up with the Economic Development Administration at Commerce, with the Department of the Treasury, is very, very important as well. And in fact, we have some coordinated proposals in the budget this year to try to simplify and improve the low-income housing tax credit and other programs that cut across agencies as well.

Senator PRYOR. Also, on a similar vein—Madam Chairman, if you will just give me 1 more minute here.

Senator COLLINS. Absolutely.

SECTION 108 LOAN GUARANTEE PROGRAM

Senator PRYOR. Along a similar vein, the Section 108 Loan Guarantee Program. The budget this year is a request for $500 million, which is a 100-percent increase, but that same GAO report contends that HUD does not do a sufficient job in tracking the long-term performance outcomes measured in this program because the agency lacks a reporting mechanism to capture how the program funds are used.

In addition to that, back in 2007, the Office of Management and Budget (OMB) had a report that questioned Section 108's effectiveness and impact on neighborhoods.

I do not disagree with the goals of the programs. I am on board with the goals, but I want to tell you, like Senator Blunt said a few minutes ago, I do not think I can support more funding unless we know that those tax dollars are going to be spent effectively and be spent wisely.

So did you have any comment on that?

Secretary DONOVAN. First, specifically on Section 108, Section 108 is effectively an option under the CDBG program which allows a grantee to use their own CDBG funding to leverage private capital. So in that sense, it can be a very powerful, effective tool to get more bang for the buck. It typically leverages many multiples of the CDBG funding itself and has been used effectively.

The specific issue that GAO pointed to, which is exactly right, is that because of the nature of this—that it leverages private capital—we have not had a tracking system in the same way that we track regular CDBG funds when they are used for other purposes. And one of things that the investments that we have had from this subcommittee to improve our technology is allowing us to do is to incorporate better tracking of 108 into what we call the Integrated Disbursement and Information System, which is the system we use to report and track CDBG funding. So that recommendation is something that in fact was already in process and that we completely agree with.

Let me just make one other point. As I hope you will learn on this subcommittee, I am a numbers guy, and one of the most important things for me—and this goes directly to Senator Collins' discussion about homelessness—we have very good data now to prove that these programs work and they save money. One of the key things that I have begun to establish at HUD, partly using the TI funding that the subcommittee provided and the flexibility it provided to use that more effectively, is a HUDStat process. Every month, I sit down with every senior person in the Department, many program directors, and we track progress on the four key strategic goals that we set out in our strategic plan and use that as an accountability mechanism which never existed before at HUD.

That, combined with the research, the demonstrations, other things that we are doing which are longer-term studies to see whether the programs work, I think are critically important. It is one of the places where I really want to make sure we are working closely with the subcommittee to ensure that you are comfortable that you can see the monies being used effectively and what those specific results are, not just that we are avoiding, waste, fraud, and abuse, which is critical, but also that we are getting bang for our buck in terms of the outcomes of these programs.

Senator PRYOR. Thank you, Madam Chair.

HOUSING FIRST MODEL

Senator COLLINS. You are welcome.

Mr. Secretary, as you were talking about the effectiveness of programs and the savings that they produce and the outcomes that result, I could not help but think that with the Housing First model, which I have become convinced works very well and the data proved that——

Secretary DONOVAN. Amen.

Senator COLLINS [continuing]. The problem is it saves money not for HUD but for the Medicaid program, for the corrections system, for State and local governments. So somehow we need to be able to measure the overall impact, even if it means we are spending more money out of the HUD budget, overall it produces tremendous savings and better outcomes but that is not going to be reflected in the HUD budget. So I think this is a challenge for all of us as we assess the effectiveness of the programs.

I was originally a skeptic of the Housing First model because I felt that unless you made getting assistance for substance abuse problems, for example, a condition of getting into these apartments, it would not work. In fact, just the opposite has been proven. And I, like you, am convinced by data, and the data totally convinced me that this is the case. But when I read you those statistics, I could not help but think you are not the beneficiary of those savings.

Secretary DONOVAN. It is absolutely right. In fact, this is true at the local level, obviously, as well, and we used to call it in New York the "wrong pocket problem," that you may take money out of one pocket and save it in the other, but unless you have budget mechanisms to allow those dollars to be shifted across accounts, you do not do the smart thing, which is invest more in places that are going to save you money.

I would say, however, we have had these discussions in detail, including with the OMB Director. It is very difficult—and it might even be worth having this conversation with CBO from the subcommittee's point of view. It is very difficult to write that recognition into the budget scoring rules, but you will see there is an important reason why we have almost a 30-percent increase in our homeless programs, despite significant cuts that we are taking in other places, is because even if it cannot officially score it, OMB very clearly recognizes the kind of benefits that you are talking about. And so it is clearly something we have taken into account as we were putting together the budget this year.

FHA'S FUTURE ROLE

Senator COLLINS. Let me switch subjects now to talk to you about FHA. There is a basic philosophical issue that I believe that the Congress and the administration need to confront regarding the future role of FHA, and that is, should it support low- and moderate-income borrowers or should it support all borrowers? And that is an important threshold question because the answer to that influences what the limit is on the cost of houses. And I know that is an issue that the administration is looking at. So tell me what the administration's vision is for FHA.

Secretary DONOVAN. I think that vision is actually consistent with what you have seen happen through this crisis at FHA. And what I mean by that is, our primary mission, when the housing market is functioning in "normal times," let us call them, is to serve low- and moderate-income borrowers and to serve underserved populations who may not have access otherwise, but always within a loan limit that restricts who we can reach. In fact, historically, our market share has been in the range of 10–15 percent, so you could see quite targeted to a very small subset of the overall market.

However, we do have another mission as we were established, which is to make sure that there is liquidity in times of crisis, and that is, I think, very consistent with why the Congress raised the loan limits for FHA as we went into the crisis. Our market share has expanded significantly. It is up more than 20 percent, still very targeted, I would add, on low- and moderate-income folks, because 80 percent of those who used our loans for purchases were first-time home buyers and only a tiny share of the loans that we are doing are near the top of the higher loan limits.

But we believe, as I said in my testimony, that we need to take steps to bring us back to that historically more limited role. One important step is the premium increase that I described. We also called in our housing finance reform proposal for the Congress to allow the higher loan limits to expire on October 1, which is what they would do unless the Congress takes other action, and that would begin to bring our loan limits back down to more historic levels. It would go from $729,000 in the highest-cost areas—that is not everywhere, but just the highest-cost areas—down to $625,000 in the highest-cost areas. We believe that is a good first step, but we also say in the reform proposal that we need to go farther than that.

We want to be cautious about the timing because the housing market is still fragile. We think October, assuming we do not have any major shocks in the system, makes sense as a first step, but the further steps, we should time, and how far we go in lowering the loan limit, we should time based on how the market is recovering and what speed private capital is coming back into the market.

I hope that answers the question.

FREDDIE MAC AND FANNIE MAE REFORM

Senator COLLINS. It does.

I know that you have also been very involved in the administration's white paper on the options for Freddie Mac and Fannie Mae. What will be the impact on FHA and Ginnie Mae if the Congress reforms Freddie and Fannie in a way as to reduce their role in the mortgage market?

Secretary DONOVAN. That really depends on the range of options, and we did lay out three options. And I think this is a critical point. We did call for, in any option, to continue FHA. So it is a clear statement that FHA has an important role to play. A targeted Government guarantee is important to the functioning of the market and to reaching low- and moderate-income borrowers, whatever we do with Fannie Mae and Freddie Mac. And so that was one important principle.

Within the options, though, were we to take option one, which would be no Government guarantees beyond FHA, VA, and USDA, it is clear that FHA would be required to play a much more significant role particularly in times of crisis, that we would have to step up and our volume would increase much more dramatically than it has through this crisis that we have just experienced. And I will tell you—and this is part of, as Madam Chairwoman Murray said, the pros and cons of the various options that we need to understand—I think there is real risk. FHA is already straining to keep up with the volume increase that we have experienced. To rely on FHA to take up far more than 50 percent of the market, for example, in the next crisis, I think has real implications.

I would also say, recognize that FHA's guarantee is a 100-percent guarantee. We do not have significant private capital sitting ahead of us. There are private implications for defaults. We try to align those incentives. But one of the things that we argue around option 3 is that you could design a guarantee outside of FHA that has more private capital sitting ahead of us that would allow you to be more sure the incentives are better aligned when you are really looking at a large share of the market, rather than just the targeted share that we currently have.

So the impact on FHA would really vary depending on the outcome, and I think that is a very important consideration as we think about which option to choose.

GINNIE MAE

Senator COLLINS. It is my understanding that for the first time in its history, the outstanding guarantees on Ginnie Mae securities now exceed $1 trillion. What are the prospects that Ginnie Mae would need a Government bailout similar to the very unpopular Government bailouts and very expensive Government bailouts of Fannie Mae and Freddie Mac?

Secretary DONOVAN. It is a terrific question. Let me just try to clarify, first of all, exactly what Ginnie Mae is on the hook for, so to speak.

Senator COLLINS. Yes.

Secretary DONOVAN. Any loan that Ginnie Mae so-called guarantees already has some other form of Government insurance on the loan, and so in no case is Ginnie Mae guaranteeing whether a borrower can pay, whether a home might go under water or there is a foreclosure on the individual home. That risk is covered by FHA or USDA or VA.

What Ginnie Mae is guaranteeing against is that the financial counter-parties—in other words, whatever financial institution is actually required to pay the investors in the case of default—that that institution runs out of capital and would not be able to make good. So it guarantees timely payment to the holder of the security from whatever financial institution is collecting the payments from whether it is the borrower or from FHA in the case of a default. And so the risk is a very narrow risk relative to the risk that FHA takes on.

Having said that, we have seen through this crisis the failure of a number of those institutions with significant losses to Ginnie Mae, all very much absorbable within the reserves that Ginnie Mae has, and Ginnie Mae has continued to be profitable for the last few years.

What I would say—and this is related to the budget proposal for 2012—because of the nature of FHA and Ginnie Mae, our need to respond to the market—there are times where the lack of flexibility we have in the appropriations process and the way the budget is set often 1 year or 1½ year in advance, it is very difficult to respond to the fluctuations in the market. And particularly through this crisis, we have been challenged to have Ginnie Mae step up its monitoring and oversight. Particularly, we can hire contractors through the flexibility that Ginnie Mae has. We have not been able to hire staff except for the good work that this subcommittee has done to increase our staffing there. But that takes time, obviously, through the appropriations process.

One of the things we are proposing in the fiscal year 2012 budget is to allow Ginnie Mae to use its revenues more flexibly not only to pay for contractors but to hire staff as well. It is something that we think is a good model and we might even think about applying it to FHA in ways that would allow us to respond more flexibly to invest more in technology and other things.

So it is a long answer, but I wanted to make sure that that was clear as well in the fiscal year 2012 budget.

FHA RESERVES

Senator COLLINS. I am told, however, that Ginnie Mae's reserves are less than the 2 percent that traditionally has been held. Is that not a problem?

Secretary DONOVAN. Actually FHA's reserves are less than the 2 percent that the Congress mandates. That is an issue that we are concerned about and in fact is the primary reason why we proposed the 25-basis-point increase——

Senator COLLINS. In the insurance.

Secretary DONOVAN [continuing]. In our insurance fees.

I will say we have—because of a range of reforms that we have made—we have hired the first-ever chief risk officer in the history of FHA. Using funding that the subcommittee has provided through TI, we are investing in automated fraud tools, creating new systems for FHA that allow us to track performance better. All of those have allowed us to perform significantly better than our independent actuarial reviews have predicted each year. And so our reserves are now more than $1 billion above what was expected even just this year from our actuarial review that was done just a few months ago. So we are performing better than expected. I do not want to say we are out of the woods by any means. We continue to watch it closely, but we have seen the reserves stabilize. We still have more than $32 billion in our combined reserves, and we feel that given what the actuarial has said and the premium increase, that we should be able to get back to the 2-percent level within the next few years—by 2014 or sooner.

SECTION 8 CONTRACTS

Senator COLLINS. I want to switch now to another issue that is a potential fiscal time bomb in HUD's budget. As the older, long-term Section 8 contracts with private property owners expire, HUD requires new appropriations to renew those contracts, which increase the cost of the programs each year. And I am told that that now accounts for approximately 20 percent of HUD's budget.

Your budget documents indicate that most of these old contracts have been renewed, but about 17 percent are still being funded from old appropriations accounts and they are obviously eventually going to need new funding.

So I have a series of questions for you.

First of all, when will most of these remaining contracts expire?

Secretary DONOVAN. I have some details here.

Let me make one point just to begin with. Even if those contracts, the long-term contracts, are not requiring new appropriations, they do have outlays associated with them. So there is a very different picture if you look at the actual money we are spending out of the Department of the Treasury as outlays versus the increased appropriations. This is not to say this is not an issue and that we need to be focused on it. We do. But it is important to remember that we are already spending money every year on these contracts, and when we appropriate new money for them, all we are doing is a new appropriation, but the outlays remain roughly the same with inflation each year.

Having said that, in 2012 alone the first-time renewals of these long-term contracts would account for about $230 million of new needs in terms of appropriations; from 2013 through 2016, another 600 contracts would expire, and that would be an additional $450 million in annual renewal needs by 2016. And if you look at the longer term out to 2021, the total needs by that time for renewals of those contracts that expire is about $1.5 billion in total for those contracts.

Senator COLLINS. So is HUD looking for offsets for those costs? $1.5 billion is a fair chunk of change.

Secretary DONOVAN. It is.

Senator COLLINS. I understand your point that there are outlays going on year after year, but——

Secretary DONOVAN. The most important effort on that front, which began actually a decade ago when I was first at HUD, was the Mark-to-Market program, which was an extensive effort to reduce where we were paying above-market rents. And I think it would be important to get you some detailed information about the reductions in rents that have been achieved through that program and the long-term preservation as well.

And there are a number of other things that we can do. I will give you one example. We have contract administrators that overlook these properties, and we are in the process, as we speak, of rebidding those contracts competitively, which we think will achieve a savings of about $37 million just on the contracting portion in the fiscal year 2012 budget. That is an example of the kinds of efficiencies that we can achieve through better management of the programs to help bring down a portion of those costs. Obviously, it does not get to the larger need, but it is an important example of the steps we can take.

The other thing I would say, though, is—and former Senator Bond was a strong proponent of preservation of these properties where it made sense—the alternate cost that you need to look at oftentimes is new construction of properties because if we lose these units, they convert to market, we stop funding them. What that often means is a voucher can be more expensive in many cases as an alternative for these families. So I think it is important to look at not just the status quo and to try to bring down those costs, but also what is the alternative if we lose those units, they opt out of the programs, and what the costs of that are as well. And so we have a number of things that we are trying to do to preserve those properties, including a proposal with the Department of the Treasury this year to improve the low-income housing tax credit and the way that it preserves these Federal properties.

Senator COLLINS. Mr. Secretary, I am informed that the chairwoman is unlikely to be able to return. I am going to take that as a good sign that they are making some progress on the budget since long meetings usually indicate that there are some true negotiations going on.

PUBLIC HOUSING AUTHORITIES

Before I let you go, however, I do want to return to an issue that was raised at the beginning, and that was these truly alarming and unacceptable accounts of fraud and corruption and mismanagement of PHAs. I know that in the Philadelphia case, you clearly are on top of that. You are directing that the board resign. The director has been replaced.

But if this kind of fraud and corruption can occur, it suggests to me that there are some systemic weaknesses in HUD's oversight of the PHAs. What are you doing to make sure that you not only do effective corrective action when such fraud occurs, but that you have internal controls or other oversight mechanisms that prevent it from occurring in the first place?

Secretary DONOVAN. A very important question. I really appreciated the perspective you had on looking at the program and the structure of how we fund public housing systemically because I do think in the long term that is a very important way to move the program to ensure that there is greater discipline and there is a different way of approaching it. And it has worked very effectively in all the housing we have produced the last 25 years.

More specifically to your question, one of the key things that we are doing is establishing a dedicated team with improved financial information through the next-generation voucher management system that we are putting together with TI funding that the subcommittee gave us last year. That dedicated team would go in much earlier where we see early financial warning signs. It is a cross-agency team. So it includes public housing folks, folks from our enforcement center, and if necessary, as we have done in Pennsylvania in Philadelphia, to bring in forensic accountants or other outside help to support the team to make sure that we catch it early.

The goal there is—today we have about 175 troubled housing authorities. Again, that is less than 5 percent out of the thousands around the country. But the goal is to reduce that by more than two-thirds to about 50 troubled authorities. I think it will be difficult for us to get to zero, but our goal is to reduce it by two-thirds through the application of this team and the new systems that we are putting in place.

Senator COLLINS. So you are putting into place not only a team that can go in and look at these troubled authorities, but some sort of financial reporting that will raise red flags so that you can be on top of this sooner.

Secretary DONOVAN. Yes. In fact, we do have a real estate assessment center which has automated tools to review financials that has automated flags, if you will, that come out. The problem, to be frank, is we have a number of systems that do not talk to each other at this point. It is not just that the information is not collected as effectively and clearly as possible. It is also that the follow-up to that information is not strong enough. And that is why, in addition to the better systems, we also need this team that would take that information and act on it much more quickly and earlier because, as we have seen in Philadelphia, if we get to the problem earlier, we end up not having these kinds of results.

PUBLIC HOUSING AUTHORITY OVERSIGHT

Senator COLLINS. I know that HUD is without an inspector general at this point. There is an acting inspector general. I would also encourage you to work very closely with the new inspector general when he or she is appointed. The former inspector general, obviously, uncovered a lot of problems. In too many Departments I have observed an adversarial relationship between the inspector general and the Secretary or Administrator, and it really should not be. It should be an opportunity for the IG to identify program weaknesses, mismanagement, vulnerabilities, and should be welcomed by the Secretary. And I hope that will be your approach as well.

Secretary DONOVAN. I could not agree more. I have seen personally, when those relationships do not work, the negative impacts that it can have.

I would encourage you to reach out to Ken Donohue, who recently left as our inspector general. It may sound strange to say about an inspector general, but we miss him. He was actually a very good partner with us, told it like it was. When there were issues, he clearly brought them to our attention.

But I would say, for example, the American Recovery and Reinvestment Act (ARRA) was an example where we worked very effectively together. The troubled housing authorities are a good example. We set up, in consultation with the inspector general, a system where we preapproved every single $1 that the troubled housing authorities were going to get to make sure they were used effectively. We made the decision that we did not want to harm the residents by not giving them the benefit of ARRA funds, but we were going to make sure that they were used effectively. In fact, every one of those troubled housing authorities was able to obligate the money on time. And as Earl Devaney has said broadly about ARRA, we have seen less than one-half percent of all of the funding in ARRA challenged in any way, and a far smaller fraction of that where charges have actually been brought.

So I think we have improvements to make, but I would encourage you to reach out to Ken to get an honest assessment of what we have done together.

Senator COLLINS. Thank you.

Secretary DONOVAN. And we certainly expect to bring that same kind of relationship to working with the new inspector general.

Senator COLLINS. Of course, when you apply even one-half percent against $800 billion, it is still troubling. But I agree with you that ARRA, because we had controls in place from the beginning, was far less vulnerable to waste, fraud, and abuse than many Federal programs. But I think the key was that there was such a focus and there was so much more transparency than is typical of many Federal programs. So I think we can learn from that.

Mr. Secretary, I want to thank you for your time this morning and for your very straightforward responses and clear presentation of the administration's budget. I look forward to working closely with you.

I appreciate the chairwoman allowing me to take over for her today. I will tell her staff that I enjoyed it very much and that I look forward to working with Madam Chairman Murray in what I know is going to be a great partnership with you as well.

ADDITIONAL COMMITTEE QUESTIONS

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

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

PUBLIC HOUSING AUTHORITY RESERVES

Question. The Department of Housing and Urban Development's (HUD) budget request for fiscal year 2012, proposes to fund the Public Housing Operating Fund by tapping into "excess reserves" held by public housing authorities (PHAs). The Department believes that it can fully fund the needs of housing authorities at $3.8 billion by requiring PHAs to use reserves of around $1 billion to meet their needs through this offset policy. Yet, HUD regulations have encouraged PHAs to build up reserves.

Why does HUD encourage PHAs to hold reserves?

Answer. HUD believes that given PHAs' responsibilities as property owners and managers, agencies should retain some level of operating reserves. As property managers, PHAs must retain some level of contingency funding which is necessary to minimize the many risks associated with short-term expense fluctuations, including, for example, spikes in energy and utility costs that may not be covered by appropriations for up to 18 months; expenses associated with staff turnover, temporary staffing needs, or surge capacity; as well as emergencies related to the habitability of their properties. HUD's recommended level of minimum reserve is differentiated by PHA size such that agencies that have 250 units or more should maintain a minimum balance of 4 months of operating expenses. HUD recommends that small agencies with less than 250 units maintain a minimum reserve of 6 months of operating expenses.

These recommended levels are consistent with the current interim Public Housing Assessment System (PHAS) rule that awards points for a PHA's level of liquidity and ability to cover current liabilities. The current PHAS provides maximum points to all PHAs when their reserve balance is equal to 4 months of operating expenses based on their current liabilities.

Question. What are the eligible uses of the operating fund reserves, and specifically can these resources be used for capital expenditures?

Answer. In 1998, the Quality Housing and Work Responsibility Act (QWHRA) established the Operating Fund program, in section 9(e) of the Housing Act of 1937, to provide for the operation and management of public housing. Eligible uses of operating funds would include those activities specifically listed in section 9(e) of the Housing Act of 1937. Additionally operating funds may be used for routine and preventative maintenance, addressing unforeseen emergencies, and to pay debt service on approved operating fund finance projects.

Development and modernization activities within the public housing program are often broadly and collectively referred to as capital activities for which capital funds may be used. Notwithstanding section 9(g)(2) of the Housing Act of 1937, a PHA may not use its Operating Funds for capital activities, or more specifically development and modernization, except as permitted by statute (i.e., Operating Fund Finance Program requiring HUD approval). The Operating Fund Finance program is attracting greater interest, but has had limited usage to date involving relatively small amounts of funding. While the Department is deeply committed to providing PHAs maximum flexibility under the Housing Act of 1937, and committed to the preservation of public housing, HUD does not have the authority to expand the uses of operating funds beyond those set forth in the statute. In conformance with the statute, the Operating Fund regulations at 24 CFR 990 reiterate that the fund was established for the purposes of the operation and management of public housing, and not development or modernization.

Question. If this policy is adopted it will be critical that HUD can accurately calculating PHA reserves. Policies must be implemented using accurate, timely data, which has been a challenge for HUD.

If you were to implement this policy, what specific data would you use to calculate "excess reserves," and would it be timely? For example, if PHAs have used their reserves during the continuing resolution (CR) period, would this information be reflected in the data you would use to make your calculations?

Answer. Public Housing Operating reserves are calculated using the PHA's financial statement submissions into the Financial Assessment Subsystem. Data is from the four quarters ending March 31, 2010, June 30, 2010, September 30, 2010, and the Department will have December 31, 2010, financials available within the next 30 days. If the PHA has failed to submit timely financial data, the previous year's information may be used. PHAs have 90 days from their fiscal year end to submit unaudited statements and 9 months to submit audited financial statements. The Department is currently reviewing alternatives for allowing PHAs to confirm or validate the amount of operating reserves HUD has calculated for their agency.

The operating subsidy is paid on a calendar year basis. Should the Department operate under a CR, PHAs will have full eligibility funding, as provided by the 2011 Appropriations Act, to cover operating expenses from October 2011 through the end of December 2011. Should an appropriations act not be passed by January, the Department generally provides additional funding to PHAs, as made available to the Department under the CR. The amount of operating subsidy provided to PHAs under a CR is based on an estimated eligibility level. In 2011, PHAs were provided 93 percent of their estimated eligibility during the period covered by a CR. Given the additional operating funds provided to PHAs during periods covered by a CR, the amount of reserves used during this period could be minimal—conditioned upon the terms placed in the CR by the Congress.

Question. The budget states that under this proposal, PHAs would be allowed to have somewhere between 4–6 months of reserves.

What is the basis for 4–6 months, and how will you determine what an adequate level of reserves is?

Answer. The reserve calculation is an assessment of PHA liquidity, or their ability to cover current liabilities with current assets. The calculation is comparable to the "excess cash" definition used within HUD's Multifamily program. When determining what the appropriate reserve level should be for agencies, the Department looked across other project-based programs within HUD and other Federal agencies as well as non-Federal property managers. Within the nonprofit market, recommendations for reserves ranged from a high of 2 years' budget, to a low of 1 month's payroll. Financing programs, such as HUD's Mark-to-Market and the Federal Housing Administration (FHA) loan programs used a very different methodology to establish financial risk and the value of a long-term debt as the denominator to establish a recommended reserve level. The Rural Development Multifamily Housing Program requires participants to maintain reserve balances of 10 percent of the total development cost, which was also not directly comparable to pegging reserves to expenses. HUD's recommended level of minimum reserve is differentiated by PHA size such that agencies that have 250 units or more should maintain a minimum balance of 4 months of operating expenses. HUD recommends that small agencies with less than 250 units maintain a minimum reserve of 6 months of operating expenses.

After reviewing the many different housing standards HUD derived its reserve objectives based on the operational requirements of PHAs and the specific exigencies that occur (see previous response).

IT FUNDING AND MANAGEMENT

Question. HUD is charged with the oversight of thousands of PHAs, as well as thousands of other grantees including cities, counties, and FHA-approved lenders. One of the essential elements to effective oversight is comprehensive and accurate data. HUD has placed a priority on addressing IT challenges, particularly through the modernization efforts that are part of the Transformation Initiative (TI).

When the funding for these information technology (IT) investments was provided in fiscal year 2010, the Congress also required the Government Accountability Office (GAO) to examine HUD's ability to implement the processes and develop the capacity necessary to ensure that these critical investments result in improved capabilities and are delivered on-time and on-budget. GAO's work is on-going, but it has found that HUD is making progress in bringing the discipline and processes necessary to meet its goals. In this year's budget, the Department is proposing to move modernization efforts from the Transformation Initiative into the Working Capital Fund (WCF). I am concerned about this change, especially since GAO raised concerns that the Chief Information Officer's (CIO) lack of central budget authority over all departmental IT spending has been an obstacle to the modernization efforts under way.

What is the rationale for moving the modernization efforts to the WCF?

Answer. Effective August 1, HUD moved the allotment holder authority for WCF and TI allocations to the CIO. This change will:

—provide greater control over the use of HUD's limited IT resources; and
—support the implementation of the same rigor that HUD is applying to the TI/IT projects to investments that are funded under the WCF. HUD is creating a single IT Investment Portfolio that provides a consolidated view of all of our IT investments regardless of funding source, such as, the WCF, TI funding, or carryover funds. The consolidated portfolio will provide a clear separation and view of how much of each funding source is used for each investment, across multiple fiscal years. This does not mean that HUD is transferring the TI projects that support HUD's modernization into the WCF.

The additional TI funding provided in fiscal years 2010 and 2011 was needed to jump start the transformation of FHA, voucher management, and other critical HUD functions and has helped HUD build an IT management framework that reduces the risks associated with business and IT transformation efforts. Our approach was recognized in the GAO report and has built a new investment transparency partnership with the Office of Management and Budget (OMB) that brings project issues to the forefront early before investments fail.

With the advent of the key seven development projects in fiscal year 2010 it is important to co-relate for fiscal year 2012 the entire HUD IT program both development and operations and maintenance in order to:

—capture the changes as we decrease the number of our operating systems; and
—to calibrate and harmonize the Operations and Maintenance requirements as phases of the new projects come on line.

The fiscal year 2012 proposal will allow us to continue to integrate important component efforts, but in future requests the Department may again recommend using some portion of TI for IT. The possible use of TI resources in the future will follow the original premise of the TI fund which is to provide necessary and adequate investments in key areas, including IT, that are key to reinventing the Department and ensuring that priority results are delivered. In addition, developmental funding needs may need to be addressed as complex cost allocations mature over time: as further enhancements to existing IT investments are supported by program performance improvements or as the changing landscape of IT investment presents desirable new opportunities that the Congress and the Department support.

Question. What steps are being taken to address the concerns raised by GAO and ensure HUD's ability to manage and deliver IT investment won't be undermined by this change?

And what specific steps is HUD taking to ensure that the CIO will have adequate control over all IT spending?

Answer. As of August 1, 2011, the CIO is the HUD IT allotment holder. This move provides the CIO with greater control over IT funding across the Department.

The management controls developed and used for the transformation initiatives are now required for all IT activities at HUD. We are also consolidating our IT investment activities to provide full transparency into where all of HUD's resources are allocated to ensure that we are supporting the most critical operations of the agency and closing service delivery performance gaps. This change helps HUD achieve that goal by ensuring that CIO has insight into all of the planning and allocation of IT funds across the agency.

This holistic view will better enable HUD to look at all projects, systems, and services grouped as an investment to see where there are gaps, duplications, and other inefficiencies in the portfolio. Additionally, HUD will perform regular reviews of IT investments through the IT governance structure to make decisions to add, continue, modify, or terminate investments.

In the new IT governance structure, there are two subcommittees that report to the CIO, one looks at IT investments and performance from the overall investment and budget perspective, another subcommittee looks at each project, systems, and service; and reviews the work as it is completed in each of seven phases of the projects life cycle. Funding is incrementally applied to a project if the project successfully completes the designated control review before being approved to move to the next phase of the project.

The consolidation of activities into one portfolio does not change the source of funding approved for each IT activity.

TRANSFORMING RENTAL ASSISTANCE PROGRAM FUNDING

Question. The President's budget for fiscal year 2012 request $200 million for Transforming Rental Assistance (TRA) Initiative. The President requested funding for this program in fiscal year 2011. At that time, I raised concerns about the lack of details and the uncertainty around the long-term costs associated with this proposal.

Please explain the differences between the fiscal year 2011 proposal and the fiscal year 2012 request for TRA.

Answer. The primary goal of the TRA Initiative remains the same—to preserve affordable housing assistance by facilitating access to private capital to address the large backlog of capital needs. The main difference between the two proposals is that the 2012 request calls for a Rental Assistance Demonstration (RAD), allowing for the conversion of only public housing and renewal of certain multifamily "legacy" programs—the Rent Supplement, Rental Assistance Payment, and Section 8 Moderate Rehabilitation programs—to long-term Section 8 rental assistance contracts. The demonstration would allow for a limited number of properties funded under these programs to convert to Section 8 contracts, versus the entire program inventories. The number and cost of conversions will be constrained by the amount appropriated in fiscal year 2012. The demonstration would be voluntary, includes an evaluation component, and does not affect HUD's other multifamily housing programs.

While some PHAs, private owners, and resident groups expressed concerns with the breadth of changes that would result from last year's approach, most were nonetheless supportive of the core components of the proposal. The productive feedback the Department has received from a wide variety of stakeholders has shaped this year's demonstration. This year's proposal seeks to address the fair criticisms we heard, and test out many of the viable recommendations offered by a wide range of stakeholders. Through the feedback process the Department embarked on, we heard general agreement among those in the affordable housing industry that a long-term, rental assistance contract—with reasonable rights for current residents and measures in place to assure continued public control and long-term affordability—offered a more sustainable option over the long-term than the limited funding currently available to public housing and the legacy programs. Although this proposal has faced numerous challenges, we know that the need is too great—and this opportunity too important—to risk shying away from continuing to seek a solution for properties most at risk of being lost from the affordable housing inventory.

Question. What are the long-term costs associated with TRA proposal included in the fiscal year 2012 budget, as well as those associated with a full implementation of TRA?

Answer. The fiscal year 2012 budget request includes $200 million for the incremental cost of converting or renewing an estimated 140,000 to 180,000 units of public housing and certain HUD multifamily legacy programs to long-term Section 8 rental assistance contracts under the RAD. The long-term incremental costs of conversion or renewal for the cohort of properties participating in the demonstration through the fiscal year 2012 appropriation will be $200 million. As this proposal is a voluntary demonstration, a long-term cost would be dependent on the demand for these types of conversions by public housing agencies (PHAs) and other owners/operators, and their ability to secure other sources of equity capital, including low-income housing tax credits, which are not currently accessible to PHAs except in a limited number of mixed-finance transactions.

Question. What are the specific ideas and policies that HUD will be looking to assess during this demonstration? And how will HUD ensure that any lessons learned will be applicable on a broad basis?

Answer. Of particular concern, the Department is attempting to evaluate: the amount of private financing leveraged, the cost of preserving the converted properties in the affordable housing stock, the financial and programmatic impact of providing residential mobility to those in converted properties with continuing tenant-based rental assistance, the impact of conversion on residents' continuing receipt of rental assistance, and eligible families' access to diverse communities of their choice. The proposed size and structure of the demonstration will ensure that a sufficient variety of projects and PHAs will participate so that lessons can be gleaned for the broader stock of affordable housing.

NATIONAL RESOURCE BANK AND THE TRANSFORMATION INITIATIVE

Question. The budget request for fiscal year 2012 includes a request for funding for a National Resource Bank (NRB) under the TI. This proposal is based on interagency approach to improving the capacity of HUD grantees who also receive funding from other Departments and agencies to better implement and manage Federal resources. There is also a focus on improving the long-term planning and outcomes of investments.

Explain why funding is only included in the HUD budget, and the role that other agencies will plan in this initiative.

Answer. The NRB is part of a partnership between HUD, the Department of Transportation, the Environmental Protection Agency, the Departments of Commerce, Education, Agriculture, the Treasury, Energy, Health and Human Services, Justice, and Labor, the Small Business Administration, and the Army Corps of Engineers; and it is managed by the White House Domestic Policy Council. This initiative, known as Strong Cities, Strong Communities (SC2), is focusing on the ways the Federal Government can better assist America's most distressed cities, towns, and regions to reach their full economic potential and improve the quality of life for their residents.

To be a better partner to localities that have faced significant long-term challenges, the Federal Government has to work as one government, not a fragmented set of Departments. We can do this by helping cities leverage existing Federal resources, removing roadblocks that accompany the use of Federal funds, and providing access to experts in the areas of focus for the community. Some options include better coordination by staff across Federal agencies, which the partnership has begun, but a clearly missing piece is improving the basic operating efficiency and staff capacity in local governments. This does not clearly fall into an existing program, and the NRB will fill this gap.

HUD's mandate makes the Department a natural fit for leading this effort. HUD has unique authority from the 1965 Department of Housing and Urban Development Act to "exercise leadership at the direction of the President in coordinating Federal activities affecting housing and urban development; provide technical assistance and information, including a clearinghouse service to aid State, county, town, village, or other local governments in developing solutions to community and metropolitan development problems."[1] While this authority has not always been exercised, on-going structural problems and recent economic conditions require a response that goes beyond business as usual, and HUD's existing connections to local

[1] 42 U.S.C. 44 section 3532(b).

governments through its Office of Community Planning and Development (CPD) programs is a starting point other agencies do not have.

Although HUD will lead the clearinghouse, partners at other agencies engaged in SC2 will serve as national advisors to the NRB. Partners at other agencies have been involved in drafting an Advance Notice and Request for Comment HUD has developed, will be involved in developing the criteria for and drafting the final Notice of Funding Availability (NOFA), reviewing NRB applications, and advising the development of the process for city selection. The NRB is not intended to replace the topic-specific expertise and technical assistance HUD and other agencies currently provide, but will connect communities seeking expertise on specific topics to existing technical assistance programs, ensuring an interdisciplinary and comprehensive perspective. We have had discussions with other Departments from this partnership about aligning some of the existing technical assistance they provide with the cities that apply for assistance from the NRB. HUD will provide the gateway clearinghouse to make these and other Federal programs work better for these communities, something HUD is uniquely positioned to facilitate and that otherwise will not exist.

While HUD is electing to reorient a portion of its technical assistance for this need, it cannot, and is not intending to, provide the full technical assistance resources necessary given the scope of local demand. Using an outside intermediary to run the daily operations of the NRB will make the Federal investment go further in three ways. First, it will use a limited Federal investment to leverage considerable private and philanthropic resources that would not be available to a Government program office. Philanthropic organizations have expressed considerable interest in this type of initiative, and similar efforts have leveraged their base investment up to six times through philanthropic funds, private funds and pro bono services. Second, HUD will be able to retain accountability and oversight of the program by executing a cooperative agreement with the intermediary, but will avoid the long-term commitment of additional Federal staff and a new office. Last, the outside intermediary structure taps the expertise and networks of outside philanthropy and nonprofits specializing in these issues to engage and improve Federal programs rather than spend time working around them.

Question. What are the specific benefits that are expected in the outcomes of HUD funded programs from this resource?

Answer. The NRB will help local governments harmonize Federal funding through cooperation with Federal agency partners. Since the NRB will focus on basic operating efficiency and staff capacity, high-priority outcomes for local governments involve the achievement of basic performance metrics, including reducing budget deficits and improving bond ratings. Interim outputs might include increased revenues, decreased costs, and efficient human capital changes or restructuring. Local governments and researchers stress the varying nature of the issues local governments face, so, other more specific measures will be established with the help of the technical assistance providers within each technical assistance plan. These could include good governance, expanded or new collaborations, timeliness of processes, or improving the use of Federal funds.

In a HUD-specific context, we see the NRB as an investment that will result in better program management for communities that are suffering severe economic distress and having challenges with multiple program delivery and management systems. The NRB will target these places which currently lack the staff resources to adequately manage their Federal funds and comply with statutory and regulatory requirements.

The effectiveness of the individual interventions will be evaluated, and a system will be developed for evaluating the NRB as a whole. The effectiveness of the intermediary's management of the NRB will be reviewed periodically through regular reporting, procedures for which will be established within the cooperative agreement.

ONECPD AND THE TRANSFORMATION INITIATIVE

Question. HUD has also developed a new approach to providing technical assistance to its grantees with the goal of addressing skill sets that will improve outcomes across a variety of HUD programs, called OneCPD. This is a departure from HUD's traditional approach to technical assistance, was more focused on program compliance. What are the outcomes expected from OneCPD?

Answer. The outcomes will vary, depending on what type of technical assistance (TA) a community needs. However, the Department is committed to actively working with the grantee and the TA provider to reach these goals. By establishing written agreements for each engagement, performance will be assessed for the specific community receiving TA, taking into account market conditions and expectations. The effectiveness of all TA will be judged according to the capacity needs of the recipient, and not an overly general national standard.

In addition, the Department expects that OneCPD will be more efficient and effective than prior efforts at delivering technical assistance by:

—Replacing five separate TA programs managed by four separate program offices with a single program managed by a single office;
—Eliminating overlapping TA engagements by establishing a single approving body;
—Involving fewer HUD staff in the management and oversight of TA;
—Requiring TA to be delivered under a written agreement signed by all participants (grantee, HUD, TA provider) that specifies the responsibilities of the parties, and the specific outcomes to be achieved to guarantee active involvement and ensure accountability;
—Ensuring that the necessary and appropriate TA is provided according to a required needs assessment that will precede TA engagements; and
—Ensuring a "place-based" problem-solving approach, by identifying a single point of contact for each grantee in the local HUD field office to coordinate across all CPD programs.

Furthermore, the OneCPD competition itself was structured as a "Request for Qualifications" which simplified—and shortened—the review process, and ensured that the size of the awards was commensurate with the ability of the grantee to carry out the program effectively.

HUD is accountable for ensuring that the funding we administer is spent responsibly. Grantees that lack strong management systems, have programs that are underperforming, or that are addressing monitoring findings will be prioritized for TA. CPD is aggregating quantitative and qualitative indicators to assess grantee capacity gaps. The activities funded under OneCPD include:

—Formal needs assessments, which precede every engagement to ensure that the appropriate TA will be provided to the right people;
—Direct TA and training to assist grantees in addressing gaps in capacity to improve program performance and compliance;
—The development of tools and products that assist grantees in automating their systems, improving financial management, and attend online courses; and
—Self-directed and group learning, that brings together grantees, both in-person and virtual environments, to discuss similar challenges, and to learn and develop new skill sets at their own pace or as their workload permits.

Further Background

OneCPD enables CPD to develop a new level of technical assistance and capacity building to meet the challenges facing Federal funding recipients. Block grants are designed for local decisionmaking. However, the assumption has been that grantees have the capacity and skillsets to make market-based decisions when, in reality, many grantees do not, due to a lack of investment and budget cuts. The Federal role is two-fold:

—build capacity of local and State governments to support local decisionmaking; and
—conduct monitoring and oversight to ensure compliance with applicable regulations and to ensure appropriate use of Federal funding. OneCPD balances these two roles where traditionally HUD has delivered only compliance-oriented technical assistance, funded through individual program accounts and separately geared toward the rules governing HUD's disparate programs. OneCPD rolls these accounts into one broad technical assistance effort to be funded from global transfers to the Transformation Initiative Fund. Central funding through TI has allowed the Department to develop comprehensive technical assistance efforts that focus on skills needed to improve program outcomes not just reinforcing program compliance rules. This innovative thinking has led to the OneCPD technical assistance and capacity building model.

OneCPD "flattens" the bureaucratic structure needed to manage technical assistance by adopting a "place-based" approach that assesses community needs as a whole, and works across programs to deliver technical assistance that addresses those needs. It allows synergies impossible in a siloed approach. For example, in fiscal year 2010's Section 4 Program NOFA, CPD, for the first time, asked applicants to set aside 10–15 percent of their grant amounts to align with place-based strategies that result in joint projects and technical assistance efforts. Through OneCPD, TA can be combined to assist both HOME and Community Development Block Grant (CDBG) users during the same visit. This reduces costs for HUD and for local grantees.

OneCPD TA will address the needs of all of CPD's grantees—including more than 1,200 CDBG recipients, nearly 650 HOME recipients, more than 200 Housing Opportunities for Persons With AIDS (HOPWA) recipients, and thousands of homeless grant recipients and subrecipients. Investments in TA will be allocated based on needs assessments by HUD, to ensure that we are working with grantees on underlying issues not symptoms, and that the right people are involved. OneCPD will help grantees assess their local markets; design housing, community, and economic development programs best suited to meet local market demands; leverage private and public resources; and improve their understanding of and compliance with statutory and regulatory requirements.

NATIONAL RESOURCE BANK AND THE TRANSFORMATION INITIATIVE

Question. What are the specific similarities and differences between OneCPD and the NRB?

Answer. OneCPD is a broad initiative that touches nearly all geographies across the Nation, including all States and territories that receive CPD funds and their small city and nonprofit subrecipients. The NRB is a complementary program to respond to the basic capacity needs in the most distressed communities, with a focus on coordinating resources across Federal agencies. These communities have long-standing overarching operational issues that need to be addressed. The programs will work closely together, responding to the needs of grantees to develop cross-agency strategies through the NRB or to improve housing and community development capacity with OneCPD.

Similarities

The programs are similar in that they work with the city and county government grantees, the direct or indirect recipients of CPD funds. PIH has complementary programs to work with housing authorities, such as the Troubled PHAs Initiative.

All of these programs will build the capacity of HUD's grantees to do more with the funds we provide, and are part of HUD's transformation from nationally uniform, topic-specific assistance to a place-based approach specific to local needs and local market conditions.

All of these programs will take the lessons learned in one community to others.

Differences

OneCPD meets grantees at their current level of capacity by providing a range of capacity building products based on past performance and the results of needs assessments. Products include intensive onsite TA around management consulting, designing programs to markets, comprehensive planning, and leveraging resources; skills-based training on finance and asset management; and Web toolkits for sharing model documents that support development projects and internal operations. OneCPD will not only build the capacity of lower performing grantees to create market-based affordable housing, community development, and economic development strategies, but will also enable middle performing grantees to increase the impact of their programs and to capture and share the innovations of high-performing grantees.

OneCPD operates in concert with the current HUD/CPD headquarters and field infrastructure for monitoring and oversight of grantees. OneCPD activities are formalized under memoranda of agreement to establish the roles and expected outcomes of each party, including HUD, the TA provider, and the political and administrative leadership at the grantee level. Once a TA engagement has formally ended, the HUD/CPD infrastructure is in place to follow up with grantees, support implementation of changes, and hold grantees accountable for agreed upon outcomes.

The NRB is focused on just the most economically distressed communities. Places that might be losing population or have experienced major economic shifts have told us they need more basic assistance before they are able to address affordable housing and community development issues.

—The NRB is not topic-specific expertise, but general TA for cities leveraging HUD as well as other Federal resources.

Examples of assistance to grantees:

OneCPD/Joint Core Skills Curricula:

—Assessing conditions in the affordable segment of the local housing market;
—Designing and appropriately implementing housing, and community and economic development programs based on assessments;
—Understanding of and compliance with statutory and regulatory requirements;
—Development finance; and
—Construction and rehabilitation management.

National Resource Bank:
—Budgeting: revenue and service analysis;
—Performance management;
—System and process improvements across various local departments or agencies;
—Human capital policies and procedures and staff capacity assessment;
—Coordinating long-term goals and plans across multiple topics and agencies; and
—Strategically leveraging investments and multiple Federal funding streams.

SECTION 811 FUNDING AND REFORM

Question. Secretary Donovan, HR 1 as passed by the House allocates $90.36 million for the HUD Section 811 program. We understand that this amount would not allow for production of any new project-based units in the current fiscal year. While this is an enormous concern, there appears to be a larger threat to renewal of operating and rent subsidies for current 811 units—both project-based contracts and "mainstream" tenant-based vouchers.

Your budget projects the cost of 811 PRAC renewals for fiscal year 2012 at $85 million. This is a $36-million-increase over the fiscal year 2011 estimate—a 70-percent increase. What accounts for such a large 1-year increase in renewal costs?

Answer. The fiscal year 2011 PRAC 811 Renewal/Amendment amount presented in the fiscal year 2012 budget did not reflect HUD's estimate of actual 2011 needs, but rather HUD's assumptions at the time the budget was transmitted. HUD's 811 PRAC Renewal/Amendment estimate for fiscal year 2011 was, and still remains, at approximately $66 million; however, the budget assumed that a full-year CR would be enacted, with no change to the fiscal year 2010 appropriations provided for the 811 account, yielding only $48.9 million.

The increase from HUD's fiscal year 2011 estimate of $66 million to $85 million in fiscal year 2012 is roughly 28 percent. The majority of this increase results from an estimated 184 contracts that will be funded with PRAC Renewal/Amendment program funds for the first time in fiscal year 2012 (i.e., contracts previously funded by the original initial PRAC).

Question. Late last year the Congress passed the Frank Melville Supportive Housing Investment Act—legislation reforming and modernizing the Section 811 program. The new law (Public Law 111–374) creates new authority for HUD to direct funds toward a new "multifamily" option, as well as a new "PRAC-only" competition for States.

Can you please update the subcommittee on progress in implementing the new law?

Answer. HUD is implementing Public Law 111–374 through a number of administrative vehicles. The new "multifamily" option will be implemented through an upcoming NOFA. As part of that effort, HUD is soliciting feedback from stakeholders on the language that was included in the 2010 NOFA which incorporated several elements of Public Law 111–374. In addition, HUD is currently developing regulation to support the "PRAC-only" option. A Notice of Proposed Rulemaking is expected to be issued in the late summer or early fall. HUD has been and will continue to work closely with stakeholders, State housing agencies, and State Medicaid, health, and human service agencies to ensure that this new authority will be implemented in an effective and coordinated manner. Subject to appropriations, HUD looks forward to providing "PRAC-only" funding to States starting in fiscal year 2012.

NATIVE AMERICAN NEEDS ASSESSMENT

Question. I understand you are currently undertaking a study of the housing needs of Native Americans. What is your outreach and assessment strategy?

Answer. There are two phases to the outreach and assessment strategy for the Assessment of Native American, Alaska Native, and Native Hawaiian Housing Needs.

The first phase was undertaken before the study even began, in late 2010 and early 2011, when HUD's Office of Native American Programs conducted a series of seven preliminary outreach meetings with program recipients, tribal leaders, and other stakeholders. In preparation for the study, these 2-day outreach meetings informed participants about the scope and results of prior needs studies, and the benefits of a new, accurate assessment of need. The meetings provided a forum to examine and discuss the formulation, implementation, and possible benefits of a comprehensive study on housing needs. HUD requested stakeholders' advice and assistance in planning and implementing the study. All comments, suggestions, and questions from participants were collected and documented for consideration. These meetings introduced and promoted the benefits of the study to the Indian and Alaska Native housing communities, and paved the way for willing participation and successful data collection.

The preliminary outreach meetings were held on:

—December 1–2, 2010, in Denver, Colorado;
—December 14–15, 2010, in Reno, Nevada;
—January 12–13, 2011, in Honolulu, Hawaii;
—January 26–27, 2011, in Oklahoma City, Oklahoma;
—February 23–24, 2011, in Hollywood, Florida;
—March 2–3, 2011, in Seattle, Washington; and
—March 23–24, 2011, in Anchorage, Alaska.

HUD has convened an expert panel consisting of a group of nine scholars and American Indian/Alaska Native representatives who will meet four times over the course of the study. The first, day-long meeting was held in April 2011 in Washington, DC to solicit input regarding the project's research design. Three subsequent meetings will allow for guidance and feedback regarding sampling and data collection instruments, a presentation of interim report findings, and a presentation of the final research findings and analysis to solicit the panel's substantive comments and suggestions, which will guide the researchers in the preparation of the final report.

To further inform tribal leaders about the study, HUD Assistant Secretary for Policy Development and Research, Raphael Bostic, spoke about the study at the National Congress of American Indians' mid-year conference in Milwaukee, Wisconsin, in June 2011. The Assistant Secretary also gave an update on the study to the National American Indian Housing Council at its meeting in Phoenix, Arizona, in May 2011. Another meeting for tribal leaders is scheduled for late July 2011.

Once the 40-site sample of tribes has been selected, the contractor (the Urban Institute) will begin the second phase of outreach and assessment. The first steps are as follows:

—Research the tribal history and tribal leadership for each reservation, tribal area, or native village selected and gain advice on working with the tribes from knowledgeable advisors and HUD staff.
—Through email or phone, identify a tribal contact to receive the project information and accompanying materials.
—Provide informational material to a tribally designated contact for dissemination. This will include a brochure, a fact sheet about the project, reports or briefs of projects conducted by the National Opinion Research Center of the University of Chicago (NORC), a sub-contractor to the Urban Institute, and endorsement letters.
—Conduct a follow-up call at a pre-arranged time with the tribal contact to address any questions and inquire about tribal research protocols and requirements. Then take next steps as advised by the contact.
—Conduct a presentation for tribal leaders, either by phone or in person, which addresses:
  —The study and its importance/benefit to the tribe;
  —An overview of questions to be asked in the household survey;
  —A description of NORC's role in the project as an impartial data collector;
  —NORC's Pledge of Confidentiality and Ethics Standards; and
  —Review of survey tasks, including preparing a list of addresses on tribal lands (if required), hiring and training field interviewers, conducting interviews and housing observations, and providing respondent incentives.
—Meet with the tribal contact or other designated person to discuss next steps.

The study will require the collection of a substantial amount of information from three main types of sources:

—background interviews and literature reviews;
—data from secondary sources; and
—primary data collection.

The researchers will review relevant research literature published since 1996 and interview people knowledgeable about conditions and trends in Indian country and about the evolution of the policy environment, particularly with respect to housing and housing services. U.S. Census Bureau data, HUD administrative data files, and national data files for small areas maintained by the Urban Institute will be analyzed.

A major in-person household survey in 40 selected tribal areas will be conducted with a goal of interviewing 1,280 households.

A telephone survey of all tribal housing offices will be conducted.

More in-depth, in-person interviews with local housing officials, tribal leaders, and community leaders will be conducted in 24 of the 40 tribal areas selected for the household survey.

A telephone survey of lenders that originate home loans in Indian country will be conducted (sample of 35, weighted toward those who have been the most active lenders in tribal areas).

Site visits will be made to 5 urban areas with concentrations of Native American populations and telephone interviews will be conducted with staff at Urban Indian Community Centers and other informed individuals in 25 other urban areas.

Telephone interviews will be conducted concerning the assessment of Native Hawaiian housing needs with directors of homestead associations (approximately 50), selected Department of Hawaiian Home Lands staff, and representatives of key stakeholder organizations.

The final report will be made available through HUD's Web site and copies will be sent directly to all tribal partners, OMB, and Members of Congress. The Department's protocol is to share copies with the House and Senate Appropriations Committees, including the Committee and subcommittee chairs, and the ranking minority members of those committees. HUD will also send copies to the Senate Committee on Indian Affairs, and the House Subcommittee on Indian and Alaska Native Affairs.

This project began in December 2010, and is scheduled to be completed 2 years and 9 months later, in September 2013. Household surveys and other primary data collection is scheduled to begin in October 2011. An interim report will be delivered in December 2011, and the final report in September 2013.

HEALTHY HOMES PROGRAM

Question. The Healthy Homes Strategic Plan was released in July 2009 and I understand the subsequent action plan is still under development. While you identified many housing issues that can affect an individual's health, you did not identify any clear goals, targeted populations or performance measures to focus limited resources effectively.

When do you anticipate being able to provide the subcommittee with this information and the Healthy Homes Action Plan?

Answer. The Healthy Homes Federal Strategic Action Plan has just finished clearance from OMB and inter-agency review on July 5, 2011. We are currently reviewing and incorporating the changes and comments. The final document should be available around or before September 15, 2011.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

COMMUNITY DEVELOPMENT BLOCK GRANT AND HOME PROGRAMS

Question. As a former mayor, I know firsthand how impactful Community Development Block Grants and other Federal funding can be for cities that struggle to provide affordable housing and services to the most vulnerable citizens. In California, the Governor is proposing to cut Redevelopment Agencies, which eliminates one of the major sources of funding in the State for housing and other services. Furthermore, the administration's budget proposes to reduce funding for the Community Development Block Grant (CDBG) and HOME programs, which States rely on in providing these critical services. I am concerned about the devastating impacts that the loss of these funds could have on my constituents.

The Department's CDBG program was funded at $4.45 billion in fiscal year 2010, but the administration has requested $3.804 billion for fiscal year 2012. This is a 15-percent cut to a program that provides much-needed funding for local agencies and nonprofit organizations to provide facilities improvements, human services, and affordable housing. In addition, the HOME program is proposed to be cut by 9 percent. This Federal funding has great potential to leverage private dollars, which brings development and revitalization during this economic downturn.

How will the Department help support States, such as California, that are facing major cuts to community development and housing?

Answer. The fiscal year 2011 appropriation for the CDBG formula allocation was reduced to $3.304 billion from the fiscal year 2010 allocation of $3.942 billion. This represented a 16 percent reduction in the CDBG formula program. The administration continues to advocate for the originally proposed fiscal year 2012 funding CDBG formula level of $3.69 billion which would restore some of the funding reduction in fiscal year 2011. The Department is well aware of the ability of CDBG to leverage other funding and many CDBG grantees use the flexibility of the program to ensure the maximum return on their CDBG investments. Further, HUD understands that many States and local governments are facing unprecedented fiscal pressures and that the importance of CDBG to local budgets has grown as local revenues have declined. In order to assist grantees in making the most of this funding, HUD is implementing an aggressive technical assistance effort known as OneCPD to aid grantees to better leverage and target their resources to address their needs.

AFFORDABLE HOUSING FOR LOW-INCOME SENIORS AND INDIVIDUALS WITH DISABILITIES

Question. The administration has proposed cuts to Section 202, which serves low-income seniors. In fiscal year 2010, it was funded at $825 million. However, the administration has requested $757 million, an 8-percent cut to the program. The administration has requested $196 million for housing for persons with disabilities, a 35-percent cut from the fiscal year 2010 level of $300 million.

How will the Department continue to offer affordable rental housing to low-income seniors and persons with disabilities despite these budget cuts?

Answer. In fiscal year 2012, the administration has had to make a series of tough choices in order to freeze overall spending levels. However, because of the tremendous demand for affordable housing among vulnerable elderly and persons with disabilities who are otherwise at-risk of institutionalization or homelessness, funding for the Section 202 and Section 811 programs were largely held constant in the President's fiscal year 2012 budget request. Funding for the Section 202 program was reduced by only 8 percent relative to fiscal year 2010 levels. Funding for the Section 811 actually increased by 3 percent (once Section 811 Mainstream Vouchers are accounted for with proposed transfer to the Tenant-Based Rental Assistance account).

However, to address the significant unmet need for affordable housing for very low-income elderly and persons with disabilities, HUD is currently implementing a number of administrative changes to the Section 202 Supportive Housing for the Elderly program and the Section 811 Supportive Housing for Persons with Disabilities program in order to make them more targeted and better leveraged. During fiscal year 2011, HUD initiated a series of these changes to NOFAs and guidance.

While HUD still has more work to do, the administration is confident that making these changes will enhance the programs and deliver much more value to local communities. Our nonprofit and local partners are eager to ensure the continued availability of these funds, given the incredible demand by frail elderly and persons with disabilities for affordable housing.

Among the changes currently being implemented are a number that will better facilitate pairing Section 202 and Section 811 with the low-income housing tax credit program (LIHTC). When Section 202 or Section 811 funds are used in conjunction with LIHTC, fewer HUD funds are required up-front on the capital side on a per unit basis, effectively increasing the number of lower income, frail elderly, or disabled households that the Federal Government supports as a share of the total inventory of new federally assisted low-income housing.

QUESTIONS SUBMITTED BY SENATOR FRANK R. LAUTENBERG

REPLACING THE ACTIVITIES OF THE PUBLIC HOUSING DRUG ELIMINATION PROGRAM

Question. Prior to 2002, public housing authorities (PHAs) were able to fund safety, security, and drug- and gang-prevention activities through the Public Housing Drug Elimination Program, which I created. That program was eliminated by the Bush administration.

In the absence of dedicated funding, how is your agency working with public housing to make their facilities safe and drug-free?

Answer. Safety and security of the public housing residents is part of the overall mission of HUD. Both the capital and operating funds provide certain flexibilities that enable PHAs to address safety and security concerns. Presently, improvements that promote the safety and security of public housing developments are an eligible use of capital funds. Also, the public housing operating funds enable PHAs to use operating funds to support anticrime and antidrug activities. These may include providing security or designating "special use" units for police or other anti-drug activities.

Additionally, the Department recognizes certain PHAs face greater needs toward addressing threats to the safety and security of their residents. To address this, the Department made $5 million of fiscal year 2009 and $2 million of fiscal year 2010 funds available from the Emergency Disaster set-aside under the Capital Fund for the purpose of improving safety and security at PHA properties. These funds were awarded through a competitive award process. The Department is looking at continuing this in fiscal year 2011 and beyond; however, additional funding under the set-aside depends on the demand for funds from other types of emergencies and non-Presidentially declared disasters.

EMERGENCY CAPITAL FUNDING FOR PUBLIC HOUSING AUTHORITIES

Question. In fiscal year 2009 and fiscal year 2010, the Congress allocated $20 million to address the emergency capital needs of public housing authorities, including "safety and security measures necessary to address crime and drug-related activity." After a long delay, HUD finally provided public housing authorities with a formal notification of this funding last June.

To date, how many public housing authorities have applied for emergency capital funding to address safety and security needs?

Answer. One hundred and seventy-six PHAs have applied for funding to meet safety and security needs.

Question. Of the $20 million allocated for emergency capital needs in fiscal year 2010, HUD reserved just $2 million for safety and security and needs. However, HUD indicated that this amount may be increased toward the end of the fiscal year, depending on the number of applications received for other types of eligible emergencies and natural disasters.

Has all the emergency capital needs funding for fiscal year 2010 been exhausted? If not, has the Department made additional awards to address safety and security needs?

Answer. The demand in fiscal year 2010 for emergency capital needs funding exceeds the $20 million available notwithstanding any funding made available for safety and security grants and leaves no room for additional awards to address safety and security needs. Regardless of any amount being designated to safety and security needs, capital needs resulting from bona fide emergency conditions are eligible to be funded from the emergency reserve. Furthermore, capital improvements to address these situations are eligible activities under section 9(d)(1) of the United States Housing Act and can be funded through a PHA's annual Capital Fund Formula grant.

QUESTIONS SUBMITTED BY SENATOR MARK PRYOR

DISASTER RECOVERY ACTIVITIES AT HUD

Question. Last year, the President announced that you and Secretary Napolitano would lead a Long-Term Disaster Recovery Working Group, which would report to him on the administration's efforts to improve the Nation's long-term disaster recovery apparatus. The report was promised on April 2010, when that deadline passed, the administration promised to deliver the report in August 2010. The report has yet to be delivered.

When will this report be delivered to the President and when will you and Secretary Napolitano be available to speak with the Congress about it?

Answer. The Long-Term Disaster Recovery Working Group's Report to the President is still in draft. The report was delayed following the BP oil spill in anticipation of Secretary Mabus' Report from the Oils Spill Commission. Upon completion of that report, both the Department of Homeland Security and Department of Housing and Urban Development (HUD) reconvened the Working Group.

The administration is in the final stages of agency clearance on the National Disaster Recovery Framework. Once this document has been cleared, the administration will move to clear the Long-Term Disaster Recovery Working Group's Report and deliver it to the President.

The expectation is that the report will be delivered soon and subsequently discussed with the Congress.

Question. In the fiscal year 2011 budget, HUD discussed expanding its role in disaster recovery activities given the fact that more than $20 billion in disaster Community Development Block Grant (CDBG) have been allocated in the past decade. However, the fiscal year 2012 budget contains no mention of HUD plans to expand its capacity for involvement in long-term disaster recoveries. Where is HUD in its planning for playing a more significant role in disaster recoveries?

Answer. The effectiveness of CDBG's flexibility is demonstrated by the use of CDBG as the funding conduit to assist in addressing a range of national priorities. CDBG is one the Federal Government's primary vehicles for long-term disaster recovery assistance to States and local governments. For example, the Congress appropriated $19.7 billion in supplemental disaster assistance to aid the comprehensive recovery of Alabama, Florida, Louisiana, Mississippi, and Texas following the devastation of Hurricanes Katrina, Rita, and Wilma in 2005. Furthermore, during fiscal year 2008, the Congress appropriated $300 million in supplemental CDBG disaster recovery funding to address a range of Presidentially declared major disasters occurring in the late spring and early summer of 2008 and an additional $6.5 billion in supplemental CDBG disaster recovery funding as part of the fiscal year 2009 continuing resolution to promote recovery from Presidentially declared major disasters that occurred during calendar year 2008, most notably the widespread flooding in the Midwest and Hurricanes Gustav and Ike.

Congressional support for CDBG is also evident in the increasing use of CDBG as a vehicle to provide long-term disaster recovery funding to areas of the county that have suffered from man-made and natural disaster. Since September 11, 2001, almost $30 billion in CDBG disaster recovery funding has been appropriated to assist in recovery from a range of events, including the September 11 attacks, the 2004 hurricanes, Hurricanes Katrina, Rita, and Wilma in 2005, and Hurricanes Ike and Gustav as well as Midwest floods in 2008. The Congress clearly values the flexibility of CDBG over other Federal programs in allowing States and local government to develop recovery programs responsive to local needs.

HUD did not request any fiscal year 2011 funding for CDBG disaster recovery efforts. However, HUD has been part of the efforts to re-evaluate broader Federal disaster recovery policy that was undertaken in fiscal year 2009 or fiscal year 2010. HUD has advocated for a permanent disaster recovery provision in the CDBG authorizing statute to avoid problems and delays associated with ad hoc appropriations language.

HUD also proposed a statutory codification of CDBG disaster assistance requirements and development of implementing regulations to allow the Secretary to expedite future recovery initiatives.

CDBG is the congressional vehicle of choice to assist States and local governments in long-term recovery efforts due to its flexibility and established requirements. HUD is generally able to quickly deliver the funds to the States, enabling them to design and implement their recovery programs.

A weakness in this approach is the uncertainty associated with the availability of funding as well as the amount of funding. The ad hoc nature of CDBG disaster recovery appropriations does not allow grantees to aggressively plan recovery efforts in the immediate wake of a disaster and can take the Congress several months to move on providing supplemental funds with additional time required for HUD to develop guidance based on the specific language of the appropriation.

CDBG disaster recovery assistance is funded through supplemental appropriations.

CONGRESSIONAL VIEWS AND ACTIONS

While the Congress has appropriated substantial sums for CDBG disaster recovery purposes, the Congress closely monitors HUD actions with regard to the use of these funds. The Congress generally requires that HUD provide advance notice with regard to allocations of CDBG disaster recovery funding as well as any alternative requirements established for the use of the funds. Further, the Congress has been aggressive in conducting oversight hearings on the use of CDBG disaster recovery funds and such efforts can be expected to continue into the future.

MAJOR PROGRAM EVALUATIONS/AUDITS/ISSUES

The Office of Community Planning and Development has engaged the Office of Policy Development and Research to undertake a longitudinal study evaluating the efficacy of homeowner compensation programs in Louisiana and Mississippi. This study will provide semi-annual reports on the results of the homeowner compensation programs for the next 3 years.

The HUD Office of Inspector General (OIG) has also undertaken a broad effort to review the use of CDBG disaster recovery funds in lower Manhattan and the gulf coast. To date, the OIG has identified a very limited number of significant problems with both grants initiatives.

GAO REPORT ON DUPLICATIVE GOVERNMENT PROGRAMS

Question. In a report released this month by the Government Accountability Office (GAO) entitled, “Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue”, which was requested by the Senate Homeland Security and Governmental Affairs Committee, the GAO listed 12 HUD programs among some 80 economic development programs at four other agencies that are “fragmented programs . . . [that] overlap with that of at least one other program in terms of economic development activities they are authorized to fund.” The report goes on to say that the funding for these 80 programs in fiscal year 2010 amounted to $6.5 billion. Was HUD contacted by GAO during this study and is the Department aware that GAO has concluded that 12 of its programs are duplicative to programs at other Departments?

Answer. HUD has been contacted by GAO, and is aware of the report's conclusions. In its earlier studies GAO notes that Federal programs across four agencies may have similar purposes but different grantees, or different purposes for similar grantees. In many cases Federal programs may seek to benefit similar populations, but be designed to address different barriers to economic growth, or fill different gaps between what private markets will serve and the mission of the program and the agency. GAO concluded that many of the programs studied funded only one or two activities, and that these narrowly targeted programs were most likely to overlap.

While HUD's focus on the needs of low- and moderate-income people is distinct from that of other agencies, the eligible uses of economic development program funding are generally quite flexible. This allows for faster and more accurate responsiveness to unique local market conditions and particular opportunities. Grantees can identify gaps in the activities funded through the private and public sources available in a particular situation and within statutory and regulatory limits can support project needs that are not covered by other sources of funds available to the grantee or the project. This flexibility is critical to doing business effectively with the private sector, and to securing sufficient additional investment to sustain activities with lower subsidy levels over time. HUD's core economic development program, the CDBG, is the Federal Government's largest direct economic development assistance program. To the degree that overall efforts are further focused, they should be directed toward HUD's overall programmatic efforts.

Also, GAO uses the Catalogue of Federal Domestic Assistance numbers to identify programs for inclusion in this effort and this approach makes CDBG appear as four different programs when it is a singular program providing funds under virtually identical rules to four groups of governmental entities. CDBG is a formula driven program ensuring that grantees have a constant flow of funds over time as opposed to the competitive nature of the other HUD programs cited and virtually all other programs included in GAO's review. CDBG grantees make the decisions regarding the use of CDBG funds and may or may not choose to use the funds for economic development purposes. The Section 108 Loan Guarantee Program is part of the CDBG program and provides a unique 100-percent full faith and credit guarantee backed by CDBG grant funds, a program design not duplicated by any other Federal program.

Question. What sort of interagency cooperation takes place between HUD and its partner agencies with similar economic development goals to ensure that programs are not being duplicated and that similar populations aren't being served by multiple programs at different agencies?

Answer. HUD, through the Office of Economic Development, has initiated collaborative discussions with several agencies that support economic development activities through support for government, business, financial institutions, and nonprofits. The aim of these conversations is to provide information to HUD grantees (both that receive block grants and those that receive competitive awards) to assist them in making strategic investments of block grant funds for economic impact, and effective proposals for competitive grants. Information gained will be disseminated through a variety of outlets including new online information for grantees and staff, better availability of information for staff working with grantees on economic development issues, and others.

In addition, in many cases Federal programs may seek to benefit similar populations, but be designed to address different barriers to economic growth, or fill different gaps between what private markets will serve and the needs of low- and moderate-income people. For example, HUD economic development programs may be used to help build facilities, purchase equipment, or create infrastructure necessary for business location and retention, with the aim of creating or retaining jobs for low-income people. This is a very different entry point to the jobs goal than supporting workforce development services for low-income people, or from services to business owners to support managerial strength.

Competitive economic development programs, such as the Rural Innovation Fund, complement the array of block grant funding for urban and rural areas, under which programs are often sized by block grant formula to provide a consistent level of funding for a particular geography or population. Funding for targeted new investments, which can attract other capital and expand the opportunities for low-income people, is often not available in systems that are focused on maintenance of existing service levels. In addition, even the consistent funding sources can be intermittently available in rural communities—for example CDBG funds for smaller cities are distributed competitively by State governments, and generally are not sufficient to meet all of the needs documented in rural areas at one time. Competitive programs provide targeted capital to establish new projects or initiatives.

In addition to criteria related to program outcomes, the criteria used to select proposals for competitive programs prioritize the realistic ability to leverage other public and private resources (including firm commitments of other funds at the time of application and realistic plan for attracting additional sources), capacity to complete the project, and sustainability of the endeavor. This reduces duplication through incentives to target available sources strategically and make the most efficient use of HUD funds. Competitions also prioritize applications that that have the ability to sustain funded activities over time, after the period of HUD funding is completed. The grants create the potential for real economic growth and decreased dependence on Federal resources in the long term.

Question. What sort of process have you put in place at HUD to ensure that programs within your own building are neither duplicative nor wasteful?

Answer. The programs administered by the Office of Economic Development are competitive, which allows the Office to underwrite proposals made by applicants for funding. These proposals include specific budget information showing all sources and uses of funds anticipated for the project, and financial projections that allow the Office to understand the prospective financial viability of the project over time. Substantial points are given under the competitions for leverage of other funds, with strongest (and sometimes exclusive) preference for funding that is firmly committed at the time of application. This mechanism ensures that competitive applications are using HUD funds in the most efficient way to fill the gaps in their unique investment situation.

As stated above, for economic development activities provided under the CDBG program, grantee communities are responsible under the regulations for sizing assistance in accordance with regulatory financial management regulations and underwriting guidelines. They may not use CDBG to substitute for another source of Federal funding and are required to consider other sources of funding as part of underwriting for direct assistance to for-profit businesses. This means that CDBG by its nature normally serves to address unidentified economic development needs missed by other resources.

In addition, each Section 108 Loan Guarantee proposal is reviewed at the HUD field office level and in a headquarters review panel. In addition to regulatory compliance review, the layering of funding is examined carefully to ensure it is prudent, not duplicative, and likely to result in a workable activity if approved. Each Section 108 borrower must certify that it has made efforts to find financing without the Federal guarantee and cannot complete such financing consistent with the timely execution of the program plans without such guarantee.

For the minimal Public and Indian Housing activities that could be described as economic development, the vast majority of the funds are restricted legislatively to grantees under the Office of Native American Programs. Therefore, there probably is little overlap with other programs.

MORTGAGE PROGRAMS

Question. Why is FHA raising the annual mortgage insurance premiums, also known as the FHA monthly mortgage insurance?

Answer. In April 2011, FHA further increased the annual premium for guarantees of single family mortgages of the Mutual Mortgage Insurance Fund. Under current law FHA is required to achieve a 2-percent capital ratio for this fund. At the end of fiscal year 2009, the capital ratio dropped to 0.53 percent due to the general distress in the Nation's housing market, and sharply lower projections for home prices. Despite a comprehensive array of program improvements and reforms over the following year, and significant improvement in the credit quality of FHA borrowers, the housing market downturn deepened and further steps are necessary to restore the MMI Fund's mandated capital ratio.

Question. The FHA has said the Short Refinance program could help 500,000 to 1.5 million homeowners. The program is 100 percent voluntary—lenders or lien holders are not compelled to participate. One news story reported that since its September launch, only 38 homeowners have refinanced mortgages through the program.

Why is the FHA Short Refinance program not working?

Answer. As of June, 2011, we have more than 20 lenders, including some of the largest mortgage originators in the industry, who've completed FHA Short Refinance transactions. These 20-plus lenders have now done more than 230 of the mortgages and production is ramping up each week. In addition to those who've completed applications, we have another 20 lenders who have submitted applications and are on their way to completing transactions. In total, we've received more than 630 applications for the program.

The FHA Short Refinance program has been in effect for approximately 9 months. As with any new mortgage program, the lenders and servicers need ample time to build the necessary infrastructure to facilitate the program. This infrastructure includes technology, systems, product training, and borrower outreach. These initiatives take significant time and money to complete. In addition to the operational hurdles to the program, there are also various financial and economic factors that come into play. For example, many of the underwater borrowers this program seeks to help are also delinquent on their mortgage. The program requires that any delinquent borrower be cured through a modification prior to participating in FHA's Short Refinance. Modifications can be cumbersome and therefore many people may unfortunately not qualify for the program. For borrowers who are not delinquent, servicers and investors have taken a cautious approach given their economic opinion on whether or not it's beneficial to forgive principal. Given the voluntary nature of the program, the investors will only forgive principal if they feel it's economically in their best interest.

Question. What needs to be done to make the program effective?

Answer. As of June 2011, we have more than 20 lenders, including some of the largest mortgage originators in the industry, who've completed FHA Short Refinance transactions. These 20-plus lenders have now done more than 230 of the mortgages and production is ramping up each week. In addition to those who've completed applications, we have another 20 lenders who have submitted applications and are on their way to completing transactions. In total, we've received more than 630 applications for the program. As with any new mortgage program, significant time is needed for the lenders and servicers to put the program into operation. FHA is committed to the success of the program and will review and update guidelines to the program as needed. In the interim, we feel extending the program will have an impact on participation and will encourage those lenders who've been sitting on the fence to jump into the program.

QUESTIONS SUBMITTED BY SENATOR KAY BAILEY HUTCHISON

DISASTER RECOVERY FUNDING

Question. Thank you for appearing before the subcommittee. I appreciate in advance your response to these questions.

As you are no doubt aware, in 2008, Hurricane Ike struck land over Galveston County, Texas on September 13, 2008, leaving billions of dollars of destructions behind in its wake. In eastern Galveston County, on the Bolivar Peninsula, more than 97 percent of structures were damaged and nearly 70 percent were completely destroyed.

The Bolivar Peninsula is a unique land mass. It acts as a 27-mile long barrier island with a width of a quarter-mile at its narrowest point and no more than 3.5 miles at its widest. Texas State Highway 87 runs the length of the peninsula roughly parallel to the coastline, connecting to the west to city of Galveston via a Texas Department of Transportation ferry while to the east, the peninsula connects to the Beaumont/Port Arthur area via State Highway 124.

In Hurricane Ike's aftermath, more than $3 billion in Community Development Block Grants (CDBGs), approved by the Congress for disaster recovery, was directed toward Texas counties impacted by the storm. Galveston County is currently working on two significant CDBG projects for Bolivar Peninsula:

- —The first project proposes to construct a sanitary sewer project composed of between one and five, small-scale, individual sewer package plants to serve the geographically distinct historic communities of the Bolivar Peninsula.
- —The second project would elevate Highway 87 in its current footprint. Highway 87 is the only evacuation route on the peninsula, thereby providing residents more time to evacuate prior to the highway becoming flooded. During Hurricane Ike, the highway became impassible due to tidal surge 24 hours prior to Ike making landfall, thereby stranding hundreds of residents and necessitating their rescue by Coast Guard helicopters.

Unfortunately, 2.5 years after Hurricane Ike, officials in Galveston County tell me they are struggling with unique challenges to use CDBG funds to implement rebuilding projects on Bolivar Peninsula.

One challenge Galveston County faces is that Bolivar Peninsula contains several areas designated as Coastal Barrier Resources System (CBRS), managed by the U.S.

Fish and Wildlife Service (USFWS). The proposed packaged plants would serve communities separated by the peninsula's CBRS, while the elevation of Highway 87 would run the length of the peninsula. It is my understanding that the USFWS advises Federal agencies such as the Department of Housing and Urban Development (HUD) regarding what kind of Federal expenditures are allowed in the CBRS. However, Galveston County officials tell me that there has been reluctance by HUD to consult with the USFWS as to how the Coastal Barrier Resources Act may impact Galveston County's proposed projects, if at all. Will HUD immediately begin a formal consultation with the USFWS to determine the viability of Galveston County's two disaster recovery projects?

Answer. The State of Texas is the recipient of the CDBG disaster recovery funding and, in conjunction with its local government sub-recipients such as Galveston County, is responsible for coordinating with other Federal agencies that have an interest or responsibility for enforcing various Federal requirements such as the Coastal Barriers Resources Act. While HUD is willing to participate in any such discussions in order to facilitate implementation of important projects such as these sewage treatment plants, the primary responsibility lies with State and local officials to obtain proper permitting and other necessary approvals in order for the projects to proceed. It is HUD understanding that Galveston County has yet to submit the required project information to allow the State to initiate the environmental review process for these projects.

Question. According to HUD, the Congress may appropriate additional funding for the CDBG program in response to disasters to rebuild the affected areas and provide crucial seed money to start the recovery project. However, HUD also stipulates that grantees generally must use at least one-half of Disaster Recovery funds for activities that principally benefit low- and moderate-income persons. This stipulation presents another challenge for Galveston County, as Hurricane Ike's path did not discriminate when it devastated Bolivar Peninsula. The peninsula has historically been a very diverse community consisting of both multi-generational, lower-income family dwellings and newer second homes. According to the Bolivar Chamber of Commerce, prior to Hurricane Ike's landfall, the median home cost on the peninsula was less than $100,000. Given the unique geography of Bolivar Peninsula, is it reasonable to limit Galveston County's ability to help rebuild Bolivar Peninsula using CDBG criteria that are nearly impossible to meet in this area? Is HUD willing to grant Galveston County a waiver so that it can pursue these important projects?

Answer. The State of Texas is the recipient of the CDBG disaster recovery funding and may request from HUD waivers or alternative requirements deemed necessary to facilitate the use of the funds. The appropriation language of Public Law 110–329 further states that HUD may grant a waiver to the 50 percent low- and moderate-income benefit standard only if there is a specific finding of "compelling need" to reduce or eliminate the percentage requirement. Galveston County officials would have to convince State officials to seek a waiver to reduce the low- and moderate-income benefit threshold. To date, the State of Texas has not sought such as waiver from HUD. If the State submits a waiver request on the low and moderate income benefit issue, HUD would give it due consideration.

Question. The final challenge faced by local jurisdictions in Texas is that successful CDBG disaster recovery projects must be completed by December 31, 2015. Though this seems like it is well into the future, the challenges faced by local jurisdictions, such as those above for Galveston County, have already significantly delayed the use of CDBG funds approved in 2008. If HUD does not expeditiously approve major CDBG projects, many local jurisdictions may not be able to construct them prior to the program's expiration date. What is HUD doing both in Washington and on a local level to ensure that specific, large-scale projects are given timely consideration and ultimate approval, so that local governments may either implement these projects or consider other alternatives? Texas's allocation of CDBG funds has been critical to allow reconstruction efforts to continue and our communities to get back to normalcy. Galveston County is eager not only to help reconstruct Bolivar Peninsula, but to improve the peninsula's infrastructure in order to mitigate the effect of future storms. Thank you for your consideration of these questions, and I look forward to your response.

Answer. HUD does not approve individual projects for CDBG disaster recovery funds allocated to the State of Texas. The State is the grantee and has responsibility for establishing a process selecting, implementing, and overseeing these projects and activities. HUD closely monitors the State's performance in the execution of its responsibilities and is currently undertaking quarterly monitoring reviews of the State due to concerns over the State's capacity to properly administer these funds. The December 2015 date has been established by the State of Texas, not HUD.

QUESTIONS SUBMITTED BY SENATOR MARK KIRK

CENSUS DATA AND FORMULA FUNDS

Question. As both an authorizer and appropriator, my office has received numerous visits by housing assistance organizations since I came to the Senate late last year. Every group has concerns about funding levels for fiscal year 2011 and fiscal year 2012, but a growing concern for me is how the new census numbers will affect the formula funds we receive through programs like the Community Development Block Grant (CDBG). In my State, while our total population grew by 3.3 percent, we'll most likely lose a congressional seat because we have not kept pace with faster growing western and southern States. Additionally, our major population center, Chicago, saw its population decrease by nearly 7 percent since 2000, dropping from 2.9 million to 2.7 million. Cook County, our largest county, saw its population decrease by 3.4 percent. Has the Department of Housing and Urban Development (HUD) run an analysis on what Illinois and its communities can expect in formula funds as a result of this new data?

Answer. HUD has not used new census data as of yet per governance. The new census data will be rolled in the fiscal year 2012 allocation formula process. The fiscal year 2011 allocations, announced 2 months ago, continued to use census 2000 data for most variables and 2009 population estimates for the population and growth lag variables. Although we have more current census data, the statute directs HUD to use the most recent census data published as of 90 days before the beginning of the fiscal year.

For fiscal year 2012, HUD will be incorporating American Communities Survey data from 2005–2009 data for poverty, pre-1940 housing, and overcrowding and census 2010 population data for growth lag and population. Prior to the fiscal year 2012 allocation, HUD will write a short memo describing the impact of rolling these new data into the CDBG formula.

Question. Would it be possible to get that data for the rest of the subcommittee members as well? I'm sure they would be interested.

Answer. New census data will come into play in fiscal year 2012. The new census data will be rolled in the fiscal year 2012 allocation formula process. The fiscal year 2011 allocations, announced 2 months ago, continued to use census 2000 data for most variables and 2009 population estimates for the population and growth lag variables. Although we have more current census data, the statute directs HUD to use the most recent census data published as of 90 days before the beginning of the fiscal year.

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MOVING-TO-WORK

Question. In Rockford, Illinois, a city of 157,280, the housing authority serves thousands of city residents through its 1,918 public housing units and 1,390 Housing Choice Vouchers. Mayor Larry Morrissey is very interested in becoming a Moving-to-Work (MTW) demonstration project community, but as you know participation is capped at 33 public housing authorities (PHAs). While I am certainly concerned about the lack of comprehensive data coming from the program, I am glad to see positive lessons learned, and many communities, including Rockford, believe that the flexibility provided by MTW will help them serve their constituents more effectively.

What kind of metrics or data analysis does HUD use to determine if MTW participants are successful?

Answer. The premise of the MTW demonstration, as set forth in the MTW statute, is the ability to allow agencies to define and test locally driven policies for administering housing assistance. Agencies define activities in their annual MTW plans using available MTW statutory and regulatory flexibilities to address specific local needs, yet all MTW activities must relate back to at least one of the MTW statutory purposes. Agencies are required, as part of a proposed activity, to discuss anticipated positive and negative impacts of the activity, and to define metrics (baseline measurements and performance targets/benchmarks) to gauge the outcomes of the activities after implementation. Agencies report on outcomes of these activities each year in the MTW annual report, and discuss the activities with MTW staff and field office staff at annual MTW site visits.

With the exception of the MTW statutory requirement to serve substantially the same number of families, MTW does not measure program initiatives against set criteria, since MTW agencies are encouraged to design solutions tailored to address local housing issues. If an individual agency's metrics indicate a particular approach is not having the desired result, it can adjust the approach accordingly. Lessons learned can be both positive and negative, as both positive and negative outcomes help to inform the national policy dialogue. For a MTW agency, the definition of "success" is that agencies experiment and try different approaches, so that HUD, the Congress, and the industry can learn from these approaches.

In addition to the information provided in annual MTW plans and reports, MTW agencies are required to report into and utilize all HUD systems. MTW agencies must report households served into the Public and Indian Housing (PIH) Information Center's form 50058–MTW, document Housing Choice Voucher program expenditures and vouchers under lease in the Voucher Management System (VMS), and (as of June 30, 2010) submit annual unaudited and audited financial information into the financial data schedule. All MTW housing units must meet housing quality standards as required by the MTW statute, and public housing units are still subject to the Real Estate Assessment Center's physical inspections. Finally, MTW agencies are still subject to monitoring reviews by local field offices and are required to submit annual audits.

Question. What is the timetable for the fiscal year 2011 third-party evaluation of the MTW Program as mentioned in last year's report to the Congress?

Answer. During the past 1½ year, HUD has completed a statement of work and has been attempting to identify a funding source for this effort. We had initially identified fiscal year 2009 Capital Fund Technical Assistance funds that could be used for the evaluation and that were not already committed for other purposes. However, we received a recent notification that there are two other procurements now trying to access these funds. If senior PIH management decides that the Capital Fund Technical Assistance funds should be used for an alternate purpose, then we would not have a sense of the timing of this effort, as we would not be able to solicit a contractor without funds in place. Instead, we would have to wait for a Transformation Initiative (TI) competition in order to try to obtain TI funds for the evaluation.

Question. In that same report, HUD floated the idea of doubling the current number of enrollees to better gauge the success of the program. As an authorizer and appropriator, can I get a commitment from you to work together on how we might expand eligibility for communities like Rockford in an equitable, fair and effective way?

Answer. HUD looks forward to working with congressional appropriators to share lessons learned and to refine the selection criteria set forth in future appropriation acts. HUD shares your commitment to expanding MTWs in a way that is equitable, fair and effective and looks forward to working with you and other appropriators to accomplish this.

As stated in the report, both HUD and the Congress will need to carefully consider eligibility criteria for agencies to be included in the demonstration. Admitting new PHAs to MTW with the use of strategic selection criteria and program implementation can help demonstrate the impacts of MTW on a broader scale, with the ultimate objective of applying the most successful approaches nationwide. However, program expansion should only proceed if the newly admitted PHAs structure their programs for high-quality evaluations that permit lessons learned to be generalized beyond the single PHA experience. Altering the scope of the demonstration for new participants by mandating controlled studies and other more rigorous evaluation methodologies would lend insight into a variety of areas of interest.

In the fiscal years 2009, 2010, and 2011 appropriations language, the Congress has required eligible applicants to be high-performing agencies under HUD's Public Housing Assessment System (PHAS). This requirement, coupled with additional eligibility and scoring criteria centered on performance (as set forth by HUD in the PIH notices soliciting applicants), has assisted HUD in selecting new agencies that are both creative and competent. Further, in the fiscal year 2010 solicitation notice, HUD utilized the selection of new MTW agencies as a method to guarantee the testing of policies that are of interest to HUD, the Congress, and the industry. HUD intends to continue this requirement in future solicitation notices to ensure policies of interest are tested in the "MTW laboratory."

WASTE/FRAUD/ABUSE OVERSIGHT

Question. I'm sure you are well aware of the ABC News investigation into the waste, fraud, and abuse at the Philadelphia Public Housing Authority. The results of mismanagement were frankly shocking, and HUD was correct to suspend funds to the authority. But what bothers me is that this appears to be a trend. The Government Accountability Office (GAO) recently issued a report about duplicative and overlapping programs in the Federal Government. The GAO report in particular called out Section 108 Loan Guarantees that allow States and communities to leverage CDBG allocations to finance redevelopment projects. For fiscal year 2012, HUD requested loan guarantee authority of $500 million—nearly doubling the 2010 authority. But according to the GAO, HUD does not track the performance of this account because there is no reporting mechanism to determine how funds are used. Can we get a list of all Section 108 guaranteed projects?

Answer. Please see the attached listing of outstanding Section 108 Loans as of May 31, 2011.

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011

Name of recipient	State	Loan amount
ABILENE	TX	$450,000
ABILENE	TX	2,599,000
AGUADILLA	PR	7,795,000
AKRON	OH	1,555,000
ALACHUA	FL	1,600,000
ALAMEDA	CA	6,691,000
ALBANY	GA	3,575,000
ALBANY	GA	250,000
ALBANY COUNTY	NY	260,000
ALBANY COUNTY	NY	40,000
ALBUQUERQUE	NM	220,000
ALHAMBRA	CA	1,225,000
ALHAMBRA	CA	925,000
ALLEGHENY COUNTY	PA	6,000,000
ALLENTOWN	PA	3,400,000
AMSTERDAM	NY	263,000
ANAHEIM	CA	8,711,000
ANAHEIM	CA	14,655,000
ANASCO	PR	2,453,000
ANCHORAGE	AK	1,790,000
ANDERSON	SC	390,000
ANDERSON	SC	700,000
ANNE ARUNDEL COUNTY	MD	410,000
ARCADIA	NY	159,000
ASHEVILLE	NC	650,000
ATLANTA	GA	1,415,000
ATLANTA	GA	175,000
ATLANTA	GA	455,000
ATLANTA	GA	1,980,000
ATLANTIC COUNTY	NJ	3,000,000
AUBURN	NY	979,000
AUGUSTA	GA	2,500,000
AURORA	IL	1,430,000
AURORA	IL	115,000
AUSTIN	TX	4,495,000
AUSTIN	TX	1,740,000
AUSTIN	TX	3,415,000
AUSTIN	TX	5,315,000
BABYLON	NY	70,000
BABYLON	NY	725,000
BAKERSFIELD	CA	2,995,000
BAKERSFIELD	CA	602,000
BAKERSFIELD	CA	773,000
BAKERSFIELD	CA	1,482,000
BAKERSFIELD	CA	3,614,000
BAKERSFIELD	CA	1,570,000
BALDWIN PARK	CA	4,108,000
BALTIMORE	MD	6,275,000
BALTIMORE	MD	17,459,000
BALTIMORE	MD	11,937,000
BALTIMORE	MD	6,480,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
BARBERTON	OH	750,000
BARCELONETA	PR	4,150,000
BAY CITY	MI	2,000,000
BAYAMON	PR	26,350,000
BEAUMONT	TX	7,530,000
BEAVER COUNTY	PA	2,068,000
BEAVERTON	OR	587,000
BELLFLOWER	CA	5,555,000
BENTON HARBOR	MI	670,000
BERKELEY	CA	318,000
BERKELEY	CA	604,000
BERKELEY	CA	516,000
BERKELEY	CA	6,000,000
BERKELEY	CA	4,000,000
BERKS COUNTY	PA	8,169,000
BERKS COUNTY	PA	3,359,000
BESSEMER	AL	1,600,000
BETHLEHEM	PA	4,123,000
BINGHAMTON	NY	4,025,000
BINGHAMTON	NY	410,000
BINGHAMTON	NY	363,000
BIRMINGHAM	AL	295,000
BIRMINGHAM	AL	670,000
BOISE	ID	980,000
BOSTON	MA	15,000,000
BOSTON	MA	3,535,000
BOSTON	MA	11,360,000
BOSTON	MA	5,280,000
BOSTON	MA	600,000
BOSTON	MA	9,455,000
BOSTON	MA	1,510,000
BRIDGEPORT	CT	2,430,000
BRIDGEPORT	CT	1,347,000
BRIDGEPORT	CT	943,000
BRIDGEPORT	CT	545,000
BRYAN	TX	2,140,000
BUCKS COUNTY	PA	2,500,000
BUFFALO	NY	1,325,000
BUFFALO	NY	180,000
BUFFALO	NY	200,000
BUFFALO	NY	5,285,000
BUFFALO	NY	2,100,000
BUFFALO	NY	575,000
BURLINGTON	VT	495,000
BURLINGTON	VT	800,000
BURLINGTON	VT	650,000
CAGUAS	PR	270,000
CAGUAS	PR	4,600,000
CAMBRIDGE	MA	265,000
CAMDEN	NJ	85,000
CAMUY	PR	4,054,000
CANANDAIGUA	NY	1,450,000
CANOVANAS	PR	2,925,000
CAROLINA	PR	7,150,000
CAROLINA	PR	4,000,000
CARSON	CA	5,500,000
CASPER	WY	619,000
CAYEY	PR	460,000
CAYEY	PR	1,310,000
CAYUGA COUNTY	NY	265,000
CAYUGA COUNTY	NY	108,000
CHARLESTON	SC	745,000
CHARLOTTE	NC	9,380,000
CHARLOTTE	NC	385,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
CHARLOTTE	NC	1,810,000
CHARLOTTE	NC	1,552,000
CHATTANOOGA	TN	3,966,000
CHESAPEAKE	VA	390,000
CHESTER	PA	2,300,000
CHESTER COUNTY	PA	426,000
CHICAGO	IL	15,000,000
CHICAGO	IL	8,895,000
CHICAGO	IL	5,870,000
CHINO	CA	933,000
CHULA VISTA	CA	8,911,000
CIDRA	PR	4,300,000
CIDRA	PR	1,695,000
CINCINNATI	OH	3,450,000
CINCINNATI	OH	605,000
CINCINNATI	OH	135,000
CLEVELAND	OH	570,000
CLEVELAND	OH	30,000,000
CLEVELAND	OH	1,010,000
CLEVELAND	OH	51,833,000
CLEVELAND	OH	1,245,000
CLEVELAND	OH	2,275,000
CLEVELAND HEIGHTS	OH	276,000
CLYDE	NY	105,000
COLUMBUS	OH	100,000
COLUMBUS	GA	4,500,000
COMPTON	CA	4,100,000
CONCORD	NC	1,974,000
CONROE	TX	1,343,000
COUNCIL BLUFFS	IA	705,000
COVINGTON	KY	330,000
CRANSTON	RI	50,000
CUMBERLAND	MD	1,270,000
CUYAHOGA COUNTY	OH	4,000,000
CUYAHOGA COUNTY	OH	1,000
CUYAHOGA COUNTY	OH	2,307,000
DADE COUNTY	FL	17,505,000
DADE COUNTY	FL	21,683,000
DADE COUNTY	FL	1,465,000
DALY CITY	CA	3,552,000
DANBURY	CT	1,022,000
DANE COUNTY	WI	350,000
DAUPHIN COUNTY	PA	2,680,000
DECATUR	IL	390,000
DECATUR	IL	2,190,000
DEKALB COUNTY	GA	1,000,000
DENVER	CO	2,820,000
DENVER	CO	3,292,000
DENVER	CO	452,000
DENVER	CO	2,301,000
DENVER	CO	2,912,000
DES MOINES	IA	8,500,000
DES MOINES	IA	1,425,000
DETROIT	MI	7,789,000
DETROIT	MI	17,000,000
DETROIT	MI	13,247,000
DETROIT	MI	18,000,000
DETROIT	MI	18,700,000
DETROIT	MI	1,200,000
DETROIT	MI	180,000
DETROIT	MI	2,195,000
DETROIT	MI	8,815,000
DETROIT	MI	1,800,000
DORADO	PR	5,194,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
DOWNEY	CA	1,000,000
DULUTH	MN	2,966,000
DUTCHESS COUNTY	NY	236,000
EAST LANSING	MI	1,200,000
EAST LIVERPOOL	OH	60,000
EAST PROVIDENCE	RI	2,650,000
EASTON	PA	1,000,000
EDINBURG	TX	1,385,000
EL CAJON	CA	1,356,000
EL CAJON	CA	508,000
EL MONTE	CA	3,435,000
EL MONTE	CA	1,790,000
EL MONTE	CA	1,200,000
EL MONTE	CA	1,684,000
ELIZABETH	NJ	365,000
ELMIRA	NY	2,725,000
ENID	OK	1,212,000
ESOPUS	NY	294,000
EUGENE	OR	6,118,000
EVERETT	MA	1,000,000
FAIRFAX COUNTY	VA	6,516,000
FAIRFAX COUNTY	VA	6,535,000
FAIRFAX COUNTY	VA	275,000
FAIRFAX COUNTY	VA	345,000
FAIRFAX COUNTY	VA	580,000
FAIRFAX COUNTY	VA	125,000
FAIRFAX COUNTY	VA	5,000
FAIRFAX COUNTY	VA	252,000
FAIRFAX COUNTY	VA	1,265,000
FALL RIVER	MA	2,000,000
FAYETTEVILLE	NC	675,000
FITCHBURG	MA	3,391,000
FLINT	MI	904,000
FLINT	MI	5,307,000
FLINT	MI	3,840,000
FLINT	MI	1,778,000
FLORENCE	SC	870,000
FORT MYERS	FL	125,000
FORT PIERCE	FL	3,395,000
FORT WAYNE	IN	6,250,000
FORT WAYNE	IN	535,000
FORT WORTH	TX	1,855,000
FORT WORTH	TX	5,610,000
FRESNO	CA	1,550,000
FRESNO	CA	900,000
FRESNO	CA	1,117,000
FRESNO COUNTY	CA	1,125,000
FRESNO COUNTY	CA	435,000
FULLERTON	CA	4,500,000
FULTON	NY	127,000
FULTON	NY	753,000
GADSDEN	AL	500,000
GADSDEN	AL	1,200,000
GARDEN GROVE	CA	6,110,000
GASTONIA	NC	973,000
GASTONIA	NC	190,000
GASTONIA	NC	1,230,000
GENEVA	NY	670,000
GENEVA	NY	2,745,000
GLENDALE	CA	470,000
GLENVILLE	NY	341,000
GRAYS HARBOR COUNTY	WA	3,615,000
GREENSBORO	NC	4,702,000
GREENSBORO	NC	2,736,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
GRESHAM	OR	1,373,000
GUAYNABO	PR	1,831,000
GUAYNABO	PR	1,811,000
GUAYNABO	PR	2,330,000
HAMMOND	IN	2,799,000
HARFORD COUNTY	MD	1,385,000
HARRISBURG	PA	3,375,000
HARRISBURG	PA	2,450,000
HARTFORD	CT	5,895,000
HARTFORD	CT	4,836,000
HARTFORD	CT	7,000,000
HARTFORD	CT	1,105,000
HAWTHORNE	CA	250,000
HAWTHORNE	CA	1,940,000
HAWTHORNE	CA	3,010,000
HAZLETON	PA	340,000
HERKIMER	NY	365,000
HESPERIA	CA	600,000
HIALEAH	FL	2,680,000
HIDALGO COUNTY	TX	1,980,000
HOLLYWOOD	FL	3,720,000
HOUSTON	TX	9,215,000
HUDSON	NY	705,000
HUNTINGTON	WV	2,735,000
HUNTINGTON	WV	1,135,000
HUNTINGTON	WV	460,000
HUNTINGTON BEACH	CA	1,560,000
HUNTINGTON BEACH	CA	3,665,000
HUNTINGTON PARK	CA	6,368,000
HUNTINGTON PARK	CA	1,150,000
ILION	NY	70,000
INDIANAPOLIS	IN	3,000,000
IRVING	TX	2,820,000
ISABELA	PR	4,312,000
ISLIP	NY	1,050,000
ITHACA	NY	520,000
JACKSON	TN	3,165,000
JACKSON	MS	7,000,000
JACKSON	MI	635,000
JACKSONVILLE	FL	1,860,000
JACKSONVILLE	FL	160,000
JACKSONVILLE	FL	685,000
JACKSONVILLE	FL	1,420,000
JACKSONVILLE	FL	280,000
JACKSONVILLE	FL	440,000
JAYUYA	PR	2,010,000
JAYUYA	PR	560,000
JERSEY CITY	NJ	8,000,000
JERSEY CITY	NJ	2,400,000
JERSEY CITY	NJ	5,700,000
JERSEY CITY	NJ	5,929,000
JUANA DIAZ	PR	5,300,000
JUNCOS	PR	657,000
JUNCOS	PR	414,000
KANKAKEE	IL	500,000
KANNAPOLIS	NC	1,349,000
KANSAS CITY	MO	750,000
KANSAS CITY	KS	3,314,000
KANSAS CITY	MO	4,260,000
KANSAS CITY	MO	6,000,000
KEY WEST	FL	13,007,000
KING COUNTY	WA	4,905,000
KING COUNTY	WA	5,102,000
KING COUNTY	WA	972,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
KINGSPORT	TN	856,000
KINGSTON	NY	1,100,000
KINGSTON	NY	1,500,000
LAFAYETTE	IN	2,790,000
LAKEWOOD	OH	277,000
LAKEWOOD	CO	3,118,000
LANCASTER	CA	1,066,000
LANCASTER	CA	1,167,000
LANCASTER	OH	580,000
LANCASTER	CA	1,690,000
LANCASTER	CA	200,000
LARAMIE	WY	400,000
LAREDO	TX	765,000
LAS CRUCES	NM	2,000,000
LAWRENCE	MA	2,900,000
LAWRENCE	MA	500,000
LAWTON	OK	1,807,000
LEFLORE COUNTY	MS	4,500,000
LENOIR	NC	512,000
LEWIS COUNTY	NY	458,000
LITTLE FALLS	NY	256,000
LITTLE ROCK	AR	230,000
LITTLE ROCK	AR	185,000
LIVERMORE	CA	137,000
LIVERMORE	CA	1,320,000
LOCKPORT	NY	260,000
LORAIN	OH	1,730,000
LORAIN	OH	20,000
LORAIN	OH	220,000
LORAIN	OH	2,125,000
LOS ANGELES	CA	13,542,000
LOS ANGELES	CA	7,400,000
LOS ANGELES	CA	6,806,000
LOS ANGELES	CA	10,000,000
LOS ANGELES	CA	6,174,000
LOS ANGELES	CA	8,999,000
LOS ANGELES	CA	13,965,000
LOS ANGELES	CA	22,725,000
LOS ANGELES	CA	2,000,000
LOS ANGELES	CA	18,200,000
LOS ANGELES	CA	2,455,000
LOS ANGELES	CA	4,781,000
LOS ANGELES	CA	21,566,000
LOS ANGELES	CA	10,193,000
LOS ANGELES	CA	8,975,000
LOS ANGELES COUNTY	CA	8,986,000
LOS ANGELES COUNTY	CA	14,077,000
LOS ANGELES COUNTY	CA	7,320,000
LOS ANGELES COUNTY	CA	14,350,000
LOWELL	MA	2,340,000
LOWELL	MA	140,000
LUBBOCK	TX	250,000
LYNCHBURG	VA	2,300,000
LYNN	MA	385,000
LYNN	MA	1,220,000
LYNN	MA	428,000
LYNN	MA	585,000
LYNWOOD	CA	5,105,000
LYONS	NY	166,000
LYONS	NY	75,000
MADISON COUNTY	IL	2,076,000
MAHONING COUNTY	OH	120,000
MALDEN	MA	1,000,000
MALDEN	MA	3,000,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
MALDEN	MA	900,000
MALDEN	MA	580,000
MANATI	PR	3,750,000
MANCHESTER	NH	2,337,000
MANCHESTER	NH	3,563,000
MANSFIELD	OH	300,000
MARSHALL	TX	266,000
MASSILLON	OH	1,725,000
MAUNABO	PR	2,666,000
MEDFORD	MA	1,000,000
MEDINA	NY	81,000
MEMPHIS	TN	8,500,000
MEMPHIS	TN	1,740,000
MEMPHIS	TN	1,380,000
MEMPHIS	TN	6,271,000
MEMPHIS	TN	3,650,000
MERCED	CA	2,600,000
MERCED	CA	580,000
MIAMI	FL	3,806,000
MIAMI	FL	2,300,000
MIAMI BEACH	FL	1,050,000
MIDDLETOWN	CT	109,000
MIDDLETOWN	NY	225,000
MIDDLETOWN	NY	100,000
MIDDLETOWN	NY	90,000
MIDDLETOWN	NY	503,000
MIDDLETOWN	NY	260,000
MIDDLETOWN	NY	190,000
MIDDLETOWN	NY	750,000
MIDDLETOWN	NY	25,000
MIDDLETOWN	NY	35,000
MIDLAND	TX	450,000
MINNEAPOLIS	MN	6,055,000
MOBILE	AL	980,000
MOBILE	AL	2,255,000
MOBILE	AL	380,000
MOBILE	AL	850,000
MOBILE	AL	780,000
MODESTO	CA	3,574,000
MOLINE	IL	515,000
MONESSEN	PA	43,797,000
MONESSEN	PA	286,000
MONROE COUNTY	NY	760,000
MONROE COUNTY	NY	60,000
MONTEBELLO	CA	5,279,000
MONTEREY PARK	CA	4,768,000
MONTGOMERY COUNTY	MD	569,000
MONTGOMERY COUNTY	PA	2,454,000
MONTGOMERY COUNTY	PA	1,000
MONTGOMERY COUNTY	PA	175,000
MONTGOMERY COUNTY	PA	2,390,000
MOSS POINT	MS	540,000
NASHVILLE	TN	3,315,000
NASSAU COUNTY	NY	7,182,000
NASSAU COUNTY	NY	6,472,000
NASSAU COUNTY	NY	4,745,000
NATIONAL CITY	CA	5,505,000
NEW BEDFORD	MA	1,265,000
NEW CASTLE	PA	1,400,000
NEW HAVEN	CT	770,000
NEW HAVEN	CT	2,140,000
NEW ORLEANS	LA	3,530,000
NEW ORLEANS	LA	5,334,000
NEW ORLEANS	LA	8,145,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
NEW ORLEANS	LA	5,585,000
NEW ORLEANS	LA	3,250,000
NEW YORK	NY	1,000
NEW YORK	NY	8,639,000
NEWARK	NY	31,000
NEWARK	NY	365,000
NEWARK	NY	161,000
NEWBURGH	NY	450,000
NEWBURGH	NY	855,000
NEWPORT BEACH	CA	1,788,000
NORFOLK	VA	12,885,000
NORRISTOWN	PA	1,000
NORTH ADAMS	MA	2,514,000
NORTH TONAWANDA	NY	142,000
OAKLAND	CA	2,460,000
OAKLAND	CA	9,835,000
OCEAN SHORES	WA	915,000
OCEANSIDE	CA	3,295,000
OGDEN	UT	1,700,000
OGDEN	UT	460,000
OKLAHOMA CITY	OK	3,750,000
OKLAHOMA CITY	OK	1,925,000
OMAHA	NE	441,000
OREM	UT	1,090,000
OSWEGO	NY	235,000
OSWEGO COUNTY	NY	249,000
PALM BEACH COUNTY	FL	1,138,000
PALM BEACH COUNTY	FL	1,151,000
PALM BEACH COUNTY	FL	7,875,000
PALM BEACH COUNTY	FL	152,000
PALMDALE	CA	4,383,000
PALMYRA	NY	260,000
PARKERSBURG	WV	2,007,000
PASADENA	CA	1,000,000
PASCO COUNTY	FL	11,387,000
PENNS GROVE	NJ	523,000
PENNSYLVANIA	PA	15,000,000
PHARR	TX	270,000
PHILADELPHIA	PA	2,600,000
PHILADELPHIA	PA	8,400,000
PHILADELPHIA	PA	20,000,000
PHILADELPHIA	PA	1,089,000
PHILADELPHIA	PA	6,825,000
PHILADELPHIA	PA	8,670,000
PHILADELPHIA	PA	2,000,000
PHILADELPHIA	PA	2,585,000
PHILADELPHIA	PA	12,745,000
PHILADELPHIA	PA	23,500,000
PHILADELPHIA	PA	29,870,000
PHILADELPHIA	PA	12,345,000
PITTSBURGH	PA	2,949,000
PITTSBURGH	PA	3,920,000
PITTSBURGH	PA	3,000,000
PITTSBURGH	PA	2,000,000
PITTSBURGH	PA	3,600,000
PITTSBURGH	PA	10,000,000
PITTSFIELD	MA	992,000
PITTSFIELD	MA	571,000
PLATTSBURGH	NY	110,000
POMONA	CA	750,000
PONCE	PR	18,801,000
PONCE	PR	2,765,000
PORT TOWNSEND	WA	690,000
PORTERVILLE	CA	3,092,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
PORTLAND	ME	1,418,000
PORTLAND	OR	5,161,000
PORTLAND	OR	3,465,000
PRINCE GEORGE'S COUNTY	MD	5,395,000
PROVIDENCE	RI	585,000
PROVO	UT	1,050,000
QUINCY	MA	4,025,000
RADFORD	VA	425,000
RAYMOND	WA	790,000
READING	PA	2,708,000
READING	PA	1,050,000
READING	PA	3,000,000
READING	PA	4,300,000
READING	PA	550,000
READING	PA	865,000
REDFORD	MI	3,205,000
RENO	NV	336,000
RIALTO	CA	2,276,000
RICHMOND	VA	2,245,000
RICHMOND	CA	3,500,000
RICHMOND	CA	2,710,000
RIVERSIDE	CA	1,740,000
RIVERSIDE	CA	2,695,000
ROANOKE	VA	1,355,000
ROCHESTER	NY	2,200,000
ROCHESTER	NY	3,200,000
ROCHESTER	NY	875,000
ROCHESTER	NY	343,000
ROCHESTER	NY	150,000
ROCK HILL	SC	2,016,000
ROCKFORD	IL	750,000
ROCKFORD	IL	705,000
ROCKLAND COUNTY	NY	416,000
ROCKLAND COUNTY	NY	553,000
ROCKLAND COUNTY	NY	1,650,000
ROCKLAND COUNTY	NY	581,000
ROCKLAND COUNTY	NY	672,000
ROCKLAND COUNTY	NY	1,279,000
ROCKLAND COUNTY	NY	1,088,000
ROCKLAND COUNTY	NY	668,000
ROCKY MOUNT	NC	2,655,000
SACRAMENTO	CA	4,860,000
SACRAMENTO	CA	3,370,000
SACRAMENTO COUNTY	CA	76,000
SAINT PAUL	MN	3,300,000
SALEM	OR	4,926,000
SALEM	MA	140,000
SALISBURY	NC	372,000
SAN ANGELO	TX	2,035,000
SAN ANTONIO	TX	49,975,000
SAN ANTONIO	TX	12,155,000
SAN BERNARDINO	CA	7,500,000
SAN BERNARDINO	CA	3,860,000
SAN BERNARDINO COUNTY	CA	350,000
SAN DIEGO	CA	1,620,000
SAN DIEGO	CA	1,180,000
SAN DIEGO	CA	2,336,000
SAN DIEGO	CA	1,701,000
SAN DIEGO	CA	2,421,000
SAN DIEGO	CA	4,840,000
SAN DIEGO	CA	127,000
SAN DIEGO	CA	573,000
SAN DIEGO	CA	133,000
SAN DIEGO	CA	89,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
SAN DIEGO	CA	337,000
SAN DIEGO	CA	3,010,000
SAN DIEGO	CA	3,505,000
SAN DIEGO	CA	2,040,000
SAN DIEGO	CA	741,000
SAN DIEGO	CA	1,606,000
SAN DIEGO	CA	450,000
SAN DIEGO	CA	2,142,000
SAN FRANCISCO	CA	6,534,000
SAN JOSE	CA	12,430,000
SAN JOSE	CA	16,625,000
SAN JOSE	CA	21,877,000
SAN JOSE	CA	2,365,000
SAN JUAN	PR	57,535,000
SAN LEANDRO	CA	2,500,000
SAN LEANDRO	CA	559,000
SAN LORENZO	PR	5,647,000
SAN MATEO COUNTY	CA	7,145,000
SANDY CITY	UT	1,010,000
SANTA CLARITA	CA	166,000
SANTA CLARITA	CA	534,000
SANTA CLARITA	CA	570,000
SANTA FE	NM	243,000
SAVANNAH	GA	1,120,000
SCRANTON	PA	2,375,000
SCRANTON	PA	3,000,000
SCRANTON	PA	880,000
SCRANTON	PA	1,980,000
SCRIBA	NY	1,240,000
SEASIDE	CA	1,470,000
SEATTLE	WA	805,000
SEATTLE	WA	13,248,000
SEATTLE	WA	9,877,000
SEATTLE	WA	910,000
SEBRING	FL	4,365,000
SELMA	AL	600,000
SENECA COUNTY	NY	63,000
SHREVEPORT	LA	1,714,000
SHREVEPORT	LA	520,000
SHREVEPORT	LA	1,184,000
SHREVEPORT	LA	1,787,000
SOMERVILLE	MA	300,000
SOUTH BEND	IN	535,000
SOUTH BEND	IN	3,300,000
SOUTH BEND	IN	200,000
SOUTH GATE	CA	2,210,000
SOUTH GATE	CA	1,835,000
SOUTH SAN FRANCISCO	CA	1,166,000
SPARTANBURG	SC	3,470,000
SPRINGFIELD	MA	3,384,000
SPRINGFIELD	MA	3,492,000
SPRINGFIELD	MO	7,463,000
SPRINGFIELD	OR	441,000
SPRINGFIELD	MA	105,000
SPRINGFIELD	MA	1,640,000
ST. LOUIS	MO	34,250,000
ST. LOUIS	MO	12,500,000
STOCKTON	CA	11,480,000
STOCKTON	CA	6,760,000
STOCKTON	CA	1,980,000
SUFFOLK	VA	3,073,000
SULLIVAN	NY	425,000
SUMTER	SC	772,000
SUMTER	SC	816,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
SYLVAN BEACH	NY	198,000
SYRACUSE	NY	635,000
SYRACUSE	NY	4,184,000
SYRACUSE	NY	888,000
SYRACUSE	NY	1,065,000
SYRACUSE	NY	138,000
TACOMA	WA	3,600,000
TACOMA	WA	1,375,000
TACOMA	WA	1,149,000
TAMPA	FL	7,720,000
TAUNTON	MA	480,000
TAYLOR	MI	300,000
TEMPE	AZ	5,883,000
TOA ALTA	PR	7,886,000
TOA BAJA	PR	12,157,000
TOLEDO	OH	125,000
TOLEDO	OH	13,630,000
TROY	NY	2,666,000
TRUJILLO ALTO	PR	2,740,000
TRUMBULL COUNTY	OH	955,000
TULARE	CA	291,000
TUSCALOOSA	AL	1,500,000
ULSTER COUNTY	NY	647,000
UNION CITY	CA	1,710,000
UTICA	NY	947,000
UTICA	NY	2,250,000
VACAVILLE	CA	706,000
VACAVILLE	CA	420,000
VANCOUVER	WA	3,840,000
VEGA BAJA	PR	2,325,000
VEGA BAJA	PR	1,905,000
VEGA BAJA	PR	1,245,000
VINELAND	NJ	2,720,000
VISALIA	CA	1,721,000
VISALIA	CA	1,618,000
VISTA	CA	3,175,000
WARREN	OH	1,485,000
WARREN	OH	520,000
WATERFORD	NY	6,000
WATSONVILLE	CA	1,821,000
WAYNE COUNTY	MI	228,000
WAYNE COUNTY	MI	168,000
WAYNE COUNTY	NY	173,000
WEST JORDAN	UT	1,215,000
WEST VALLEY	UT	2,266,000
WESTFIELD	MA	840,000
WESTMORELAND COUNTY	PA	720,000
WHEELING	WV	1,500,000
WICHITA	KS	990,000
WILKES-BARRE	PA	3,000,000
WINSTON-SALEM	NC	2,591,000
WINSTON-SALEM	NC	1,200,000
WOODLAND	CA	400,000
WOONSOCKET	RI	2,050,000
WORCESTER	MA	2,287,000
WORCESTER	MA	2,218,000
YAKIMA	WA	1,843,000
YAKIMA	WA	2,921,000
YAUCO	PR	4,000,000
YONKERS	NY	608,000
YONKERS	NY	2,316,000
YONKERS	NY	2,450,000
YONKERS	NY	2,625,000
YONKERS	NY	950,000

OUTSTANDING SECTION 108 LOANS AS OF MAY 31, 2011—Continued

Name of recipient	State	Loan amount
YONKERS	NY	5,608,000
YORK	PA	2,530,000
YORK	PA	1,100,000
YOUNGSTOWN	OH	730,000
YOUNGSTOWN	OH	955,000
YOUNGSTOWN	OH	530,000
YOUNGSTOWN	OH	500,000

Question. Why is there no oversight for this program?

Answer. There is extensive oversight of the Section 108 program as it is part of the long standing CDBG program. Section 108 projects are considered in the annual CDBG risk analysis process and Section 108 projects are reviewed as part of regular CDBG monitoring reviews. CDBG grantees that use Section 108 funds report annually on the use of those funds in their Consolidated Annual Performance Report that describes uses and performance of CDBG and other funding sources. Activities financed with Section 108 funds are subject to all program, financial, and cross-cutting requirements applicable to CDBG funds. Further, each Section 108 Loan is reviewed by the respective field office and underwritten by headquarters with approvals issued centrally from headquarters.

Question. According to the GAO, this issue came up in 2007. Why has no action been taken during the last 5 years?

Answer. The question misstates the GAO's analysis of Section 108. GAO is not stating that the program lacks oversight, but rather that HUD should improve data collection and reporting on the program by integrating it into the Integrated Disbursement and Information System (IDIS). IDIS is the finance and data system for other HUD–CPD programs. The fiscal year 2010 TI funding will allow us to integrate the Section 108 program into IDIS. We expect that these system improvements will be completed in fiscal year 2012.

Question. The GAO report I previously mentioned also targeted fragmented overlap in economic develop, homeless assistance and water projects among Federal agencies, including HUD. For example, the Department of Commerce, HUD, the Small Business Administration, and the U.S. Department of Agriculture (USDA) combined oversee 52 programs that assist in "entrepreneurial efforts." GAO says the agencies have made minimal effort into developing compatible policies and procedures. Once again, monitoring and oversight came up.

With resources already tight, how can we improve the efficiency of HUD in situations like this?

Answer. HUD is familiar with the GAO report and is considering ways to address many of the concerns it highlights. First, we have entered into a partnership with almost a dozen Federal agencies, described in HUD's TI justification, to institutionalize monitoring and evaluating interagency collaborative efforts. This partnership responds to a section of the report that notes:

"Moreover, GAO is finding that most of the collaborative efforts performed by program staff on the front line that GAO has been able to assess to date have occurred only on a case-by-case basis. As a result, it appears that the agencies do not consistently monitor or evaluate these collaborative efforts in a way that allows them to identify areas for improvement."

In addition, HUD and its partners are also planning a pilot that places teams comprised of interagency representatives from across the Federal Government to work in a few locations and coordinate the various Federal programs these communities use. These teams will serve as both on-the-ground technical assistance and implementation partners and as liaisons between the Federal Government and the pilot site. By working across agencies and reporting back successes and limitations, this effort will help cities and regions maximize the benefits from the Federal funds they already receive and provide valuable information to make programs less duplicative or incompatible. The National Resource Bank is another resource that will assist in this regard.

Finally, we note that some of the overlap reflects an interest in leaving more discretion to local governments rather than imposing restrictions from Washington. However, HUD recognizes that this has at times been done inelegantly, and understands that incompatible rules in these programs hinder this ultimate goal. This is something that HUD is working to resolve. Please see program examples below.

Section 108

The Section 108 program is part of the CDBG program and operates within the CDBG statutory and regulatory requirements. Monitoring and oversight of Section 108-funded activities is part and parcel of regular monitoring efforts under the CDBG program and, in this sense, there is exceptionally close alignment with the CDBG program. The most significant factor inhibiting the development of closer policies and procedures across programs at various agencies is the fact that differences in the underlying statutory authorities creates a profound obstacle to reconciling these programs. A classic example is the fact that an environmental review carried out by one Federal agency can seldom be accepted by other agencies absent clear statutory authority to act in this manner. Another example is that many program authorization statutes have varying planning requirements that prohibit one plan from being used for multiple purposes. To the extent that the subcommittee is interested in identifying and these barriers, the Department is available to engage in that discussion.

Homeless Programs

HUD works closely with other Federal agencies on the issue of homelessness, and is a key member of the U.S. Interagency Council on Homelessness (USICH). Through these efforts HUD is working to align its targeted and mainstream resources with the resources available through other programs, especially those at the Departments of Health and Human Services, Veterans Affairs, and Labor. This is evidenced in the goals and strategies articulated in the USICH "Opening Doors: Federal Strategic Plan To Prevent and End Homelessness."

Question. GAO also found an example where HUD provided a utility in Texas with a grant for $860,000 to extend water distribution and waste collection for the community. But 5 years after the funds were issued, the lines were unused because the utility did not receive enough USDA money to complete a well. What metrics and data analysis are used when HUD funds projects that are contingent on another agency's funding?

Answer. The Fort Hancock, Texas, water and sewer lines have been laid, however the homes were not connected due to insufficient water pressure and inadequate treatment facilities (improvements being constructed by USDA–RD). The water well and reverse osmosis system and related improvements (now funded by both USDA–RD and Texas Water Development Board) will be complete by July 2011 and connections should be made beginning in August. If this schedule holds, these grants could be closed by the end of 2011.

In CDBG generally, HUD does not decide what projects to fund as funding decisions are left to local or State grantees. CDBG is unique among Federal programs in that CDBG funds may count as local match against other Federal programs. As a result of this provision, CDBG grantees have an incentive to leverage other funding sources. CDBG does not have any specific rules on the drawdown of CDBG funds in project with multiple funding sources as timing of the investment will depend upon the costs that are being covered with CDBG funds (e.g., acquisition of property may be prerequisite to construction activities).

It is not HUD's role to undertake an analysis that leveraged funds will be available for a State CDBG project. The vetting and approval process has been a State responsibility since the advent of the State CDBG program in 1981. HUD does not get involved in State selection processes beyond determining that methods of distribution (i.e., how they will allocate CDBG funds) comply with statutory and regulatory standards.

SUBCOMMITTEE RECESS

Senator COLLINS. So with that, the hearing record will remain open for 15 days for the submission of additional questions for the record or any other statements and testimony, and this hearing is now recessed.

[Whereupon, at 11:26 a.m., Thursday, March 3, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2012

THURSDAY, MARCH 10, 2011

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

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

Present: Senators Murray, Pryor, Collins, Coats, and Blunt.

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE SECRETARY

STATEMENT OF HON. RAY LaHOOD, SECRETARY

ACCOMPANIED BY CHRISTOPHER BERTRAM, ASSISTANT SECRETARY OF TRANSPORTATION FOR BUDGET AND PROGRAMS, AND CHIEF FINANCIAL OFFICER

OPENING STATEMENT OF SENATOR PATTY MURRAY

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

Welcome, Secretary Ray LaHood. Thank you for coming back to our subcommittee to talk about the Department of Transportation's (DOT) budget request and our Nation's transportation policy. I appreciate your being here today.

The subject of this hearing is the DOT budget for fiscal year 2012. Yet, even as we sit here today, halfway through the fiscal year, the Federal Government still lacks a final budget for fiscal year 2011. The Congress is continuing to debate that budget as millions of families and communities across the country wait anxiously to learn the fate of programs they depend upon. And this debate is critical. We do need to tackle the deficit and make sure our children and grandchildren aren't forced to bear the burden of overwhelming debt.

Yesterday, the Senate voted on two bills, one from the House Republicans, the other a Senate Democratic alternative, to fund Federal agencies through the end of this fiscal year 2011. The House proposal was a budget that would have eliminated the high-speed rail and Transportation Investment Generating Economic Recovery (TIGER) grant programs and made deep cuts to transit, Amtrak, and aviation spending.

Transportation is central to so much of the way our lives are organized, and there is overwhelming evidence that greater investment is needed today in communities across our country, whether it's replacing our crumbling bridges and tunnels, or building new roads and transit lines to support economic growth and competitiveness and ease congestion. The DOT budget has a real impact on real people.

I was deeply concerned that the House Republican budget would eliminate funding for the highly competitive TIGER Discretionary Grant program. It's a program that has become a showcase for innovation in both rural and urban communities. The House proposal goes so far as to eliminate TIGER grants that were already awarded to 75 communities last year—the 75 most promising projects out of a field of more than 1,000 applicants.

One of those 75 projects is a project in my home State that really typifies what those grants mean to all of our States. In south Seattle, there is a community that is hanging on by a thread. The main access road to commerce goes through a bridge that, like infrastructure in a lot of our States, was crumbling and had to be closed. Mr. Secretary, you were there and saw that. I have spoken to the small business owners and residents of this community who told me that bridge is really their lifeline.

Last year, the South Park Bridge won a TIGER grant to help rebuild that bridge. And that bridge today is now creating jobs and aiding the recovery of an entire community, and will be a foundation for that community to thrive on for generations to come. But the funding for that project, and many others like it, was left on the cutting-room floor by House Republicans in an effort to meet an arbitrary bottom line. And that is just one example from an extreme plan that focuses on short-term and shortsighted cuts while neglecting a long-term plan for responsible deficit reduction to support our economic recovery.

The Senate Democratic bill protected those investments, choosing to end programs that have served their purpose or are no longer needed. We do need to make responsible and practical budget cuts that will allow us to continue out-innovating, out-educating, and out-building our competitors.

As we all know, neither bill was able to garner enough votes to win passage. A compromise is needed, one where both sides come to the table to work together on a long-term solution that invests in our country's future. And as we work to cut spending, we need to make sure that we are not doing anything to threaten our economic recovery or cause even more workers to lose their jobs.

So, today, as we look at the fiscal year 2012 budget, I will be taking the responsible approach and analyzing how taxpayer dollars can be invested more effectively to continue our economic recovery, improve our economic competitiveness, strengthen our communities, ensure safety, foster innovation, and manage our Federal resources efficiently. The investments we make in transportation and in our national infrastructure are such an important part of supporting our economy, rebuilding our communities, and improving safety.

And the need to invest in our transportation infrastructure is huge. Many of us have seen the report card for America's infrastructure that was put together by the American Society of Civil Engineers. Their overall grade for our Nation's infrastructure is a D. And their grade for roads is even more depressing: a D−. Our Nation's rail network earned a paltry C−. And transit earned nothing more than a D.

The President's budget request tries to address this problem, asking for a 69-percent increase in funding for DOT. The request includes an immediate investment of $50 billion to boost the economy, as well as the 6-year reauthorization proposal for surface transportation. Clearly, this proposal offers a grand vision for our transportation programs.

I applaud the administration's effort to promote investment in our Nation's infrastructure, but I also think we need more than grand ideas. We need to discuss real strategies that will make them happen. And unfortunately, this budget proposal doesn't offer us real solutions for the challenges we face today. When we talk about paying for transportation, the biggest challenge we face is the solvency of the Highway Trust Fund (HTF). Even under current funding levels, without paying for the additional $50 billion in stimulus funding requested by the administration, HTF will be bankrupt by the end of fiscal year 2012 or the beginning of 2013. The administration has offered to work with the Congress to address this problem, but when it comes to discussing specific solutions, the President has opposed an increase to the gas tax, opposed the development of a new revenue system based on miles traveled, and still not offered any proposals for making sure HTF has enough revenues to pay for its budget request.

I'm also concerned about what happens to transportation programs in fiscal year 2012. A long-term solution for HTF will not be able to solve our immediate crisis. The Congress has already transferred more than $34 billion from the General Fund to HTF. I will be interested to hear from the Secretary if he thinks another transfer is necessary to get through this year or if he can offer another way to avert a crisis. At a time when the House is focusing on slash-and-burn politics, we need to see some realistic alternatives being discussed. And I'm disappointed the budget request doesn't offer that.

I'm also troubled by the administration's proposal to reclassify transportation programs as purely mandatory funding. This proposal helps the administration meet its goal of freezing growth in discretionary budget, but it also means the administration has failed to request about $7 billion for the rail and public transit programs that have been traditionally funded with discretionary resources. That is a large hole for the Congress to fill from the outset.

More importantly, the proposal leaves the Department without annual oversight and input from the Appropriations Committee. This subcommittee has played an important role in supporting our Nation's infrastructure, providing additional resources for transit, roads, and bridges from HTF as well as the General Fund of the Department of the Treasury. In fact, the TIGER program was created by this subcommittee.

This subcommittee has been particularly engaged in supporting rail transportation, providing additional funding for the high-speed rail grants, and making sure the Department has the resources it needs to administer the program.

As concerned as I am about the future of the surface transportation programs, I believe the threats facing the President's high-speed rail initiative are potentially even greater. I believe in high-speed rail. I think it has the ability to spur innovation and economic growth, tying communities together in ways that roads and airports don't today.

Unlike most of Europe, we are still a young and growing Nation. Our population is projected to reach 420 million by mid-century, almost 140 million more than in 2000. If you think your travel on roads and airports is crowded today, just wait. And building more and wider roads won't be enough. High-speed rail, like the Federal Aviation Administration's (FAA) Next Generation Air Transportation System (NextGen), is one of the solutions we will need if we are to avoid paralyzing gridlock.

I recognize the Department has had to stand up this ambitious new program in record time, hammering out agreements with States and freight railroads, with so many questions to be answered and problems resolved. I believe the Federal Railroad Administration is to be commended for its efforts. And yet, I'm concerned these efforts will be for naught, and the funding at risk, unless the Department produces a detailed and comprehensive plan that answers basic questions about the program like, Where does it make the most sense to build high-speed rail? What will it cost to build? And what will it cost to operate? I will continue to fight for high-speed rail, but it is now time for the program to produce a compelling and rigorous plan to justify that support and future funding.

Separate from high-speed rail, there are many other issue areas where the Department has been pushing for innovation. The Department continues to forge ahead on NextGen, a long-term effort to modernize our air traffic control system. Last year, it took recommendations from an industry task force, refocusing some of its programs, like Performance-Based Navigation. This past year, the Department has also worked hard to overcome challenges with En Route Automation Modernization.

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

At this hearing, as we continue our work on the budget for fiscal year 2012, I look forward to hearing more about the Department's work in these and other areas, and appreciate your being here again today, Mr. Secretary.

PREPARED STATEMENTS

Also, Senator Kirk regrets that he couldn't be present, but he has submitted a statement for the record.

[The statements follow:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

I want to welcome Secretary Ray LaHood back before our subcommittee to discuss his Department's budget request and our Nation's transportation policy. Thank you for being here today.

FISCAL YEAR 2011 AND THE HOUSE'S YEAR-LONG CONTINUING RESOLUTION

The subject of this hearing is the Department of Transportation (DOT) budget for fiscal year 2012.

Yet even as we sit here today—nearly halfway through the fiscal year—the Federal Government still lacks a final budget for fiscal year 2011.

The Congress continues to debate that budget as millions of families and communities across the country wait anxiously to learn the fate of programs they depend upon.

And this debate is critical. We need to tackle the deficit and make sure our children and grandchildren aren't forced to bear the burden of overwhelming debt.

Earlier this week, the Senate voted on two bills—one from House Republicans, and the other a Senate Democratic alternative—to fund Federal agencies through the end of fiscal year 2011.

The House proposal was a highly politicized, slash-and-burn budget that would have eliminated the high-speed rail and Transportation Investment Generating Economic Recovery (TIGER) grants programs, and made deep cuts to transit, Amtrak, and aviation spending. In short, it was a bill that would have cost hundreds of thousands of jobs and eliminated investments the nation will need to compete in the future.

Transportation is central to so much of the way our lives are organized. And there is overwhelming evidence that greater investment is needed in communities across the country—whether it be replacing crumbling bridges and tunnels, or building new roads and transit lines to support economic growth and competitiveness, and ease congestion.

The DOT budget has a real impact on real people.

For example, the House Republican budget would eliminate funding for the highly competitive TIGER grant program, a program that has become a showcase for innovation in both rural and urban communities. The House proposal goes so far as to eliminate TIGER grants that were awarded to 75 communities last year—the 75 most promising projects out of a field of more than 1,000 applicants.

One of the 75 projects is a project in my home State that typifies what these grants mean to all of our States. In south Seattle there is a community that is hanging on by a thread. The main access road to commerce goes through a bridge that—like infrastructure in all of our States—was crumbling and had to be closed.

I have spoken to the small business owners and residents of this community who tell me the bridge is their lifeline. Last year, the South Park Bridge won a TIGER grant to help rebuild the bridge. That bridge today is creating jobs and aiding the recovery of an entire community, and will be a foundation for that community to thrive on for generations to come.

But the funding for this project and many other like it was left on the cutting-room floor by House Republicans in an effort to meet an arbitrary bottom-line.

That's wrong. And it's just one example from an extreme plan that focuses on short-term and shortsighted cuts, while neglecting a long-term plan for responsible deficit reduction that supports our economic recovery.

By comparison, the Senate Democratic bill protects these investments, choosing instead to end programs that have served their purpose or are no longer needed. Our alternative makes responsible and practical budget cuts that will allow us to continue out-innovating, out-educating, and out-building our competitors.

As you know, neither bill was able to garner enough votes to win passage. A compromise is still needed, one where both sides come to the table to work together on a long-term solution that invests in our country's future. And as we work to cut spending, we need to make sure that we aren't doing anything to threaten our economic recovery or cause even more workers to lose their jobs.

So as we look at the fiscal year 2012 budget, I will be taking the responsible approach. I will be analyzing how taxpayer dollars can be invested most effectively to:

—Continue our economic recovery;
—Improve our economic competitiveness;
—Strengthen our communities;
—Ensure safety;
—Foster innovation; and
—Manage our Federal resources efficiently.

THE DEPARTMENT'S BUDGET PROPOSAL AND SAFETEA–LU

The investments we make in transportation and in our national infrastructure are such an important part of supporting our economy, rebuilding our communities, and improving safety.

And the need to invest in our transportation infrastructure is huge. Many of us have already seen the Report Card for America's Infrastructure put together by the American Society of Civil Engineers. Their overall grade for our Nation's infrastructure is a D, and their grade for roads is even more depressing—a D−. Our Nation's rail network earned a paltry C−, and transit earned nothing more than a D.

The President's budget request tries to address this problem, asking for a 69-percent increase in funding for DOT. The request includes an immediate investment of $50 billion to boost the economy, as well as a 6-year reauthorization proposal for surface transportation. Clearly, this proposal offers a grand vision for our transportation programs.

I applaud the administration's effort to promote investment in our Nation's infrastructure, but I also think we need more than grand ideas. We need to discuss real strategies that will make them happen. And unfortunately, this budget proposal does not offer us real solutions for the challenges we face today.

When we talk about paying for transportation, the biggest challenge we face is the solvency of the Highway Trust Fund (HTF). Even under current funding levels—without paying for the additional $50 billion in stimulus funding requested by the administration—HTF will be bankrupt by the end of fiscal year 2012 or the beginning of 2013.

The administration has offered to work with the Congress to address this problem, but when it comes to discussing specific solutions, the President has:

—Opposed an increase to the gas tax;

—Opposed the development of a new revenue system based on miles traveled; and

—Still not offered any proposals for making sure that the trust fund has enough revenues to pay for its budget request.

I am also concerned about what happens to transportation programs in fiscal year 2012. A long-term solution for HTF will not be able to solve our immediate crisis. The Congress has already transferred more than $34 billion from the General Fund to HTF. I will be interested to hear from the Secretary if he thinks another transfer is necessary to get through the year, or if he can offer another way to avert a crisis.

At a time when the House is focusing on slash-and-burn politics, we need to see some realistic alternatives being discussed. I am disappointed that the budget request does not offer that.

I'm also troubled by the administration's proposal to reclassify transportation programs as purely mandatory funding. This proposal helps the administration meet its goal of freezing growth in the discretionary budget, but it also means that the administration has failed to request about $7 billion for the rail and public transit programs that have traditionally been funded with discretionary resources. This is a large hole for the Congress to fill from the outset.

More importantly, the proposal leaves the Department without annual oversight and input from the Appropriations Committee. This subcommittee has played an important role in supporting our Nation's infrastructure, providing additional resources for transit, roads, and bridges from the trust fund as well as the General Fund of the Department of the Treasury. In fact, the TIGER program was created by this subcommittee.

This subcommittee has been particularly engaged in supporting rail transportation, providing additional funding for the high-speed rail grants, and ensuring that the Department had the resources it needs to administer the program.

HIGH-SPEED RAIL

As concerned as I am about the future of the surface transportation programs, I believe the threats facing the President's high-speed rail initiative are potentially even greater.

I believe in high-speed rail. I think it has the ability to spur innovation and economic growth, tying communities together in ways that roads and airports don't today. Unlike most of Europe, we are still a young and growing Nation. Our population is projected to reach 420 million by mid-century, almost 140 million more than in 2000. If you think travel on our roads and at our airports is crowded today, just wait. And building more and wider roads won't be enough.

High-speed rail, like the FAA's Next Generation Air Transportation System (NextGen), is one of the solutions we will need if we are to avoid paralyzing gridlock.

I recognize the Department has had to stand up this ambitious new program in record time, hammering out agreements with States and freight railroads, with so many questions to be answered and problems resolved. I believe the Federal Railroad Administration is to be commended for its efforts.

And yet, I am concerned these efforts will be for naught, and the funding at risk, until the Department produces a detailed and comprehensive plan that answers basic questions about the program, like:

—Where does it make the most sense to build high-speed rail?

—What will it cost to build?

—And what will it cost to operate?

I will continue to fight for high-speed rail, but it is now time for the program to produce a compelling and rigorous plan to justify that support—and future funding.

OTHER ISSUES

Separate from high-speed rail, there are many other issues areas where the Department has been pushing for innovation.

The Department continues to forge ahead on NextGen, a long-term effort to modernize our air traffic control system. Last year, it took recommendations from an industry task force, refocusing some of its programs like Performance-Based Navigation. This past year, the Department has also worked hard to overcome challenges with the En Route Automation Modernization program.

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

At this hearing, and as we continue our work on the budget for fiscal year 2012, I look forward to hearing more about the Department's work in these areas.

PREPARED STATEMENT OF SENATOR MARK KIRK

Thank you Chairwoman Murray and Ranking Member Collins. I also would like to welcome Secretary LaHood, my former colleague for many years.

Madam Chairwoman, as you know the focus of the Congress and the American people is on our unsustainable spending. During the first 9 weeks of 2011, Federal debt increased at an average of $35.6 billion per week. At the end of 2010, total public debt outstanding stood at $13.9 trillion; and the end of February, it had increased to $14.2 trillion—a $300 billion increase. The Department of the Treasury has auctioned nearly $1.1 trillion since the beginning of the year. That is an average of $121.5 billion per week.

Recently the Senate was presented with two long-term continuing resolutions funding the Government, and rejected both. It's my hope that we can come together to examine ways we can rein in spending and restore confidence in the dollar.

This will not come easily, and will require shared sacrifice at every level of the Federal Government.

Now I fully recognize the economic impact of investing in infrastructure and one of the key reasons why I voted against the stimulus was that it focused too many resources on social spending in comparison to investments made in infrastructure. But I worry that the fiscal year 2012 request, while bold, is light on details regarding how we will fund a 6-year, $556 billion surface transportation reauthorization. Mr. Secretary, I know you have told the Commerce Committee that DOT is currently working with the Office of Management and Budget on that very issue, and I look forward to seeing the result.

I'll have a few other issues to highlight during questions, but good to see you on this side of the Capitol, Mr. Secretary—I look forward to working with you in the Senate. Thank you, Madam Chairwoman.

Senator MURRAY. With that, I will recognize my partner and ranking member, Senator Collins, for any opening remarks she would like to make.

STATEMENT OF SENATOR SUSAN COLLINS

Senator COLLINS. Thank you, Chairman Murray.

First of all, welcome, Secretary LaHood. I appreciate your leadership at DOT, and as the new ranking member of this subcommittee, I look forward to working with you, the chairman, and all of our colleagues to promote fiscally responsible investments in our Nation's aging transportation infrastructure.

As Senator Murray has pointed out, the transportation system is truly the lifeline for our country and our economy. Improving the efficiency and reliability of our Nation's transportation system is vital to the movement of people, freight, and goods. Yet, every single State has a backlog of vital transportation projects.

The administration is proposing a $129 billion budget for DOT, a 66-percent increase more than the fiscal year 2010 enacted level. Included in this budget request is a 6-year, $556 billion surface transportation reauthorization, but without a revenue mechanism to pay for it. HTF can only support approximately a $240 billion program over the next 6 years. An additional $167 billion in new revenues would have to be established to support a bill of that magnitude, but the administration has yet to specify the source of these revenues, as the chairman has pointed out.

I also want to associate myself with the comments of Senator Murray about the TIGER program. Capital investments in transportation projects through the TIGER program have been an important tool in helping to save and create jobs at a time when so many families are struggling. And the TIGER program has resulted in needed, lasting assets for communities. I, too, am disappointed that the House of Representatives passed a budget bill that included language to rescind funding for this important program. It is fundamentally unfair for the Federal Government to award grants to States, only then to take them away. I'm going to continue working with the chairman, and others who feel that way, to ensure that the final version of the continuing resolution, or appropriations bill, does not include that language.

I worked closely with the Secretary and appreciate his leadership to ensure that the necessary paperwork was concluded at both the State and Federal level for the Aroostook County Rail Preservation Project. But, I remain concerned about the fate of the funding for the Memorial Bridge replacement project. That is a major bridge that connects New Hampshire and Maine. It has been strongly supported by the delegations of both States. And replacing the Memorial Bridge is an important infrastructure project that is essential to the flow of goods, services, and people between Maine and New Hampshire, and for keeping and attracting new jobs to both States. Its funding is now in jeopardy because of the House language.

Many smaller-scale transportation projects also help to build infrastructure and create jobs in our local communities. For example, in Maine's capital city of Augusta, a new regional hospital is being constructed, just yards from Interstate 95 (I–95). There is, however, no convenient way to exit the interstate and arrive at the new hospital. The hospital, the State, and the local community of Augusta have all pledged funding for the project. This is a perfect example of a partnership project where everyone from the private sector, the capital city of Augusta, and the State are kicking in funds to make the improved transportation a reality. But they can't do it alone. They need the Federal Government to complete the piece of the puzzle. We need to ensure that funding is available for smaller communities and rural communities where there is local support and committed funding for meeting these needs, as there is in this example.

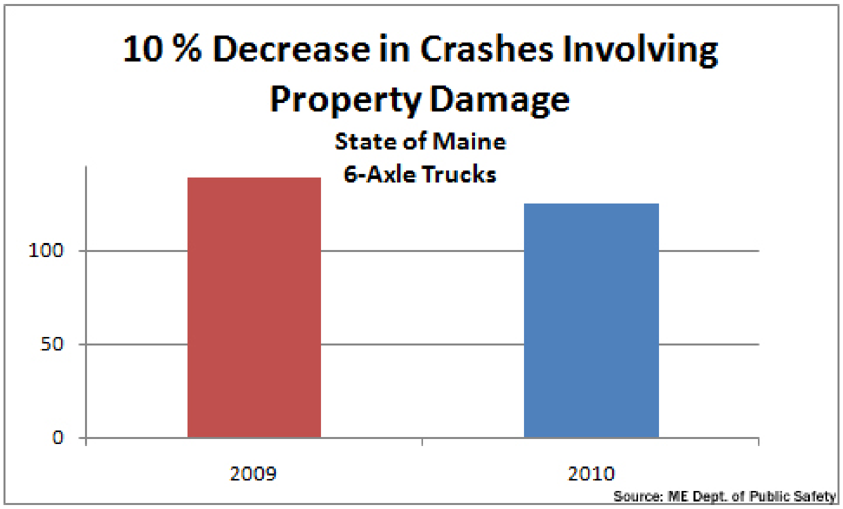
Not only do we need to continue our commitment to making investments in infrastructure, but also we must continue to improve highway safety. The chairman mentioned and commended the Secretary for his initiatives on distracted drivers. I know the Department has also done a great deal to look at the Toyota case and other issues involving questions that have arisen about vehicle safety.

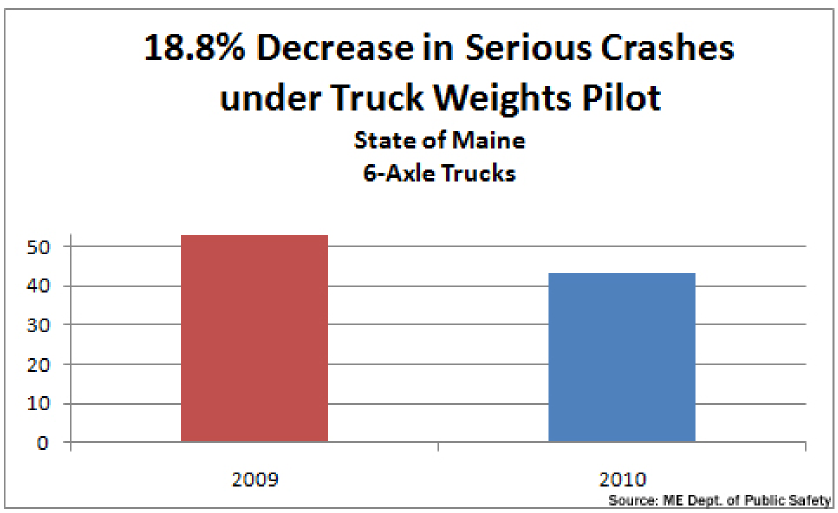
The States of Maine and Vermont recently participated in a year-long pilot project that I authored that allowed trucks weighing up to 100,000 pounds to travel on those States' Federal interstates. Senator Leahy joined me in this effort to help provide a level playing field for our States, and allow heavy trucks to use our most modern, safe, and efficient highways. In 2010, as a result of our pilot project, people throughout our two States saw their roads less congested, our downtowns and secondary roads safer, our air cleaner, and our businesses more competitive, since the surrounding States already have these exemptions, as do the two provinces in Canada that border Maine. And that is why I'm committed to fighting to make this pilot project, which unfortunately expired in December, permanent.

I would note that all the public safety groups in Maine, including the Maine Association of Police, the Maine State Police, the Maine State Troopers Association, the Maine Department of Public Safety, and the Maine Chiefs of Police strongly support a permanent extension of the pilot project.

A recent study by the Maine State Police Commercial Vehicle Enforcement Division found fewer accidents involving trucks during the time that the pilot project was in effect. Countless Maine business owners have told me how this change would improve their competitiveness. For example, under the pilot project, Lincoln Paper and Tissue, a manufacturer in Lincoln, Maine, was able to save 1.1 million billable truck miles, a 28-percent decrease from the prior year. These savings are the equivalent of the company being 220 miles closer to its primary market. That benefits not only the small business, but also our Nation, as we seek to reduce overall fuel consumption and reduce carbon emissions.

[The information follows:]





The people of my State are very unhappy that the heaviest trucks are once again being forced onto secondary roads and into downtowns, when they belong on the interstates.

PREPARED STATEMENT

I look forward to working with you, Madam Chairman, as well as Secretary LaHood, as we consider this issue and the Department's overall fiscal year 2012 budget request.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN COLLINS

Thank you, Chairman Murray. Welcome, Secretary LaHood. I appreciate your leadership at the Department of Transportation (DOT) and look forward to working together to promote fiscally responsible investments in our Nation's aging transportation infrastructure.

The transportation system is the lifeline for our country and our economy. Improving the efficiency and reliability of the Nation's transportation system is vital to the movement of our freight and goods, yet every State has a backlog of vital transportation needs.

The administration is proposing a $129 billion budget for DOT, a 66-percent increase more than the fiscal year 2010 enacted level. Included in this budget request is a 6-year, $556 billion surface transportation reauthorization, but without a revenue mechanism to pay for it. The Highway Trust Fund can only support a $240 billion program over the next 6 years. An additional $167 billion in new revenues would have to be established to support a bill of this magnitude, but the administration has yet to specify the source of these revenues.

Capital investments in transportation projects through the Transportation Investment Generating Economic Recovery (TIGER) program have been an important tool in helping to save and create jobs that so many families need right now. I am disappointed that the House of Representatives passed a bill that included language to rescind funding for this important program. As a result of this language, the State of Maine was at risk of losing funding for two critical projects that were awarded last October—the Aroostook Rail Preservation project and the Memorial Bridge Replacement project. It is fundamentally unfair for the Federal Government to award grants to States only to have them taken away.

I worked closely with Secretary LaHood and appreciate his leadership to ensure the necessary paperwork was concluded at both the State and Federal level for the Aroostook Rail Preservation project. I remain concerned about the fate of the funding for the Memorial Bridge replacement project. Replacing the Memorial Bridge is an important infrastructure project that is essential to the flow of goods, services, and people between Maine and New Hampshire and for keeping and attracting new jobs to our States.

Many smaller-scale transportation projects also help build infrastructure and create jobs in our local communities. For example, in Maine's capital city of Augusta, a new regional hospital is being constructed just yards from Interstate 95 (I–95). There is, however, no convenient way to exit the interstate and arrive at the new hospital. The hospital, the State, and the local community have all pledged funding for this project. We should ensure funding is available for smaller and rural communities where there is local support and committed funding for these needs.

Not only do we need to continue our commitment to making investments in our infrastructure, but also we must continue to improve highway safety. The States of Maine and Vermont recently participated in a year-long pilot project that allowed trucks weighing up to 100,000 pounds to travel on their Federal interstates. Senator Leahy joined me in this effort to help provide a level playing field for our States and allow heavy trucks to use our most modern, safe, and efficient highways.

In 2010, as a result of this pilot project, people throughout our State saw their roads less congested, our downtowns and secondary roads safer, our air cleaner, and our businesses more competitive. That is why I am committed to fighting to make this pilot program, which expired in December, permanent.

Let me give a specific example of these results. On a trip from Hampden to Houlton, Maine, the benefits are very clear. A truck traveling on I–95 rather than on State Route 2, which runs nearly parallel to I–95, avoids more than 270 intersections, nine school crossings, 30 traffic lights, and 86 crosswalks. In addition, a driver also saves more than $30 on fuel. Given the rising cost of diesel, it is even higher than that now. Additionally, 50 minutes is saved by traveling on I–95 rather than on the secondary road of Route 2.

Public safety groups in Maine, including the Maine Association of Police, the Maine State Police, the Maine State Troopers Association, the Maine Department of Public Safety, and the Maine Chiefs of Police all support a permanent extension of the pilot project. Bangor's Chief of Police, Ron Gastia, recently noted that, "I, along with chiefs across Maine, recognize that trucks of this size do not belong on Maine's city streets and secondary roads."

A recent study by the Maine State Police Commercial Vehicle Enforcement Division reported that in 2009, before the pilot came into effect, 139 accidents involving six-axle trucks occurred in Maine. In 2010, the year the pilot was in effect, the number of accidents fell to 125. That's 14 fewer accidents as a result of allowing these trucks to operate on all of Maine's interstates.

Countless Maine small business owners have told me how this change would improve their competitiveness. For example, under the pilot project, Lincoln Paper and Tissue, a paper and tissue manufacturer in Lincoln, Maine, was able to save 1.1 million billable truck miles, a 28-percent decrease from the prior year. These savings are the equivalent of the company being 220 miles closer to its primary market. That benefits not only this small business but also our Nation as we seek to reduce our overall fuel consumption and reduce carbon emissions.

We need to make the pilot project permanent. The people of my State are unhappy that the heaviest trucks are once again forced onto secondary roads and into downtowns when they belong on the interstates.

I am looking forward to working with you Chairman Murray as well as Secretary LaHood as we consider DOT's fiscal year 2012 budget request.

Senator MURRAY. Thank you, Senator Collins.

We'll now turn to our members for any opening statements they have, and then to you, Mr. Secretary.

Senator Pryor.

Senator PRYOR. I don't have anything.

Senator MURRAY. Okay.

Senator Coats.

Senator COATS. No, I'm fine.

Senator MURRAY. Senator Blunt.

STATEMENT OF SENATOR ROY BLUNT

Senator BLUNT. Madam Chairman, I'd just like to say, I'm pleased to see my good friend Secretary LaHood here, and know he's got a big job. And after those two opening statements, it sounds even bigger to me.

So, we look forward to working with you. Transportation is clearly one of the critical keys to our ability to compete and create jobs and opportunity. And Mr. Secretary, I'm glad you're here today, and look forward to working with you through this budget process that we're beginning today for next year. Too bad that we're still focused on last year's budget process, but maybe we'll get into a pattern here that actually makes sense to the American people and to the people doing the kinds of jobs you're doing.

Senator MURRAY. Thank you very much.

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

SUMMARY STATEMENT OF HON. RAY LAHOOD

Secretary LAHOOD. Thank you, Chairman Murray, and Ranking Member Collins, and to the other Senators who are here, for the opportunity to discuss President Obama's fiscal year 2012 budget request for DOT.

Just a few weeks ago, President Obama delivered a powerful message in his State of the Union Address. He said that, for Americans to win the future, our citizens and companies need the safest, fastest, most reliable ways to move goods and information. He reminded us that if we build it, they will come. If we want businesses to open shop and hire our families, friends, and neighbors, we have to invest in our roadways, railways, and runways. We have to invest in 21st-century buses, streetcars, and transit systems, and we have to invest in next-generation technology for our skies, and in sidewalks and bike paths that make our streets more livable. All of this is included in the President's $129 billion fiscal year 2012 budget for DOT, designed as the first installment of a bold 6-year, $556 billion reauthorization proposal.

To make room for these essential investments, President Obama's fiscal year 2012 budget proposes the lowest relative level of domestic spending since President Eisenhower was in office six decades ago. That was 10 administrations ago, if you're counting.

The simple fact is that we have to cut and consolidate things that aren't growing the economy, creating jobs, or making it easier to do business, in order to pay for the things that are. So, at DOT, President Obama's budget slashes red tape. It consolidates more than 50 programs, and it includes reforms that will accelerate project delivery and empower local communities.

Of course, our major objective is to make investments in tomorrow that expand economic opportunity today, to dream big and to build big. That's why this budget keeps us on track toward a national high-speed rail system with an $8 billion investment in 2012 and a $53 billion investment over the next 6 years. It increases resources for highway and bridge improvements by 48 percent. It increases funding for affordable, efficient, and sustainable bus, streetcar, and transit systems by 126 percent. It includes $50 billion up front to keep our recovery moving in the short term, and a $30 billion National Infrastructure Bank that will finance major projects of national regional significance over the long run.

At the same time, safety is, and always will be, our top priority. President Obama's budget renews our commitment to prevent traffic crashes with resources for our ongoing campaign against distracted driving, drunk driving, and to promote seatbelt use. The President's proposal requests new authority for the Federal Transit Administration to ensure the safety of rail transit riders across America, and it gives the Federal Motor Carrier Safety Administration stronger capacity to keep commercial traffic safe.

Finally, we're dedicated to doing all of this without passing on another dime of debt to our children or grandchildren. For the first time, transportation spending will be subject to pay-go provisions that ensure the dollars we give out do not exceed the dollars coming in.

So, these are just a few components of the President's plan. They reflect a much larger point: America's transportation system is at a crossroads. Our choice isn't between policies on the left or policies on the right. Our choice is whether our economic recovery rolls forward or falls backward. It's up to us whether we lay a new foundation for economic growth, competitiveness, and opportunity, or whether we settle for a status quo that leaves America's next generation of entrepreneurs, our children and grandchildren, with clogged arteries of commerce.

PREPARED STATEMENT

It's up to us whether we do big things or whether we do nothing. If we choose wisely, our legacy can be an economy on the move and a future that America is prepared to win.

I'll be happy to answer questions.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF HON. RAY LAHOOD

Chairman Murray, Ranking Member Collins, and members of the subcommittee, thank you for the opportunity to appear before you today to discuss the administration's fiscal year 2012 budget request for the Department of Transportation (DOT). The President is requesting $129 billion for Transportation in fiscal year 2012. This includes the first-year of a bold new 6-year $556 billion reauthorization proposal that will transform the way we manage surface transportation for the future.

America is at a transportation crossroads. To compete for the jobs and industries of the future, we must out-innovate and out-build the rest of the world. That is why President Obama called on the Nation to repair our existing roadways, bridges, railways, and runways and to build new transportation systems—including a national high-speed intercity rail network—which will safely and efficiently move people and goods. The administration's Surface Transportation Reauthorization proposal is designed to accomplish precisely this, and is the centerpiece of the President's fiscal year 2012 budget.

It proposes four broad goals:

—building for the future;
—spurring innovation;
—ensuring safety; and
—reforming Government and exercising responsibility.

The fiscal year 2012 proposal includes a $50 billion "up-front" economic boost that is designed to jump-start job creation while laying the foundation for future prosperity. This initial funding would finance improvements to the Nation's highway, rail, transit, and aviation systems.

BUILDING FOR THE FUTURE

America's aging roads, bridges, and transit systems must be addressed. For too long we have put off the improvements needed to keep pace with today's transportation needs. By 2050, the United States will be home to 100 million additional people—the equivalent of another California, Texas, New York, and Florida. More than 80 percent of them will live in urban areas. Concerns about the need for livable communities will increase as communities tackle the need for transportation choices and access to transportation services. If we settle for the status quo, our next generation of entrepreneurs will find America's arteries of commerce impassably clogged and our families and neighbors will fight paralyzing congestion. So the administration's proposal addresses this challenge in three ways:

—*Creating a National High-Speed Rail Network.*—First, the proposal provides $53 billion over 6 years to continue construction of a national high-speed rail network. It will place high-speed rail on equal footing with other surface transportation programs; include funding for both Amtrak and new "core express," "regional," and "emerging" corridors; and keep the country on track toward achieving a goal of providing 80 percent of Americans with access to an intercity passenger rail network, featuring high-speed rail within 25 years.

—*Rebuilding America's Roads and Bridges.*—Second, the administration's proposal will provide a 48-percent funding increase—to $336 billion over 6 years for road and bridge improvements and construction. A key element expands the current National Highway System to include an additional 220,000 miles of critical arterials. It will also simplify the highway program structure, accelerate project delivery to realize the benefits of highway and bridge investments for the public sooner, and underscore the importance of maintaining existing highway infrastructure in good condition. These investments and reforms will modernize our highway system while creating much-needed jobs.

—*Investing in Accessible, Affordable Transit Options.*—Third, the proposal will provide a 128-percent increase in funding—to $119 billion over 6 years—for affordable, efficient, and sustainable transit options. It will prioritize projects that rebuild and rehabilitate existing transit systems, including an important new transit safety program, and allow transit authorities (in urbanized areas of 200,000 or more in population) to temporarily use formula funds to cover operating costs.

SPURRING INNOVATION

The administration's Surface Transportation Authorization proposal acknowledges the important role that innovation and modern business tools play in putting our transportation dollars to work wisely. We can no longer afford to continue operating our systems the same way we did 50 years ago, with outdated processes and financial tools that were made for yesterday's economy. Our proposal and the President's fiscal year 2012 request responds to this challenge in several ways.

It establishes a National Infrastructure Bank (NIB) to finance projects of national or regional significance. By working with credit markets and private-sector investors, the NIB will leverage limited resources to achieve maximum return on Federal transportation dollars. The NIB will initially receive $30 billion over 6 years, will reside within DOT, and will be managed by an executive director with a board of officials drawn from other Federal agencies.

Recognizing that competition often drives innovation, the administration's proposal and the President's fiscal year 2012 budget also includes a $32 billion competitive grant program called the Transportation Leadership Awards. This program's goal is to reward States and local governments that demonstrate transformational policy solutions. Examples include the use of innovative multimodal planning and funding methods, pricing and revenue options, land-use guidelines, environmental stewardship measures, economic development strategies, innovation of project delivery, and deployment of technology—just to name a few possibilities.

These new and innovative tools will help us to better meet the transportation needs of America's small towns and rural communities. Increased highway funding will expand access to jobs, education, and healthcare. Innovative policy solutions will ensure that people can more easily connect with regional and local transit options—and from one mode of transportation to another.

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

Innovation must span beyond surface transportation. This is why the President's budget request also includes $3.4 billion for aviation in the $50 billion "up-front" investment. The budget requests $3.1 billion for airport improvements for runway construction and other airport projects such as Runway Safety Area improvement projects as well as noise mitigation projects. Modernizing our air traffic control systems is critical if we are to meet the needs of the future. The President's fiscal year 2012 budget addresses this by providing $1.24 billion for the Federal Aviation Administration's (FAA) efforts to transition to the Next Generation (NextGen) of Air Traffic Control. This funding will help the FAA move from a ground-based radar surveillance system to a more accurate satellite-based surveillance system—the backbone of a broader effort to reduce delays for passengers and increase fuel efficiency for carriers.

ENSURING SAFETY

Keeping travelers on our transportation systems safe is my top priority. That is why preventing roadway crashes continues to be a major focus at DOT. The administration's Surface Transportation Reauthorization proposal will provide $330 million for the ongoing campaign against America's distracted driving epidemic. It will also commit $7 billion to promote seatbelt use, get drunk drivers off the road, and ensure that traffic fatality numbers continue falling from current historic lows. In addition, it almost doubles the investment in highway safety, providing $17.5 billion to Federal Highway Administration (FHWA) safety programs. The Department is also taking a fresh approach to interstate bus and truck safety. Compliance, Safety, Accountability (CSA) is a new initiative that will improve safety and use resources more efficiently. The administration's Surface Transportation Reauthorization proposal will dedicate $4.9 billion to the Federal Motor Carrier Safety Administration (FMCSA), and give DOT new authority to set tougher safety performance goals for States.

Transit safety is another important priority. Our proposal will, for the first time, entrust the Federal Transit Administration with the authority to oversee rail transit safety across America. In light of recent transit-related accidents, I believe this is critical to ensuring the oversight and accountability our transit riders deserve.

Our safety focus must also include the transportation of hazardous materials and our network of pipelines. The administration's Surface Transportation Reauthorization proposal will fund the safety programs of the Pipelines and Hazardous Materials Safety Administration (PHMSA) and will enhance its authorities to close regulatory loopholes and improve its safety oversight. The President's fiscal year 2012 budget requests $221 million for PHMSA to help ensure that families, communities, and the environment are unharmed by the transport of chemicals and fuels on which our economy relies.

REFORMING GOVERNMENT AND EXERCISING RESPONSIBILITY

As we move forward together to plan for America's transportation needs, we must also keep in mind the responsibility we all share for using taxpayer dollars wisely. The administration's Surface Transportation Reauthorization proposal will cut waste, inefficiency, and bureaucracy so that projects can move forward quickly, while still protecting public safety and the environment.

Our proposal consolidates and streamlines our current Highway and Transit Programs in a major way. The current system of more than 55 separate highway programs will be folded into five new categories. Similarly, six transit programs are merged into one "state of good repair" program and one "specialized transportation" program. As a result of these changes, we expect to shorten project delivery and accelerate the deployment of new technologies.

The Administration's Surface Transportation Reauthorization proposal also includes important reforms that change the way we manage our transportation spending. Consistent with the recommendations of the Fiscal Commission, for the first time, the budget proposes to subject surface transportation spending to "paygo" provisions to make certain that spending does not exceed dedicated revenue. This approach is designed to ensure that our surface transportation program is paid for fully without increasing the deficit. The proposal will also expand the current Highway Trust Fund into a new Transportation Trust Fund with four accounts—one for highways, one for transit, one for high-speed passenger rail, and one for the NIB.

OTHER HIGHLIGHTS

The President's fiscal year 2012 request includes some other key transportation priorities as well. These include the $18.7 billion in total funds requested for FAA. FAA would receive $9.8 billion to fund the operation, maintenance, communications, and logistical support of the air traffic control and air navigation systems. An additional $3.1 billion would support FAA's Facilities and Equipment program to fund FAA's capital projects. A total of $5.1 billion in fiscal year 2012 would fund the Airport Improvement Program when funding from the $50 billion "up-front" investment is included.

The President's request also includes $93 million for the U.S. Merchant Marine Academy (USMMA). Of these funds, $29 million will be used to support the next phase of the USMMA's Capital Asset Management program and for renovations to selected barracks and the mess hall. These improvements will help ensure that our cadets have the facilities they need to support their education.

CONCLUSION

Thank you for the opportunity to appear before you to present the President's fiscal year 2012 budget proposal for DOT and our Surface Transportation Reauthorization proposal that will help transform transportation programs over the next 6 years in ways that will benefit all Americans for years to come. I look forward to working with the Congress to ensure the success of this request.

I will be happy to respond to your questions.

H.R. 1

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

I will begin by asking you—well, actually, just let me say, I'm really troubled by the harsh cuts that the House is proposing to make in the transportation programs that are so important. I talked a little bit in my opening statement about high-speed rail and TIGER. There are deep cuts to transit and FAA, and I think these are really shortsighted. This is less a debate about taming the deficit, which we all agree we need to be doing, but it really is a question of priorities and a statement about what we are going to look like in the future. And I wanted to ask you this morning, while you're here, do you have an estimate for the number of jobs that would be lost as a result of the cuts the House is proposing now to make in transportation?

Secretary LAHOOD. I don't know the estimate of jobs as a result of H.R. 1, but I will tell you that as a result of what you all did, in providing DOT $48 billion in the stimulus program, we were able to create 15,000 projects over 2 years, and 65,000 jobs were created. So, if that's any indication—$48 billion, 15,000 projects, 65,000 jobs over 2 years, as a result of the stimulus—a lot of jobs, a lot of projects that would not have been created if the Congress had not passed on $48 billion, which we now have out the door and have put a lot of Americans to work.

Senator MURRAY. And I would just have to add that those are private contractors that get those jobs.

Secretary LAHOOD. That's correct.

Senator MURRAY. They're not government jobs. We give this money to private contractors——

Secretary LAHOOD. That's correct. The money goes, in the case of TIGER and the case of many of these other programs, directly to the people that provide civilian jobs. A lot of small businesses benefited; more importantly, a lot of Americans benefited. Our friends and neighbors around the country benefited in good-paying jobs, and America's infrastructure was rebuilt.

Senator MURRAY. Yes.

Both Senator Collins and I mentioned concerns about the TIGER grants that would be rescinded by the House budget proposal. What are you hearing from other communities that were awarded TIGER grants last year?

Secretary LAHOOD. I'm hearing from a lot of Members of Congress, both Republicans and Democrats, who are very concerned that we made a commitment. I appreciate what both you and the ranking member have said about TIGER. These are commitments that have been made. Senators and Congressmen are asking me: "Can you obligate the money so it can't be rescinded?" The answer is, even if the money is obligated, the Congress can do whatever it wants. We made a commitment, to people all over the country, for good projects—for freight projects, for light rail, for highways, for bridges. These projects were not earmarked. They weren't sweetheart deals or boondoggles. These are projects that people out in the country said needed to be done to put people to work. The TIGER program is a jobs program. There are going to be a lot of people who aren't going to go to work as a result if these monies are rescinded. What I'm saying to every Senator, both Republican and Democrat, and House Member is, I know you want your money obligated. I just talked to a Senator on the way over here in my vehicle, who was talking to me about his TIGER project. He didn't realize that, even if it's obligated, there's still a chance that you all could rescind it. That's not fair to the people who thought they were going to get this money. It's not fair to the people who thought they were going to have a job on the other side of these projects.

This TIGER program is a jobs program. So, for all the talk of all Members of Congress who want to put people to work, this is the way to do it: Keep our commitments.

Senator MURRAY. In a competitive program, I would add.

Secretary LAHOOD. Absolutely. No earmarks. No sweetheart deals. No boondoggles, they are all done the correct way. You're not going to see any stories written about DOT giving money out to somebody in any other way except in a competitive fashion—that was competed in a way that reflects that these are good projects. This program will create jobs.

STATUS OF THE HIGHWAY TRUST FUND

Senator MURRAY. Thank you very much for that.

Let me ask you about HTF. Keeping enough balances in HTF has been an ongoing problem now for 3 years. And now we expect HTF to again slip into bankruptcy by the end of fiscal year 2012. You've offered to work with us on a long-term solution, and that work will be a vital part of developing a reauthorization plan. I know that. But in the meantime, this subcommittee needs to develop a budget for your Department for 2012. And a new revenue plan will not fix HTF quickly enough to get us out of this immediate crisis.

Do you believe that another transfer from the General Fund of the Department of the Treasury will be necessary to sustain HTF through 2012?

Secretary LAHOOD. Our smart budget people, one of whom is sitting next to me, Chris Bertram, who comes from this part of the world—Chris worked in the Senate, and he's very smart on this—our people believe that HTF has sufficient funds to stay solvent through fiscal year 2012.

Senator MURRAY. You do.

Secretary LAHOOD. Yes.

Senator MURRAY. Okay. If that changes, we'd like to be told——

Secretary LAHOOD. Absolutely.

Senator MURRAY [continuing]. As soon as possible. And we will——

Secretary LAHOOD. You'll be the first to know.

Senator MURRAY [continuing]. Need your recommendation on how we're going to deal with that.

Secretary LAHOOD. Absolutely.

Senator MURRAY. All right.

Senator Collins.

HOURS OF SERVICE RULE

Senator COLLINS. Thank you, Madam Chairman.

I'm surprised to hear the Secretary's last comment, but pleased to hear it. We're still going to have a challenge of the reauthorization, which was put in the budget, goes through, because we're going to have to work to figure out how to fund that, as well.

Mr. Secretary, one of the issues that I'm hearing the most about is the Department's proposed change to the hours-of-service rules for commercial truck drivers. And I've heard a lot from truckers in my State who are opposed to the changes, as well as from trucking businesses. But, yesterday I also met with a State trooper who is head of the Commercial Vehicle Division for the State of Maine, and he expressed opposition, as well, and called the changes "unenforceable."

What is the status of those rules? And second, is the administration working with stakeholders, with the trucking association, and with law enforcement to try to take into account some of the comments in opposition?

Secretary LAHOOD. We have a rule pending, Senator. I know that what I'm going to say, you already know. This problem has been kicked down the road for 10 years. So, I made a decision; we're not going to kick it down the road anymore. We developed a rule, in cooperation with our friends in the trucking industry—and we have friends in the trucking industry—and we've developed a rule. It's out there. People can comment on it. I know that the truckers are not happy with this.

We believe that what we've developed is a very good safety metric for making sure that drivers will drive safely, and do it a certain number of hours. We believe what we've developed is the safety metric that makes the most sense. We know people don't agree with us, and that's why, when we do these rules, we have lots of opportunities for people to comment.

We need to do something. A court has ruled that we need to do something on this issue. We're not going to just sit back and kick it down the road like others have done. We're not going to do that. So, we've put it out there. Senators or House Members may disagree with us, and the trucking companies, I know, are going to be talking to you about it. My suggestion is, look at our rule, see what you think about it, make a comment about it, put it in the Federal Register, and then we'll see where it takes us.

Senator COLLINS. It's good to know that all the comments, I'm sure, will be fully evaluated.

Secretary LAHOOD. Absolutely. They will be. In the end, we'll take that into consideration when we put the final rule together.

MOTOR CARRIER WEIGHT RESTRICTIONS

Senator COLLINS. Let me turn to a second safety issue, which I alluded to—more than alluded to—in my opening statement. And I do this——

Secretary LAHOOD. We have multiple——

Senator COLLINS. I'm glad you've got——

Secretary LAHOOD [continuing]. Copies of this map.

Senator COLLINS. My favorite chart. And this is not only to talk to the Secretary, who's probably tired of hearing from me on this issue, but also to talk to my colleagues. So, I hope the staff has passed out a copy to each of my colleagues.

[The information follows:]

COMMON SENSE, SAFETY AND SAVINGS
Hampden to Houlton

This is a specific example of the results of the pilot project that I referred to in my opening statement. And if you take a trip from Hampden to Houlton, Maine, the benefits are very clear, and they're illustrated on this chart.

A truck traveling on I–95 rather than Route 2, which runs nearly parallel to I–95, avoids more than 270 intersections—zero on I–95, obviously—270 intersections. It avoids nine school crossings, 30 traffic lights, and 86 crosswalks. And that's why our State safety officers, from the troopers to the police chiefs, are so much in favor of making this pilot project permanent. And it's why you've seen the accident rate decline.

In addition—and this is so important at a time when diesel prices are climbing through the roof—a driver saves more than $30 on fuel. That's an old figure. I'm sure it's way more than that now. Additionally, 50 minutes of driving time is saved by traveling on I–95 rather than on the secondary route.

I want to express my appreciation to the administration for endorsing making this pilot project permanent. I know it was included in the budget that was sent up by the administration. And I just hope that we can continue to work together to make this a reality. If we can't get a permanent program, then perhaps we could work on a 5-year extension, which would allow even more data to be collected.

Secretary LAHOOD. Absolutely. I know this is a very serious problem. We've had lots of discussions about this with you and other people in your State. We will continue and are committed to work with you on this.

Senator COLLINS. Thank you, Mr. Secretary.

Thank you.

Senator MURRAY. Thank you.

Senator Pryor.

Senator PRYOR. Thank you, Madam Chair.

TOYOTA INVESTIGATION

Mr. Secretary, it's good to see you again.

Secretary LAHOOD. Thank you.

Senator PRYOR. Thank you again for your willingness to always be available and responsive on all of our needs and all of our questions. So, thank you very much for that.

Let me start with the National Highway Traffic Safety Administration (NHTSA), and let me compliment one of the folks on your team: David Strickland. I think he's doing a good job there. He——

Secretary LAHOOD. Thank you.

Senator PRYOR [continuing]. Has his hands full with a lot of different things, and I know you've loaded him up with lots of work and lots of initiatives.

Secretary LAHOOD. You trained him well.

Senator PRYOR. I'm glad to see that he's doing well there.

Let me ask, as a follow-up to the Toyota investigation that has been going on over the last year or more, has that resulted in any changes in the agency? And the reason I ask that is because I know that one of the recommendations was that maybe NHTSA and DOT didn't have enough engineers with real technical expertise to evaluate some of the new software that's in vehicles. They're not all mechanical anymore. It's largely done by software now. Have there been lessons learned? And does your budget reflect those lessons?

Secretary LAHOOD. As a result of the hearings last year, Senator, we believe that, with respect to Toyota, the sticky pedal and the floormat entrapment were the cause of that terrible accident in California, and other accidents. It led us to require that Toyota fix both of those issues. Every Member of Congress, at the time, thought it was an electronics issue. Our people didn't think that, but we engaged the National Aeronautics and Space Administration (NASA) in this, and they took a year to complete a study. They found the same thing we found. It's not electronics.

We, in our budget, are proposing additional electrical engineers. That's one of the things that the Congress pointed out to us, and I think it was a deficiency. If you look in our budget, we've requested additional expertise, particularly as it relates to electrical engineers.

Senator PRYOR. Right. Then the second part of my question is: I noticed, in your budget, you've added about $19.8 million more than the fiscal year 2010 levels for staffing at NHTSA. And is that correct?

Secretary LAHOOD. Yes, it is.

Senator PRYOR. Is that engineers and——

Secretary LAHOOD. Yes, sir. It's electrical engineers and other engineers, and people with expertise that can really help us do our job.

Senator PRYOR. I don't have the numbers in front of me, but do you have a number on the——

Secretary LAHOOD. The budget adds 119 new staff——

Senator PRYOR. That's what I was going to ask.

Secretary LAHOOD [continuing]. In the vehicle safety area.

Senator PRYOR. Okay.

Secretary LAHOOD. It's 119.

Senator PRYOR. Okay, all right. I'd like to look at that in more detail.

Secretary LAHOOD. Sure.

Senator PRYOR. And I'll work with——

Secretary LAHOOD. Yes. I appreciate your interest in our safety organization. The one thing that the NASA study proved is that we do have very good people, that we do pay attention to safety, and we did get it right when it came to Toyota.

SAFETY GRANTS

Senator PRYOR. Right. I know you spent a lot of time with it, and showed a lot of determination to get it right.

Let me ask about your safety grant programs. I understand that you're discontinuing the $120-million-per-year section 406 Seatbelt Performance Safety Grant Program. And I guess I'm wondering why you're——

Secretary LAHOOD. Yes, let me ask Chris Bertram——

Senator PRYOR. Yes.

Secretary LAHOOD [continuing]. Just to address that, if you don't mind.

Mr. BERTRAM. Sir, that was a program created in the last highway reauthorization, and the point of the program was to create incentives for States to change their laws. It was always intended to be a temporary program, and a number of States have changed their laws. It wasn't intended to be there permanently, so we've taken that money and incorporated it into other grant programs.

Senator PRYOR. Okay. Other safety type programs?

Mr. BERTRAM. Yes, right.

CROSS-BORDER TRUCKING

Senator PRYOR. Okay. I don't want to shortchange safety. I know that we need to trim our budgets, and everybody agrees that we're spending too much, but highway safety and transportation safety is very critical.

Let me ask another question—and last time we saw each other, I asked this question about the cross-border trucking issue. And you made a very emphatic statement that they would include electronic on-board——

Secretary LAHOOD. Yes, sir.

Senator PRYOR [continuing]. Recorders (EOBRs).

Secretary LAHOOD. Yes, sir. Those will be included on every truck. We need to have a metric to make sure we know how many hours are driven, and that they're complying with the hours that are in the agreement that we signed with Mexico.

Senator PRYOR. Do you know if we're paying for those, or——

Secretary LAHOOD. We're paying for those.

Senator PRYOR. Why are we paying for those and not the Mexican trucking companies?

Secretary LAHOOD. In the negotiations, it became clear that, if we were going to require these EOBRs, which—we absolutely had to require them—I came up here and met with more than 25 Senators when the program was suspended, and one of the things that was made very clear to me was that we have to know that safety metrics are in place, ones that will measure the kind of safety that we want. We felt that EOBRs were one of the top things that we had to do. It'll be in our budget. In the negotiations, we made it clear, trucks coming from Mexico have to use EOBRs. Mexico acceded to that request. That's the reason we're paying for them.

Senator PRYOR. I would like to reiterate something that you and I said in our last setting—and this is really more for the subcommittee's benefit—as we do this pilot project, I'm very concerned about border corruption down along the United States-Mexican border. And we've seen this. Senator Collins, on her Committee, she's seen this through the Customs and Border Patrol. And I hope that you will build in the safeguards and protection to, as much as humanly possible, prevent the corruption of your folks down along the border, because they're having problems in other areas.

Secretary LAHOOD. We will certainly do that. I have been to the border; I've talked to our people down there. The one thing that I was so stunned by is the lack of good facilities that they have to work in, the lack of facilities that they have when they have to inspect trucks in the 120-degree weather that exists down there in the summertime. We've made a commitment to them to try and improve the facilities, and we need a commitment from them that they will do everything by the book, according to the law. We're going to pay attention to that.

Senator PRYOR. Thank you.

Senator MURRAY. Senator Coats.

FISCAL YEAR 2012 BUDGET REQUEST

Senator COATS. Thank you, Madam Chairman.

Mr. Secretary, welcome. And——

Secretary LAHOOD. Thank you.

Senator COATS [continuing]. It's good to see a good former colleague and——

Secretary LAHOOD. Yes, sir.

Senator COATS [continuing]. Midwestern bred-and-born-and-raised Secretary here to—and I appreciate your straight talk——

Secretary LAHOOD. Thank you.

Senator COATS [continuing]. Calling it for what it is.

We served together in the House. You know how the Congress operates. You're well aware of our current fiscal situation. The reality is that, probably, we're not going to get to the numbers the administration has proposed. And so, I guess the question is, does the Department—have you looked at the possibility of a plan B, in terms of how you would prioritize the things that are put together in the President's budget?

And I would suggest a couple of points here in that regard. We all know that we're focusing exclusively on about 15 percent of the total budget. As result of that, the discretionary spending is getting an inordinate amount of focus and attention, and will be subject to a disproportionate share, when you look at the whole budget, of the cuts that are taking place.

Now, a number of people, including me and others, have been increasingly calling for getting the whole pie on the table so that we look at mandatory spending, which, as you know, is two-thirds of the budget. I'm not asking you to answer this particular question. But, if you have the opportunity to discuss this at Cabinet level or with the President, we can't accomplish this without the President's leadership. There are an increasing number of Democrats and Republicans that are basically saying, publicly, "Look, we can't solve our deficit problem if we don't look at the whole picture." And discretionary spending is just simply going to dry up and go away.

You've listed some high priorities here that we all have—crumbling roads and bridges. We know this infrastructure, particularly in the East and the Midwest, is old and needs a lot of repair. So, I'm hoping, for one, that we're able to look at the larger portion of our spending and take some of the pressure off some of the necessary discretionary spending.

So in that regard, as I'm looking at the building for the future, you list three specific areas: high-speed rail, America's roads and bridges, and affordable transit operations and options. Could you characterize how you might prioritize those three, should you get a mark that's significantly below what the budget calls for?

Secretary LAHOOD. You know, Senator, that DOT has a long, long history of working with States on building roads and bridges. That's what we know how to do. That's why we have a state-of-the-art interstate system, thanks to the good people out in the country who know how to build roads, and to our partners in the States who have really been good partners with us in providing the match money and making sure that the contractors are doing what they're supposed to do. Roads and bridges are very important.

Transit is very important. Look at Washington, DC. If we didn't have the great Washington Metropolitan Area Transit Authority system that we have here, the Metro system, nobody would ever be able to get anywhere. This place would be like a parking lot, and most people think it's a parking lot now.

So, transit is very important. And highways and bridges are very important.

But, I want to say this: If we want to do what our predecessors did for us, in thinking about the interstate system, then we need to think about improving our infrastructure. I have nine grandchildren, and I have four grown children. Four of my grandchildren actually live in Indianapolis, Senator. We need to think about the next generation of transportation, and that's high-speed rail. If we want to get more cars off the road, if we want to be able to do what they've done in Europe and Asia by providing people with good rail transportation, then we need to think about high-speed rail. High-speed rail is a priority for this administration. It's the President's signature transportation program, because it's about the next generation of transportation, the way that our predecessors thought about the next generation, and it is why we have an interstate system.

We're going to be able to deal with the deficits and the debt, and also have a good, strong transportation program of roads, highways, bridges, transit, and high-speed rail.

Senator COATS. Yes, I'm——

Secretary LAHOOD. Those are our priorities.

Senator COATS. I would suggest that your statement, "We're going to be able to deal with the deficits and the debt" and the need for infrastructure and high-speed rail, and all this—it seems to me there's a priority there. We're not going to be able to do No. 2 unless we can do No. 1; No. 1 is facing us right now. And the budget realities are that we just simply can't do both at the same time. And I think every Department is——essentially—every agency that has been before us so far, and probably all those still to come—are going to say this is the top priority.

I, just yesterday, dealt with Homeland Security. It's pretty hard—they're all making their case. And we're doing it at a time when the limitations on our going further into deficit and further into debt have put us up against the wall. That's why I suggested looking at the whole pie, including the mandatory spending, as a way of dealing with No. 1, but also understanding that, at the end of the day, given the realities of the election in November, the makeup of the House of Representatives, the change in public attitude toward what we must do with our debt, it's going to cause all of us, whatever Department we're talking about, to have to make some tough decisions and to prioritize some of those. And that really was the essence of my question.

Secretary LAHOOD. Sure.

HIGH-SPEED RAIL

Senator COATS. The other thing I want to just state here, I guess, for the record—I'm not asking for a response on this—when the President said, "If they build it, they will come"—well, you know, we allocate a portion of this money to—the problem with building it, and even when it goes to high-speed rail, the political system kind of rears its ugly head, and every State and every locality and every Member representing those States and localities says, "I've got to get my fair share." High-speed rail makes sense in some very dense corridor areas. It doesn't make sense in the middle of America. High-speed rail between Indianapolis and Fort Wayne would be a waste of money, because you can get in the car and drive there in 2 hours. The road is not crowded. High-speed rail on Senator Collins' I–95 between—two towns I'm not aware of, but she's not aware of a lot of towns in Indiana—Hampden, and what is the other one?——

Senator COLLINS. Houlton.

Senator COATS [continuing]. Houlton—doesn't make any sense. But as you know, politicians like to divide up the pie. They don't want New Jersey and New York to get all of it, because they're dense, and Indiana and Illinois not get its fair share. And some of those may make financial sense, and some not make financial sense.

The same with bike trails. I drive every day from Virginia into the Capitol here, and there are bike trails along the way. If I see one biker on those trails on my 30- to 45-minute trip in here, or on the way home, I'm lucky. I see a few messengers on the trails here, but DC closes down one of the lanes, which clogs up Pennsylvania Avenue. Once in a while, you'll see a messenger on one of those trails. But, no one would take their life in their hands, No. 1; and No. 2, some of these things just don't make sense. And particularly at a time of decreasing funds available, let's make sure we prioritize the reality of how people conduct their transportation.

So, that's my little spiel. You don't need to respond to that. But I appreciate the opportunity to at least try to be as straightforward with what I think as you have been. And I appreciate your service——

Secretary LAHOOD. Thank you.

Senator COATS [continuing]. To the country.

Senator MURRAY. Thank you.

Senator Blunt.

PREPARED STATEMENT

Senator BLUNT. Thank you, Madam Chairman. I do have a statement for the record. I probably should have said that earlier. And I'll submit that for the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR ROY BLUNT

Thank you Chairman Murray and Ranking Member Collins for holding this hearing today. This hearing is a great opportunity to not only examine the Department of Transportation (DOT) investment needs throughout our system but also to develop a proper transportation investment structure that fosters economic development and produces the greatest return on all taxpayer dollars.

Additionally, I would like to thank Secretary LaHood. Your hard work on the budget is greatly appreciated. I look forward to working with you now and in the future to address our country's infrastructure needs.

In Missouri and across the country, there is a growing concern with the capacity of the transportation system. We are beginning to bust at the seams, our vehicle miles traveled remain high, congestion rates at our airport and on our rails are up. Congestion is a real problem and it is taking an economic toll at a time when we simply cannot afford more burdens on our system.

Moving forward, we will look to invest in good roads, but we cannot rely on roads alone. We must begin to look toward rail and river transport as an efficient way to move goods and ease choke points. We must start to think in a comprehensive manner that stresses the flexibility rather than rigidity of several separate ones.

One of my major concerns is the President's investment of $53 billion over the next 6 years in high-speed rail. This call comes at a time when our current infrastructure is crumbling around us. It is easy to get caught up in the idea of high-speed rail, but the facts make high-speed rail difficult to swallow.

High-speed rail cost estimates are skyrocketing, the estimated cost of the California line jumped nearly 25 percent in 1 year. State and local governments are worried about the cost burdens of operating expenses and the inevitable budget overruns. Making such a large investment at a time when we face a very difficult fiscal situation especially when the benefits are still in question and DOT still hasn't produced a national rail plan just doesn't make much sense.

The President's DOT budget also takes a Washington knows best mentality. With the increase funding for programs like the National Infrastructure Bank (NIB), the livability program, and grant programs similar to Transportation Investment Generating Economic Recovery (TIGER), the message being sent to our States, counties, and cities is that Washington will set the priorities.

Handing more money and empowering unelected unaccountable bureaucrats isn't going to solve our transportation problems. In fact, many are still scratching our heads on the process and criteria the DOT used in awarding previous TIGER and High-Speed Rail grants.

Perhaps the most concerning part of this budget is the new Transportation Trust Fund. Another idea that sounds great but the math just doesn't add up. You are basically taking the current insolvent unsustainable Highway Trust Fund and adding the cost of the NIB and the expensive, subsidy-laden rail program . . . two programs that will not generate any revenue for the trust fund.

—According to the latest figures from the Congressional Budget Office (CBO), trust fund receipts will amount to $36.8 billion in fiscal year 2012, or about 7 percent less than was spent in fiscal year 2010 ($39.4 billion),

—During the next 6 years CBO projects tax receipts of $230 billion which now the administration's vision will be responsible for funding rail, transit, highways, and a NIB. Yet the administration is calling for a $550 billion reauthorization bill. Needless to say something is missing.

There has been a lot talk about how this DOT budget is a bold vision. But bold visions are the easy part. Our country's infrastructure is in need of a bold detailed plan. We have difficult decisions before us, but understanding both the challenges ahead and establishing a clear path forward can make those decisions more informed and more effective.

Again, I thank the chair, ranking member, and the Secretary for their hard work. I look forward to hearing your perspectives and working together to move us forward in solving our economic and infrastructure needs.

HIGH-SPEED RAIL FUNDING

Senator BLUNT. Mr. Secretary, on the new Transportation Trust Fund—I'm going to ask a couple questions about that—I think one of the things that the Federal Government has done over the last 60 years that has been the least complained about and most supported has been HTF, because people really did believe people using the system were paying for the system. And the idea of expanding that fund creates some concern to me. I mean, currently, rail is funded by the general transportation appropriations. Will adding the rail program to the new trust fund erode the protection that the drivers on highways and people that buy gasoline now think they have in that system? And what's your view of that?

Secretary LAHOOD. We're just getting started on high-speed rail. The initial downpayment, more than $10 billion, which we've put out around the country—$8 billion, was included in the stimulus bill, and another $2.5 billion was provided by people around here, on the Appropriations Committee, because they see the value of high-speed rail. We need to develop a——

Senator BLUNT. Where did you say the first $8 billion came from?

Secretary LAHOOD. In the stimulus bill. We got $48 billion.

Senator BLUNT. Oh, right, right.

Secretary LAHOOD. Eight billion dollars of that was high-speed rail, and the other money came through the appropriation process for high-speed rail. We've put that money out, and we've had very few people turn that money down. There's a lot——

Senator BLUNT. What will you do with the money that has been turned down, like the Florida money and the——

Secretary LAHOOD. We're going to reallocate it.

Senator BLUNT. To other States.

Secretary LAHOOD. Absolutely. Senator, there is a line outside of my door, of Governors, Senators, Congressmen, that have either written me letters or called me. There's no shortage of interest for the $2.3 billion that we're going to reallocate from Florida. There's a lot of enthusiasm for high-speed rail in America. We've allocated somewhere in the neighborhood of 33 different projects in the country, our $10.5 billion. And I met with six Senators yesterday from the Northeast that all want the reallocated Florida money.

Senator BLUNT. Under your plan, will the money for high-speed rail come from the newly named HTF?

Secretary LAHOOD. Yes.

Senator BLUNT. It will. Okay.

The CBO estimate, I think, of income, over the next 6 years, for your purposes, is $230 billion. The reauthorization bill asks for $556 billion.

Secretary LAHOOD. Right.

Senator BLUNT. Tell me how that works, how do you take $230 billion of income and do $556 billion of authorized——

Secretary LAHOOD. We need to work with the Congress on that, Senator. If transportation is a priority, if people see transportation as a jobs bill, if they look at our budget as a jobs budget, then we're going to have to sit with the Congress and figure out how to pay for it. We believe that you can do a lot of things, and there are a lot of creative ways to accomplish our request. But we want to work with the Congress on this.

Senator BLUNT. On coming up with more funding?

Secretary LAHOOD. On coming up with $550 billion, if you all like our budget.

Senator BLUNT. That's very straightforward. And we'll look at it and see if there's a way to bridge that tiny gap between $230 billion and $556 billion.

And I yield back my time, Madam Chairman.

REAUTHORIZATION PROPOSAL

Senator MURRAY. Thank you, Senator Blunt. Let me follow up on that.

I mean, I think we all know we need to invest in our infrastructure, but we've got to find a way to pay for them. I understand you do not want to increase gas taxes in order to pay for your reauthorization proposal, but I think it really is important to understand the size of the problem, and I wondered, if you had done an estimate of how much we would have to increase gas taxes, for example, even though I know you oppose it, in order to pay for the 6-year reauthorization. Do we know what that number is?

Secretary LAHOOD. We are not in favor of raising the gas tax.

Senator MURRAY. I understand that. I'm just asking: If that was how we had to do it, what would it mean? I'm just trying to understand the problem.

Secretary LAHOOD. How much an increase would be?

Senator MURRAY. Yes.

Secretary LAHOOD. I haven't calculated that, Madam Chair.

Senator MURRAY. Okay. Another alternative that we've been hearing about is a tax on vehicle miles traveled (VMT). The State of Oregon has done a pilot on that. I know that you oppose that, as well. So tell us, what are the other revenue options that you do see to fill that small gap?

Secretary LAHOOD. Madam Chair, we want to work with the Congress on finding the path forward.

If I can just say this generally—this is about my own experience. I was elected in 1994. I served on the Transportation Committee for 6 years. When I came to the Congress, there was a deficit, and throughout the period that I served, we overcame the deficit and were still able to do a lot of creative things. When I was on the Transportation Committee, we passed two bills with more than 380 votes in the House and more than 80 votes in the Senate. Transportation has always been bipartisan.

This goes to my point that I was trying to make earlier. We all can work on reducing the deficit, which is what the President wants to do and you all want to do, but we can also have transportation priorities. We did it during the 14 years that I served in the Congress on the Transportation and Appropriation Committee. It can be done. These things are not impossible to do. And I think——

Senator MURRAY. I would agree with you, but I think——

Secretary LAHOOD [continuing]. History has shown that we've done it. Other Congresses have done it.

Senator MURRAY. I agree with you. But I think we all need to be honest, that there has to be a way to pay for the——

Secretary LAHOOD. I agree with that.

Senator MURRAY [continuing]. Project. We can't keep saying that we can cut deficits and these projects will happen. We have to say how we're going to—we either have the budget we have and we have fewer projects and less infrastructure, or we say, "This is what we believe the Nation needs," and how we're going to pay for it. And I love how everybody says, "There's another idea." I want to see what those other ideas are. At some point, we've got to come to grips with that. And——

Secretary LAHOOD. We're ready to sit down and work with you.

Senator MURRAY. As long as it's not gas tax or vehicle miles traveled.

Secretary LAHOOD. That's correct.

Senator MURRAY. So, I was just asking, what are the other options, if those are off the table?

Secretary LAHOOD. We'll be happy to visit with you about that.

"UP-FRONT" $50 BILLION

Senator MURRAY. Okay. Let's talk about your budget request. It did include some dramatic increases for DOT. And part of that increase was a $50 billion one-time investment to boost the Nation's economy. There, as you know, is a lot of resistance to any idea of further so-called stimulus spending. Setting aside the additional $50 billion, the President's budget does include some modest increases for highways and transits. But, there are real cuts to rail and aviation programs, in comparison to the levels that were enacted in 2010. For example, airport grants being cut by $1 billion.

If the Congress cannot agree to the $50 billion in stimulus spending, then how should we view these cuts to rail and aviation programs?

Secretary LAHOOD. Madam Chair, we think the $50 billion upfront is a good investment. We don't really consider it an additional stimulus. I can give you the project list for the record. I mean, there's a long list of projects and areas that we would like to address to help really jumpstart our opportunity and continue progress that we have made with the stimulus. We think that this is a good way to continue the progress that we've made and keep things moving.

[The information follows:]

The fiscal year 2012 President's budget includes an "up-front" $50 billion economic boost in transportation to rebuild and modernize America's roads, rails, transit, and runways for the long term. Investments in transportation lead to a well-functioning, mobile economy. Unfortunately, our investment in transportation has been lagging with what we need to keep our economy moving, and compete with other countries. Congested roads and airports result in $90 billion in productivity and losses and wasted fuel. Perhaps the greatest cost of our crumbling infrastructure is the American lives lost every year on our highways.

As described in President Obama's Labor Day speech last year, this $50 billion "up-front" economic boost will help to re-build America. These resources will be targeted toward projects that will quickly create American jobs here at home, while improving our transportation infrastructure for the next generation. The President envisions this up-front investment as the leading edge of the longer-term reauthorization plan. Typically surface transportation reauthorizations gradually increase funding over the life of the bill. This frontloaded plan is designed to give States and localities the confidence they need to be decisive about their investment plans and concentrate the impact of increased investment in the early years of the reauthorization.

The "up-front" $50 billion economic boost will be for airport, highway, transit, and rail programs and distributed as shown below:

—*$25 Billion for Critical Highway Infrastructure.*—This funding will help fund critical highway and bridge improvements.

—*$450 Million for Transportation Infrastructure Finance and Innovation (TIFIA).*—This funding will help meet the growing demand for highway credit assistance to States.

—*$7.5 Billion for Transit State of Good Repair.*—This funding will help pay for capital asset renewal and replacement at local bus and rail transit systems nationwide with a focus on the oldest and largest systems with the greatest need.

—*$3 Billion for Urban and Rural Formula.*—This funding will support more than 1,300 local transit agencies nationwide with capital assistance, including routine maintenance, and limited operating assistance for certain small urban and rural systems.

—*$1 Billion for New Starts.*—This funding is for investment in new transit options to reduce congestion, decrease travel times, improve mobility, reduce energy consumption, and create more livable communities.

—*$3 Billion for Rail Network Development.*—This funding will help develop our high-speed rail network, with the ultimate goal to connect 80 percent of Americans to an efficient and viable passenger rail system over 25 years.

—*$2.5 Billion for Rail System Preservation and Renewal.*—This funding will allow Amtrak to make critical investments in its aging rail car fleet and bring all Amtrak stations into compliance with the Americans with Disabilities Act.

—*$3.1 Billion for Grants-in-Aid for Airports.*—This funding would be available for runway construction and other airport improvements such as Runway Safety Area improvement projects and noise mitigation projects.

—*$250 Million for the Federal Aviation Administration's (FAA) Facilities and Equipment.*—$200 million of this funding will be available for NextGen for applied research, advance development, and implementation of engineering solutions for NextGen technologies, applications and procedures; and $50 million will be available to make near-term improvements in FAA's infrastructure, including upgrading power systems and air traffic control centers and towers.

—*$2.2 Billion for Cross-Border Transportation.*—This funding will significantly improve the condition of land port of entry facilities that link directly to the transportation infrastructure at border crossing locations.

—*$2 Billion for a National Infrastructure Investments.*—This grant program, similar to the TIGER program, will provide grants to State and local governments and transit agencies for capital investments in the Nation's surface transportation infrastructure, including roads and highways, public transportation facilities, freight and passenger rail, and port infrastructure.

HIGH-SPEED RAIL

Senator MURRAY. Okay. I said, in my opening statement, I support the development of high-speed rail, and the benefits for both the movement of passengers and freight. I think it's very important. However, I also expect that an initiative that has received this much funding and support has to demonstrate results. That is exactly why this subcommittee did include language last year in our appropriations bill requiring a national rail plan. The Department was required to submit that to us by September 15. We still haven't gotten it. And I think it's hurting some of the program's credibility, and strengthening the position of those who want to eliminate it. And I wanted to ask if you can tell me the status of that national rail plan.

Secretary LAHOOD. We are finalizing a plan that will connect 80 percent of the country over the next 25 years, at a cost of about $500 billion. We will finalize that and make sure that you all see it.

Senator MURRAY. Any estimate of time on those yet?

Senator COLLINS. I think very soon.

Senator MURRAY. Okay. That's right along there with paying for the authorization, all right.

Senator MURRAY. Thank you, Mr. Secretary.

Senator Collins.

BUILD AMERICA BONDS

Senator COLLINS. Thank you, Madam Chairman.

I want to pick up on Senator Murray's questions about how we would fund the reauthorization. An idea that has been around for a few years, that was initially proposed by Senator Jim Talent and now is going to be introduced by Senator Ron Wyden, is to develop a new kind of bond that would be used to finance transportation projects.

Now, as with the gas tax, there are downsides to the bond proposal, because it increases our indebtedness at a time when the debt is already too high. I believe, however, that Senator Wyden is really looking at some sort of revenue bond, where there would be funding that could help offset the cost. I don't know whether he's talking about tolls or whether there are other—he, at one point, talked about everyone's favorite offset, which is customs user fees.

Have you taken a look at the bond proposal? And, if so, what do you think of it? I, for one, have not decided——

Secretary LAHOOD. Are you referring to the Build America Bond, Senator?

Senator COLLINS. Yes. The Build——

Secretary LAHOOD. Yes. We think that's a very good program. I don't know if it was a pilot or not, but the program has ended. A total of $116 billion in Build America Bonds were issued. The President's budget has requested that the Build America Bonds be made permanent. We think it's a good way to fund significant projects. It's been a good program.

Senator COLLINS. Thank you. I should be more precise and say it's a variation of what the administration put in its budget.

But, I will get to your staff the language of the proposal of Senator Wyden. And I, for one, would be very interested in your analysis of it.

Secretary LAHOOD. This program is bipartisan. Senator Thune was a cosponsor of this bill and this program, and he supports it.

NEXTGEN

Senator COLLINS. Thank you.

I want to turn to another issue, and that is the problems that the Government Accountability Office (GAO) has found with NextGen for managing air traffic. GAO has been critical of the FAA's management of the program, and has pointed to budget and schedule delays that are affecting the implementation of NextGen systems. What is the status of this program? And, more specifically, what is FAA doing to respond to the criticisms that GAO has levied?

Secretary LAHOOD. NextGen is really about safety. It's about saving jet fuel. It's about guiding planes, safer and more directly, in and out of airports. It would require putting the technology in every terminal radar approach control in the country, and in every airplane in the country, also. We're making progress. Part of it has been implemented in the Gulf of Mexico and a couple of other places. We're going to continue our investments in this. The President is requesting $1.2 billion for NextGen, which is an increase of $369 million. We're committed to this.

With respect to the GAO report, what I would prefer to do is maybe answer that for the record, or come up and brief you all on that. I haven't looked at that lately.

We are committed to next-generation technology. We have to do this, for air safety, for saving jet fuel, and just because of the Northeast Corridor congestion and congestion at other airports. This will solve a lot of problems.

[The information follows:]

The Federal Aviation Administration (FAA) takes the Government Accountability Office's (GAO) concerns seriously and we continue to monitor the progress of the Next Generation Air Transportation System (NextGen). In response to the GAO report FAA has developed a draft set of NextGen outcome-based metrics through a cross-agency team, initiated joint FAA industry working group to confer and provide recommendations on NextGen performance outcomes, and established a NextGen Implementation Performance and Reporting Office to provide transparency on NextGen performance improvements via a dashboard. Official metric recommendations are expected from industry at the September 29, 2011 NextGen Advisory Council meeting. FAA will be briefing your staff shortly on these activities in response to the GAO report.

Senator COLLINS. Thank you.

Senator MURRAY. Senator Blunt.

HIGH-SPEED RAIL

Senator BLUNT. Mr. Secretary, on the rail expansion, does your Department have any ideas on how we might encourage the private-sector——

Secretary LAHOOD. Yes, sir.

Senator BLUNT [continuing]. Extension of the rails? And what would some of those be?

Secretary LAHOOD. There are about 8 or 10 foreign companies in America, right now, partnering with the States to build the train sets, to employ Americans, to take shuttered plants around the country and turn them into train manufacturing facilities. They're going to invest their money in American workers and build the train sets.

They have the expertise. The truth is we don't have very many experts in building train sets and infrastructure for high-speed rail, but companies from France, Germany, Japan, and China are in

America right now, partnering and looking for opportunities to open shop, hire American workers, and to begin to build the train sets.

Senator BLUNT. What about infrastructure for traditional rail?

Secretary LAHOOD. If you look at the TIGER program, which was $1.5 billion that was provided in the stimulus, one-half of that money went to the class I freight rail systems so we could pay them to fix up their tracks, so then passenger rail could use those tracks to go higher speeds. We've had great partners with the class I freight rails.

Amtrak is a huge player in this, also. Amtrak will provide the service on many of these corridors. We're making investments with Amtrak in fixing up their tracks. The line from Chicago to St. Louis is a classic example. The money that went to Illinois and Missouri is being used to fix up the tracks to get these trains to higher speeds. That's the service being provided by Amtrak.

Senator BLUNT. Any discussion of tax credits or other things that would encourage the railroad companies to build additional track, additional infrastructure?

Secretary LAHOOD. We haven't really talked in terms of tax credits, but more in terms of partnering with these companies that are here and trying to leverage the private dollars that they want to invest.

Senator BLUNT. Okay. Thank you, Madam Chairman.

Senator MURRAY. Thank you.

I just have two more questions.

Secretary LAHOOD. Okay.

TITLE XI LOANS

Senator MURRAY. I wanted to ask you about the title XI loan guarantees for ship construction. That processing has now taken about 270 days. And as of last week, all the applications pending exceed that deadline by anywhere from 100 to 450 days. While some of these delays may be the fault of the applicants themselves, some are the Department, as well. The average time it takes to execute a contract to hire an independent external review of an application, that the applicant pays for, is 165 days. This shouldn't take more than 60 days. It really is unacceptable. Can I get you to look at this problem——

Secretary LAHOOD. Absolutely.

Senator MURRAY [continuing]. And get back to me about how we can——

Secretary LAHOOD. Absolutely. I'll look at it.

Senator MURRAY. Okay.

Secretary LAHOOD. And I'll report back.

[The information follows:]

The Maritime Administration (MARAD) is changing the process it currently uses to award external review contracts. This change should be fully implemented by the end of this year. The current process requires MARAD to procure independent financial advisors through a Federal Highway Administration solicitation. The new process will internalize the procurement within MARAD and reduce the number of steps required to award an external review contract eliminating many of the delays recently experienced.

FUEL PRICES

Senator MURRAY. I appreciate that.

I also wanted to just ask you about fuel prices. I know you follow this so you can make forecasts about air travel and HTF and all those things. I am concerned about the impact—today we're hearing a lot about it—I wanted to ask you where you see prices going, both near- and long-term, and what is the Department's role, here?

Secretary LAHOOD. We play a role, as a member of the President's Cabinet. We've already played a significant role over the last 2 years by working with the Environmental Protection Agency (EPA) to develop higher corporate average fuel economy (CAFE) standards, higher gasoline standards. By 2016, the standard will be 35 miles per gallon. Our people are working very hard with the EPA, beyond 2017, for another standard. We're working with a lot of different folks on that. That's where we can play a significant role on CAFE standards.

We're also working, as a part of the administration, with car companies on the electrification of cars, which I think is something that's obviously very significant. We're a part of a team at the White House that, like you and many others, is very concerned about high gasoline prices and the impact it'll have on the economy. The impact that it has on average, ordinary citizens—many of whom are out of work and can ill-afford a gallon of gasoline, let alone at $4 or $4.50 a gallon.

I can tell you, the administration is focusing like a laser beam. I was at the White House yesterday with some of my Cabinet colleagues, talking about this, trying to figure out what the best way forward is. The administration will be stepping up on this and providing the leadership.

Senator MURRAY. Good. I really appreciate that. It is deeply concerning to all of us—families, businesses. And as we head into the spring and summer months, it's going to——

Secretary LAHOOD. Absolutely.

Senator MURRAY [continuing]. Have an impact on our economy, as we're just starting to get out of this.

Secretary LAHOOD. Absolutely. Yes. I know full well that in Illinois, particularly Chicago, when the temperatures start to rise, then there has to be a different blend. In the past, that has only increased the cost of——

Senator MURRAY. Yes.

Secretary LAHOOD [continuing]. A gallon of gasoline.

So, all of these things are being weighed very heavily and discussed around the clock at the White House.

Senator MURRAY. Okay. I very much appreciate that.

ADDITIONAL COMMITTEE QUESTIONS

With that, I remind all of my colleagues that we will be leaving the hearing record open for an additional week for any additional questions.

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

Questions Submitted by Senator Patty Murray

COMMERCIAL VEHICLE INFORMATION SYSTEM NETWORK

Question. This past summer the subcommittee was notified of potential Anti-Deficiency Act violations in the Federal Motor Carrier Safety Administration's (FMCSA) management of the Commercial Vehicle Information Systems Network (CVISN) program. This subcommittee asked the Government Accountability Office (GAO) to conduct an audit, and they found compliance issues dating as far back as 1998. While these problems developed long before your tenure, the subcommittee has been waiting for the Department of Transportation's (DOT) audit findings since last October. Mr. Secretary, when will you be able to provide your findings and conclusions to the subcommittee? What corrective actions has the Department taken and what issues still need to be addressed?

Answer. The Department has determined that FMCSA violated the Anti-Deficiency Act when it obligated funds in excess of the statutory limitations as defined by section 4126 of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users. The Department has concurred on the May 5, 2011, GAO audit, which describes FMCSA's Anti-Deficiency Act violations. The Department is working closely with FMCSA to complete its report to the Congress and GAO on these violations. We expect the report to be completed shortly.

FMCSA has undertaken the following corrective actions. First, FMCSA immediately realigned the responsibility for administrative CVISN grant functions from the agency's Office of Analysis, Research and Technology, which oversees agency research and data analysis, to the State Programs Division, Office of Safety Programs, under the Associate Administrator for Enforcement and Program Delivery, whose primary functions involve State and local grants management. As a result, as of June 2010, administrative responsibility for all of the agency's 11 grants programs resides within the Office of Safety Programs. This realignment has improved coordination across all agency grant programs and significantly improved consistency and compliance with the agency's grant management policies and procedures. The technical programmatic oversight of the CVISN grant program will remain with the Technology Division in the Office of Analysis, Research and Technology, where the technical program expertise still resides.

Second, FMCSA is implementing Grant Solutions, a Governmentwide grants management system and support service. Grant Solutions incorporates all grant life cycle processes both for awarding-agencies and recipients, and provides postaward reporting mechanisms. Grant Solutions is used widely across the Government, including within the various DOT modes. The use of Grant Solutions allowed FMCSA to formally develop grant process workflows, standardize grant agreements and amendments, and allow for more efficient financial tracking.

Third, FMCSA has revised its grants manual which sets forth policy on all grant administration activities and provides FMCSA with a general and uniform set of minimum procedures for soliciting, reviewing, awarding, managing, and closing out grants. This manual provides direction to ensure the consistent implementation of legislation, regulations, Office of Management and Budget regulations and circulars, Executive orders, and departmental and FMCSA policies and procedures related to financial assistance. FMCSA is also continuing to develop individual training plans for each position that has a role and responsibility in the grant management life cycle.

TRANSPORTATION OF HAZARDOUS MATERIALS

Question. In 2010, the inspector general conducted an investigation into the Pipeline and Hazardous Materials Safety Agency (PHMSA) Special Permits and Approvals program. The inspector general found such troubling management issues that he was compelled to issue not one, but two special management advisories. The agency is now granting special permits to an actual company rather than a trade association, as well as conducting the required safety fitness evaluations. These actions, in addition to growth in the industry, have caused a quadrupling of applications from 13,000 in an entire year to 13,000 in just one-quarter. How have you addressed the inspector general recommendations?

Answer. On February 4, 2011, PHMSA closed all open inspector general recommendations issued to the Office of Hazardous Materials Safety Approvals and Permits Division. PHMSA accomplished this by developing and executing action plans that included deliverables such as:

—clarifying that special permits and approvals are only granted to companies who are members of associations;

—improving our data management and stewardship;

—building analytical capability to better assess risks of hazmat in transportation;
—investing in training;
—acquiring tools needed to enhance productivity;
—reengineering business processes; and
—modernizing our information system.

Implementing these process improvements has allowed PHMSA to process more than 5,600 explosive approval applications in fiscal year 2010–2011, which has virtually eliminated the backlog and reduced the total applications in queue from 2,000 in January 2010 to 300 as of September 2011.

Likewise, PHMSA has processed more than 26,000 fireworks approval applications in fiscal year 2010 to fiscal year 2011, and reduced the backlog from 1,117 in April 2010 to 65 in September 2011. PHMSA continues to strive to reduce the backlog of special permits, which is due largely to the implementation of a necessary Safety Equivalency Evaluation Recovery program, which entailed reviewing existing safety justifications for more than 1,350 active special permits. PHMSA completed the Safety Equivalency Recovery Plan in September 2011 and even though the number of special permit applications received almost doubled from 2009 to 2010 and has remained at a high level, the number of special permits in queue has been reduced from 2,449 on January 2011 to 769 on September 2011. Other actions include modernizing our information system to streamline application processing and incorporating widely used special permits with a proven safety record into the Hazardous Materials Regulations.

Question. How does your budget proposal support the agency's ability to effectively manage the safe transportation of hazardous materials in this country?

Answer. PHMSA administers a comprehensive, nationwide program designed to protect the public from the risks to life, health, property, and the environment inherent in the commercial transportation of hazmat by air, rail, vessel, and highway. Hazardous Materials Safety achieves its goals through:

—evaluating hazmat transportation safety risks;
—developing and enforcing standards for transporting hazmat;
—providing compliance assistance to hazmat shippers and carriers;
—offering assistance to State and local emergency responders and law enforcement officials on hazmat transportation issues;
—investigating hazmat incidents and failures;
—conducting research; and
—providing grants to improve emergency response to incidents.

PHMSA's fiscal year 2012 budget addresses specific program enhancements. PHMSA plans to:

—Improve hazardous material data collection, analysis, and reporting; technical assessments; and research and development to strengthen decisionmaking capabilities when setting domestic and international hazmat transportation safety standards;
—Enforce the hazmat transportation safety standards and improve enforcement through a training program;
—Provide safety and compliance assistance to the hazmat safety community; and
—Enhance the special permit and approvals program and permit the Secretary to collect fees for processing and enforcement of special permits and approvals.

UNSECURED LOADS

Question. Washington has been a leader in passing legislation that would require secured cargo loads on personal vehicles. What is DOT doing, if anything, with regards to raising awareness of the hazards of unsecured loads on our highways? Does the Department record and track data related to secured loads?

Answer. While the National Highway Traffic Safety Administration collects limited data on the issue of fatalities attributed to falling/shifting cargo, we have not developed an awareness program for that specific issue.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

OBLIGATION OF FUNDS FOR CALIFORNIA PROJECTS

Question. As of today, there is close to $1 billion in funding for California projects that has yet to be obligated. This includes three Transportation Investment Generating Economic Recovery (TIGER) II projects, three Transit Investments for Greenhouse Gas and Energy Reduction (TIGGER) II projects, and 26 high-speed and intercity rail projects. Some of these were awarded as early as January 2010 and have yet to begin construction.

What is the reason for the delay in obligating the funds for these projects?

Answer.

TIGGER II

All three of the TIGGER II projects have been obligated and the funds have been awarded.

Foothill Transit—Fast-Charge Electric Transit Bus Project, Line 291

The project is for the purchase and deployment of fast charge electric buses for revenue service. The $10.1 million grant was awarded in August 2011.

Alameda-Contra Costa Transit District—Sustainable Energy Supply

The project is for the development and deployment of fuel cell bus technology for revenue service. The $6 million grant was awarded in June 2011.

Mendocino Transit Authority—Solar Canopies

The project is for the design and construction of a solar cell canopy to reduce energy consumption and emissions through the use of solar energy. The $470,000 grant was awarded in September 2011.

TIGER II

Los Angeles County—Crenshaw/LAX Light Rail Project

The Crenshaw/LAX project is an 8.5-mile light-rail transit line with a budget of $1.715 billion (year of expenditure), and TIGER II assistance of $20 million to support the subsidy cost of a $545.9 million TIGER Transportation Infrastructure Finance and Innovation Act (TIFIA) loan. As such, the environmental effort for such a project is significant and time consuming. The project sponsor, the Los Angeles County Metropolitan Transportation Authority (LACMTA) recently submitted the administrative Final Environmental Impact Statement for Federal Transit Administration review, with a Record of Decision expected in the September/October 2011 timeframe.

Preliminary engineering work is underway and the final design effort will begin later this year. Construction will begin in December 2012, pursuant to the award of design-build contract to be advertised in January 2012. The memorandum of understanding for the TIGER II funding is expected to be executed in December 2011.

LACMTA has delayed submission of a TIFIA loan application until the environmental milestones are complete. The TIFIA Office expects to receive an application from the project sponsor in October 2011. Once an application is received, it typically takes 6–9 months to evaluate the project's financial feasibility and negotiate a credit agreement. The TIFIA loan will not be obligated until the credit agreement is ready to execute. At that time, the subsidy cost of the credit facility (the TIGER II funds) will be finalized and obligated.

San Mateo County—Grand Boulevard Initiative: Removing Barriers to Sustainable Communities

The San Mateo Planning Project Grant (CA–79–1000) from the TIGER II program was awarded March 10, 2011, and executed March 14, 2011.

East Bay Regional Park District

The East Bay Regional Park District received $10.2 million under the TIGER II program from FHWA for the East Bay Green Transportation Initiative. The TIGER II funds are assisting a series of six separate project elements. Under phase 1 of the TIGER II Grant Agreement TIGER funding is being used to complete the environmental review and engineering for two projects. In phase 2, it is anticipated that construction will be completed on five of the project elements. Currently, FHWA has obligated the entire phase 1 base amount of $1,100,000 for costs associated with environmental review and preliminary engineering for the Iron Horse Trail and San Francisco Bay Trail. Work is progressing on both of these project elements. FHWA anticipates making additional obligations during fall 2011 for the Alamo Canal Trail ($1.3 million) and possibly the Hercules Intermodal Station ($1.8 million). FHWA anticipates obligating the balance of TIGER II funds in 2012 as the remaining project elements complete the environmental and engineering processes. FHWA is continuing to work closely with the East Bay Regional Park District and Caltrans to ensure the project remains on track and all parties give the project a high level of attention and focus on rapidly advancing the various elements.

San Bernadino Airport Access Project

The city of Highland received $10 million under the TIGER II program from FHWA for the San Bernardino Airport Access project. The purpose of the project is to expand roadway capacity to provide safe, direct, and efficient highway access on State route 210 and Del Rosa Drive to the new San Bernardino International Airport. None of the funds have been obligated yet, because the grantee is working on complying with planning and design requirements, as well as completing required the National Environmental Policy Act of 1969 (NEPA) analyses. FHWA anticipates that the grantee will be ready to obligate a portion of the funds for final design work in fall 2011 and the remainder of the funds for construction by September 2012. FHWA continues to work closely with the city and Caltrans to ensure that the project remains on schedule.

High-Speed and Intercity Rail Projects

As of September 2011, the Federal Railroad Administration (FRA) has obligated more than $3.2 billion of the $4.2 billion in high-speed intercity passenger rail (HSIPR) funding allocated to California for projects throughout the State, including California's High-Speed Rail project.

Most recently, three projects were obligated:

—$16 million in fiscal year 2010 HSIPR funding to the California High-Speed Rail Authority (CHSRA) that will support safety and scheduling improvements on the heavily traveled San Francisco to San Jose corridor;

—$1.7 million in American Recovery and Reinvestment Act of 2009 (ARRA) funding for Caltrans to construct maintenance of way spurs extending the hours of intercity passenger rail service on Southern California Regional Rail Authority's Orange Subdivision; and

—$1.5 million in fiscal year 2010 funding for Caltrans to prepare its State Rail Plan.

We have prioritized obligations with the assistance of our grantees in conjunction with their local agencies and are actively working to obligate the remaining grant funds to California.

Question. Is there anything that Senators can do to hasten the obligation of these projects in their States?

Answer. As of September 2011, the FRA has obligated more than $3.27 billion for 18 projects of the $4.2 billion in High-Speed Intercity Passenger Rail (HSIPR) funding allocated to California, including California's High-Speed Rail project. FRA will keep the Senator and California delegation appraised of progress and address issues needing attention when appropriate.

—Good progress is being made with several recent obligations totaling $179 million, including:

  —$86.4 million in ARRA funding to CHSRA to support the Central Valley project, extending the current 110-mile segment an additional 20 miles to Merced and Bakersfield;

  —$68 million in ARRA funding to Caltrans for new trains servicing intercity routes, which is part of a multi-State procurement between California, Michigan, Iowa, Illinois, Missouri, and Washington State to pool resources and maximize the purchase of next-generation American-made trains; and

  —$24.9 million in fiscal year 2009 HSIPR funding to Caltrans to install positive train control (PTC) between San Onofre and San Diego.

—Of the 14 remaining projects, most are nearing final obligation. There are:

  —8 preliminary engineering (PE)/NEPA projects for $28.7 million;

  —3 planning projects for $2 million;

  —1 final design/construction project for $4.6 million; and

  —2 large corridor programs for $928.6 million.

The attached chart describes these projects in more detail.

California high-speed rail projects	Project status
PE/NEPA projects:	
Pacific Surfliner: PE/NEPA for Double Track	FRA is working with Caltrans to revise language in the statements of work. Once these revisions are agreed to and approved, FRA anticipates immediately obligating remaining funding.
Raymer-Bernson: PE/NEPA for Double Track, Grade Crossings, New Bridges, New Platform.	
Pacific Surfliner: PE/NEPA for Double Track, Curve Realignments.	
Van Nuys Boulevard: PE/NEPA for Bridge Widening, New Platform, System Improvements.	
Del Mar: PE/NEPA for Second Track, Bridge, Signal Improvements.	
Seacliff: PE/NEPA for Track Realignment, Siding Extension.	
Planning projects:	
Los Angeles-San Luis Obispo Corridor Plan	
Bakersfield-Oakland-Sacramento (San Joaquin) Corridor Plan.	
Los Angeles-San Francisco Corridor Plan.	
PE/NEPA projects:	
San Diego: PE/NEPA for Double Track	Caltrans and San Diego Association of Governments are resolving issues and making revisions to their scopes of work. If these scope issues delay obligations, FRA will reach out to Senator Feinstein and the California congressional delegation.
Oceanside: PE/NEPA for Bridge Replacement with Double Track.	
Construction project: Capitol Corridor—Yolo West Crossover.	Caltrans and Union Pacific are continuing to work toward reaching an agreement in the near term. Should these negotiations not prove productive, FRA will reach out to Senator Feinstein and the California congressional delegation.
Central Valley projects:	
Initial Central Valley Construction Project-Extension to Merced Station and Bakersfield Station.	As required by law, FRA is working collaboratively with California to develop a business and public investment case. CHSRA is providing revised figures for its updated business plan to the California legislature in October, once FRA has received and incorporated the revised numbers, the business and public investment case can be finalized and reported to the Congress for the necessary 30 days before moving to obligation.
Central Valley HSR: Fresno-Bakersfield or Merced-Fresno.	

CALIFORNIA HIGH-SPEED RAIL

Question. I am very grateful for the Department of Transportation's (DOT) continued support and investment in California's high-speed rail project. As you know, this is a very ambitious project for our State, one which has an immense amount of support—but also has several issues to resolve in order to reach success.

Would you be willing to designate a high-level official in your personal office to oversee high-speed rail projects?

Answer. The FRA Administrator and Deputy Administrator have been intimately involved in the establishment and implementation as well as engaged in the selection, obligation and oversight of FRA's high-speed rail (HSR) projects. The DOT Deputy Secretary and his leadership staff are also briefed and involved on a regular basis with the high-speed rail program. DOT is committed to the awarded projects and will work with California to ensure success.

POSITIVE TRAIN CONTROL IMPLEMENTATION

Question. In November 2010, DOT announced that seven projects were awarded funds from the Rail Safety Technology Grant Program. A majority of the funds went to PTC technology development rather than to transit agencies to implement these systems.

Why didn't the Department request any funds for fiscal year 2012?

Answer. The President's budget for fiscal year 2012 requested $50 million for railroad safety technology grants within the Network Development appropriation and specifically under the program, Capacity Building and Transition Assistance. FRA believes this level of funding will help identify common issues and solutions that will facilitate the national deployment of PTC. The funding will also help resolve critical hardware and software issues associated with PTC development, implementation, and deployment across multiple railroads, including commuter rail providers. These common issues include interoperability in a high-speed rail environment, limited shared communications in a single high-density infrastructure, security and identity management standards, and a rapid and reliable track database verification system.

Question. Do you believe rail operators are on track to meet the deadline of December 31, 2015, without Federal assistance?

Answer. All railroads subject to the statutory mandate have presented plans to FRA for complying with the December 31, 2015, deadline. However, these plans provide little or no margin for delays due to technical issues that might emerge during deployment. For example, FRA has identified emergent issues associated with communications and spectrum availability where Federal assistance is appropriate. FRA has used Railroad Safety Technology Grant Program funding and is working with the Federal Communications Commission to aid in resolution of these issues.

Question. If we are going to subsidize the developers of the technology, shouldn't we also support the transit agencies that are mandated by the Congress to purchase the technology?

Answer. The statutory mandate creates a challenge for already financially strapped transit agencies. Recognizing this challenge and the limited Federal funding available, FRA is devoting its resources to resolving development, implementation, and deployment issues that confront multiple railroads, including commuter rail providers. This focus will provide benefits beyond any single railroad or transit agency.

GOODS MOVEMENT

Question. More than 40 percent of all containerized goods in the United States travel through southern California. Due in part to Goods Movement, the Los Angeles basin has suffered from poor air quality and massive congestion. Imports and Exports traffic is expected to increase in places like California, Washington, Texas, Louisiana, New York, and Florida for the foreseeable future.

Is there a strategy in place to handle increased container traffic in the coming years?

Answer. In the fiscal year 2012 budget, DOT has proposed robust investments in transportation infrastructure that would include a major focus on freight transportation. This proposal includes a National Infrastructure Bank (NIB) that could focus freight-related infrastructure investment funding on areas of national significance (for example, on investments to facilitate increases in container traffic through U.S. ports). By making strategic investments in ports and goods movement surface transportation infrastructure, the Department believes that we can improve the competitiveness of the U.S. economy while minimizing the congestion and adverse environmental impacts of any projected increases in container traffic.

The Department currently has a study underway that will quantify the anticipated changes in international and domestic freight flows expected to result from the expansion of the Panama Canal (which will be completed in 2014). The findings of this study will provide guidance in making future investments in freight transportation.

In the past 2 years, significant portions of the discretionary TIGER grant program have been directed to investments in freight facilities, including improvements to ports, highways, and railroads that handle import and export traffic.

Question. Do you believe a National Goods Movement Policy is necessary given the current congestion and health issues that affect many parts of the country?

Answer. The President's budget proposal for DOT included creation of an Office of Freight Policy within the Office of the Secretary, to coordinate freight policy across the Department's modal administrations. We believe that a coordinated, intermodal freight policy will be essential in the future to guide investments in freight infrastructure and assure efficient operation of the Nation's intermodal freight system.

As a step toward the goal of a national freight policy, the Department is in discussions with the U.S. Army Corps of Engineers to develop a process for aligning their dredging program and other waterway projects with DOT activities, with the aim of developing a coordinated policy for Federal investment in marine transportation.

NATIONAL INFRASTRUCTURE BANK

Question. The mandate of a NIB appears to overlap with the efforts of other existing programs, such as State infrastructure banks and TIFIA and Railroad Rehabilitation and Improvement Financing (RRIF) loan programs. What is the justification for creating a new entity? Why not expand existing programs or alter the mandates for programs already in existence? Do you see these programs co-existing?

Answer. The primary objective of the NIB will be to invest in infrastructure projects that significantly enhance the economic competitiveness of the United States or a region thereof by increasing or otherwise improving economic output, productivity, or competitive commercial advantage. The NIB will leverage Federal dollars and focus on investments of national and regional significance that often fall through the cracks in the traditional transportation programs.

Creating the NIB as a new entity within the Department will encourage multimodal approaches to the transportation infrastructure problems currently facing the Nation. A multi-agency Investment Council will help guide the investment decisions of the NIB and target critical projects that existing funding sources organized by mode can often fail to finance. Increasing the economic competitiveness of the Nation is such a compelling objective for transportation and this proposed bank with its unique ability to invest in the full range of transportation infrastructure options—highway, transit, rail, aviation, and port facilities—can support solutions that no other program at the Department can offer.

Credit assistance under the TIFIA program would cease within 2 years of the enactment of legislation to create the NIB. All credit instruments of the TIFIA program would be transferred to the NIB within 3 years. The RRIF program would continue to be administered by FRA. RRIF loans would not be transferred to the NIB.

QUESTIONS SUBMITTED BY SENATOR MARK PRYOR

MAINTENANCE OF HIGHWAY INFRASTRUCTURE

Question. In Arkansas, we have I–49 and I–69 and other high-priority corridors that are in need of major upgrades, but the existing formula funds are inadequate to make the needed investment while continuing to maintain existing infrastructure.

Is the administration doing enough to invest in future highway and interstate corridors?

Answer. Yes. In his State of the Union address, President Obama said that, "To win the future, we have to out-innovate, out-educate and out-build the rest of the world, tapping the creativity and imagination of our people." Consistent with this policy, the President's budget called for a 6-year investment of $336 billion in highways, 48 percent higher than the previously authorized level. In addition, the President's budget proposed funding of $30 billion over 6 years for the establishment of a National Infrastructure Bank (NIB) to finance projects of national or regional significance. For fiscal year 2012, the President's budget also proposed funding of $2 billion for the continuation of the National Infrastructure Investments program, commonly referred to as Transportation Investment Generating Economic Recovery (TIGER) grants. The increased funding levels for the Highways program, TIGER grants and the creation of the NIB will provide multiple opportunities for investment in the arterial highways that connect Americans and support commerce.

Question. How do you propose we build out these future corridors of interstates and highways?

Answer. As described above, the administration supports increased investment in critical infrastructure through a 48-percent increase in highway authorizations over 6 years, the creation of a NIB, and the continuation of the TIGER grant program. We also believe that better planning, including freight and corridor planning, will serve to identify the best ways to address specific transportation needs. The administration has also proposed consolidating more than 55 programs into five streamlined program areas with investment decisions driven by performance rather than narrow categorical niches. We believe that the administration's proposal provides options for addressing interstate corridor needs.

Is this administration focused enough on roads and bridges?

Answer. Yes, the administration recognizes the value of our transportation infrastructure and the need to invest in it. The 48-percent increase we propose for highway authorizations, the creation of a NIB, the continuation of the TIGER grant program, and our emphasis on planning and performance are good indications of our focus on roads and bridges. We're also focused on delivering highway projects efficiently. Under its Every Day Counts Initiative, the Federal Highway Administration is challenging States to make use of the new technologies that make our roads and bridges stronger and safer and allow those projects to be delivered faster.

CROSS-BORDER TRUCKING PILOT PROGRAM

Question. I understand that the administration is refocusing efforts to restart the cross-border trucking pilot program between the United States and Mexico. I remain concerned about this program, and I hope you will work closely with this subcommittee and other relevant Committees if you are indeed moving forward with such a proposal. Following the recent news of a Federal Motor Carrier Safety Administration (FMCSA) inspector in Canada taking tens of thousands of dollars in bribes, I'm especially concerned about the potential for corruption of FMCSA agents tasked with doing inspections in Mexico.

How can you assure us that such corruption would not take place?

Answer. FMCSA can assure the subcommittee that we will remain vigilant and ask our employees to remain vigilant to identify potential corruption and create a culture in which this behavior is not tolerated in any form or manner. Efforts by FMCSA to fight corruption include our "See something—say something" campaign. All employees were advised in writing of the obligation to report any suspected criminal behavior to the Department's Office of the Inspector General (OIG) and provided the OIG hotline number for their use if necessary. FMCSA recently held meetings with all staff and stressed integrity and individual accountability. This staff training was in addition to annual ethics training provided by the agency's Office of the Chief Counsel. In addition, all investigators are being re-credentialed. This involves updating background checks for each investigator who has not had one in 5 years. Finally, to address these considerations and further improve FMCSA's efforts in this area, FMCSA will be meeting with the Customs and Border Patrol to complete benchmarking and lessons learned in this area.

Question. What is the status of this pilot program?

Answer. On July 6, 2011, Secretary LaHood joined Mexico's Secretary of Communications and Transportation in signing documents that specify the details of a new cross-border, long-haul trucking pilot program. FMCSA received more than 2,000 comments from its notice describing the proposed pilot program. The Department of Transportation has completed the public notice and comment period and the final proposal was posted in the Federal Register on July 8, 2011.

Question. Why, under this program, is the United States proposing to pay for the electronic on-board recorders to be used by Mexican carriers?

Answer. Following the termination of the previous pilot program, Secretary LaHood met with more than 30 Members of Congress and other stakeholders to hear their concerns about the safety of that program. During these visits he consistently heard concerns that the United States needed to be able to determine how many hours a Mexican driver had already been working when he or she arrived at the United States border. He also heard concerns about Mexican drivers taking United States jobs by illegally engaging in cabatoge (movement of goods from place to place within the United States).

Electronic monitoring devices will allow FMCSA and State inspectors visibility into the hours a Mexican driver is working, not only in the United States, but also while he or she is operating a commercial motor vehicle in Mexico. The devices will allow FMCSA to monitor the operations of the Mexican companies to ensure they do not engage in cabotage. Finally, they will provide critical data about the miles traveled by the pilot program trucks while they are operating in the United States. This will allow FMCSA to evaluate the safety of the program as required under the North American Free Trade Agreement. For all of these reasons, electronic monitoring devices are vital tools in ensuring the safety of Mexican trucks in this program and success of the overall program.

FMCSA is proposing to pay for the electronic monitoring devices because:

—These devices are not currently required for trucks in the United States. The Mexican Government would not accept an agreement that put Mexican carriers at a disadvantage to United States carriers by requiring a piece of expensive equipment not required for United States carriers; and

—By owning the devices, FMCSA will own the data produced and be able to conduct on-going monitoring of the vehicles in the program. This on-going monitoring would not be possible if the devices were owned by the Mexican carriers. FMCSA would only be able to view the data when conducting reviews of the carriers' compliance.

It should be noted that since the equipment will be owned by the United States, we will have the devices removed from the trucks at the end of the pilot program. In addition, if the proposed rule requiring electronic on-board recorders (EOBRs) for all United States trucks becomes effective or if a Mexican carrier is required to install EOBRs under a remedial directive under current FMCSA regulations, the Mexican carrier will be required to obtain its own EOBRs to comply with those regulations. At no point will equipment purchased by FMCSA be used to comply with a regulation requiring EOBRs.

QUESTIONS SUBMITTED BY SENATOR MARK KIRK

REGIONAL TRANSPORTATION AUTHORITY

Question. As you are aware, the Regional Transportation Authority (RTA) is the third-largest public transportation system in North America, and provides the financial and budget oversight of the Chicago area's three service boards—Metra, Pace, and the Chicago Transit Authority. Earlier this year, there was a proposal in the State capital to change how the RTA chair is selected. Under current State law, the RTA board selects its chair. This ensures that the chair best represents the communities RTA serves. The proposal that was introduced would change how the RTA chair is selected, taking that power away from the board and giving it to the Governor—nothing short of the politicization of the RTA.

Would you agree with me that the RTA and all transit authorities are best served by keeping politics out of their management?

If you haven't had a chance to meet him yet, I'd strongly recommend you chat with the current RTA Chair John Gates.

Answer. The Federal Transit Administration (FTA) works with a large variety of public transportation systems across the United States, many of which have leaders that are chosen through a political process. While FTA is involved in the planning, financing, and oversight of the public transportation systems receiving Federal funds, it does not get involved with the governance of those systems. As such, FTA does not have a position on the State of Illinois' proposed changes to the selection process for the RTA chair.

METRA NEW STARTS

Question. What is the current status of Metra's UP-Northwest and UP-West new start projects? My understanding is that FTA may have expressed concerns about the proposed financial plan associated with both new start projects. Please provide details on FTA's concerns with those projects, if any.

Answer. In April 2010, Metra submitted a financial plan to FTA for its two proposed Union Pacific commuter rail upgrade projects. Because funding for the New Starts program is very competitive and funding is limited, FTA informed Metra that it needed to reduce the requested New Starts shares (the percent of the project covered by New Starts funding) for the projects to make them more competitive for funding. FTA also informed Metra of several financial plan deficiencies that needed to be addressed before FTA could approve the projects into the New Starts program. These included providing sufficient information to FTA on revenues and expenses related to ongoing rehabilitation and replacement of the existing system, projecting growth rates for tax revenue sources more similar to historical growth rates, and addressing State funding uncertainties. Metra reported to FTA in summer 2010 and again in summer 2011 that the two projects are on hold until December 2011 at the earliest.

METRICS

Question. In the President's fiscal year 2012 request, $5 billion is requested for a NIB that will provide grants and loans to leverage transportation dollars for individual projects. We are currently operating in an environment without earmarks, making the need for transparency in executive investment even more crucial.

What metrics and analysis will the Department of Transportation (DOT) use to determine project eligibility for NIB financing?

Answer. The NIB will assign to each eligible application a single numerical factor on the basis of an evaluation of the information and data collected either from the applicant or otherwise in the course of due diligence on the application. This factor would be the application's qualification score and would represent the NIB's primary estimate of the present value of net benefits most likely to result from the funding of the project or projects as proposed in the application. In order to indicate the potential for uncertainty in estimating the qualification score, the NIB would also estimate a range for the present value of the application's net benefits. The calculation of the qualification score and associated range would be determined through a consistently applied analytic and systematic framework. The methodology of that framework, including the specific mechanics of data inputs and calculations, would be published in an investment prospectus. The qualification score and range would be shared with the applicant and published on the NIB's Web site.

The methodology used to calculate the qualification score and range will apply equal weighting to equal monetary values of all categories of benefits and costs used to calculate the present value of net benefits; use standardized measures of the expected uncertainty in total net benefits for the project to define the range, and include standardized measures of the expected uncertainty in specific benefits and costs associated with the project; and include a descriptive statement delineating the significant factors and analysis that went into determination of the score and the range.

Question. Will regional considerations be given for projects, meaning will DOT address projects located only in urbanized areas?

Answer. The President's fiscal year 2012 budget states that the National Infrastructure Bank (NIB) would invest in projects of "national and regional significance." Projects located entirely in a rural area must exceed $10 million to be eligible for funding, compared to a figure of $50 million for projects in urbanized areas.

We believe that rural projects would compete well for grant and loan funding under a NIB, as they did under the Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grant program, which required cost-benefit analysis for rural and urban projects.

Question. With regard to the Transportation Leadership Awards, which would be the equivalent of the Department of Education's Race to the Top Initiative, what metrics or analysis will you use to base the awarding of grants? What are the performance outcome criteria that you will use?

Answer. The Transportation Leadership Award (TLA) program is a multimodal, multiyear competitive grant program designed to spur major reform in the way States and metropolitan regions make transportation policy and investments, and encourage new and innovative solutions to transportation challenges. Under the TLA program, funding will be awarded to applicants that have adopted or implemented best practices in transportation planning, finance, delivery, and operation. Examples of best practices include:

—Commitment to a variety of sustainable and innovative non-Federal sources of transportation funding that provides flexibility to make investments across all modes;
—Analytical tools in the investment decisionmaking process;
—Practices that increase the efficient use of system capacity and reduce the need to invest in new highway capacity;
—Technologies and training to improve the condition and performance of transportation networks;
—Adoption of laws, rules, and regulations, and a commitment of resources toward practices that reduce transportation-related fatalities and injuries, improve air quality, reduce greenhouse gas emissions, enhance community quality of life, and expand transportation choices;
—Integration of transportation planning and investment decisions with other land-use and economic development decisions;
—Collection and use of data in longitudinal analyses of investment performance and return on investment; and
—Performance-based distribution process for the allocation of a significant portion of non-Federal funds and Federal transportation formula funds under the control of the applicant.

The TLA program includes two types of grants. The first, and largest, type is designed to fund a program of projects that is intended to address cross-cutting performance needs. The program of projects must:

—Include the priorities of metropolitan planning organizations within the applicant's jurisdiction as identified in their transportation improvement programs;
—Demonstrate superior return on investment and competitive value for taxpayer money by means of a benefit-cost analysis of alternatives;
—Be developed through a multimodal, performance-based, and comprehensive transportation planning process that includes linkages to housing, economic development, environment, land use, and other infrastructure investment planning and investment, and with strong, interactive public input and awareness; and
—Further transportation policy best practices and reform initiatives.

The second type, known as a managing performance grant, is designed to fund initiatives that help communities build up the technical and organizational capacity to needed develop and undertake the transformative changes in transportation planning, management, investment, and project delivery that will enable them to qualify for TLAs. Typical initiatives that could be funded under this grant include:

—Data collection, storage, and analysis systems;
—Advanced transportation modeling, simulation, and analysis; and

—Staff training to utilize new, more advanced systems and departmental reorganization to support implementation of best practices.

Applications submitted for funding consideration under the TLA program will be evaluated based on the extent to which it:

—Promotes national transportation priorities, including:
  —Reducing transportation fatalities and injuries;
  —Strengthening economic competitiveness, including improvement to goods movement and encouragement of reuse of underutilized developed land;
  —Improving the state of repair of the transportation system;
  —Improving asset performance by reducing congestion through demand management strategies, particularly strategies that curb demand for single occupancy vehicle travel; and
  —Supporting environmental sustainability by reducing air emissions and water pollution, improving or protecting aquatic resources, and protecting sensitive lands.
—Provides for a multimodal approach to solving transportation challenges.
—Demonstrates the progress made through earlier grant awards, for applicant that are awarded funding in previous rounds of TLA grant-making.

HIGH-SPEED RAIL

Question. We've seemed to work out a model for private-public partnerships on the highway side—the Chicago Skyway and the Indiana Toll Road being good examples. What is DOT and the Federal Railroad Administration doing to incentivize private capital to get involved on the rail side?

Answer. While significant Federal investment is necessary in the early years to demonstrate a national commitment to passenger rail, build institutional capacity, and initiate multi-year and multi-State projects, the National High Performance Rail System (NHPRS) will succeed only if States, regional entities, and the private sector all have vital roles in planning, developing, financing, and operating these services. Private partners have been and will continue to be instrumental in developing the system, from partnerships with freight railroads, to designing and constructing high-speed rail infrastructure, to operating the services.

The fiscal year 2012 budget request encourages innovation in project delivery, such as the use of public-private partnerships, to assist with project financing, delivery, and risk-management of high-speed rail projects. The proposal also promotes more direct and substantial private sector participation in developing and operating high-speed rail by making private entities eligible for targeted financial assistance, provided that their project proposals are consistent with State and regional passenger rail plans. In addition, it provides dedicated resources to support private-sector capacity building in the field of rail transportation, as the rail industry grows to accommodate future expansion.

The fiscal year 2012 proposal expands partnerships with rail manufacturers and suppliers by investing in new equipment and overhauling existing equipment. The establishment of a strong Federal partner with a stable and predictable source of financing will allow manufacturers and industry to invest in expansion, new facilities, and new employees. With explicit Buy America provisions included, the fiscal year 2012 proposal provides U.S. manufacturers and equipment builders opportunities in high-speed and intercity passenger rail.

SUBCOMMITTEE RECESS

Senator MURRAY. And for now, this hearing is recessed until Thursday, March 31, at 9:30 a.m., at which time we'll hear testimony from Commissioner David Stevens on the fiscal year 2012 budget request for the Federal Housing Administration.

[Whereupon, at 10:45 a.m., Thursday, March 10, the subcommittee was recessed, to reconvene at 9:30 a.m., Thursday, March 31.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2012

THURSDAY, APRIL 7, 2011

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

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

Present: Senators Murray, Collins, and Blunt.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

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

OPENING STATEMENT OF SENATOR PATTY MURRAY

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

And I want to thank everybody in advance for—we're going to really confine everything this morning. I have a leadership meeting this morning, as everyone knows. The elephant in the room of the Congress today is how we are going to come to agreement and avoid a shutdown. It's absolutely critical for families, for our country, for all of us to come to that agreement. So I will have to leave here shortly before 10:15 a.m. So, I'm going to consolidate my opening statement. I know the Secretary's agreed to this as well, as well as Senator Collins. And we will get to the critical questions of the day and submit many for the record.

So, Mr. Secretary, thank you for your understanding.

Senator Collins, thank you for working with us as well. And I will make a short opening statement.

This morning we are holding a hearing to get an overview on the Federal Housing Administration (FHA) and talk about the future of housing finance. And I again want to welcome Secretary Donovan back before this subcommittee to talk about these important issues.

In the aftermath of the housing crisis, FHA has played a central role in making sure the Nation has a functioning mortgage market when the private market failed. It has served the role it was intended to play.

Today's FHA insures around 20 percent of all mortgages being originated, and almost 40 percent of all new home purchases. The pivotal role that FHA is currently playing in the fragile housing market is important to keep in mind as the threat of Government shutdown looms.

The Federal budget provides FHA with the commitment authority that allows the agency to insure loans. If a budget is not passed, FHA will be unable to endorse any new loans, so anyone who is planning to close on a home using FHA insurance will be out of luck. At a time when the housing market remains so fragile, this seems particularly irresponsible.

The debate about the Government's budget is an important one, but we have to get on with the business of making decisions necessary to fund the Federal Government in a responsible manner, and I believe the time has come for a resolution. The consequences are too great for too many Americans and the Nation's economy to refuse to come to an agreement because of political agendas or pressure.

But as we await a resolution to the fiscal year 2011 budget, we have to continue to do our job in exercising oversight over the programs this subcommittee funds.

For several years, this subcommittee has focused on the solvency of FHA's Insurance Fund. FHA has never received an appropriation to support its Insurance Fund, and I'm committed to making sure that it never does. This subcommittee has worked to provide FHA with the resources necessary to hire skilled staff and develop the technology necessary to oversee FHA's growing portfolio.

And I want to applaud the efforts of the Administration under the leadership of Secretary Donovan, as well as former Commissioner Stevens, to bring a renewed focus on managing risk at FHA.

Despite all of the reforms, the overall health of the housing market is critical to the continued stability and improvement of FHA's finances. We find ourselves at a critical moment: We continue to deal with the ramifications of the housing crisis, while trying to establish a better housing finance system for the future. This challenge is similar to that which FHA has focused on over the last few years. It's working to improve its financial position so it can deal with the fallout of past loans. At the same time, the Department is working to improve its future business and financial position by implementing reforms and creating a culture focused on sound risk management.

Through all of this, FHA has worked to balance the need to mitigate risk with serving its mission of providing access to affordable and sustainable home ownership to under-served Americans.

As we look to the future, we have to find the appropriate balance between strengthening and protecting the housing finance system from undue risk, while maintaining access for credit-worthy Americans to achieve sustainable home ownership.

PREPARED STATEMENT

So, I look forward, Secretary Donovan, to your statement this morning and to questions.

And I want to thank Senator Collins for her work on this, and turn it over to her for her opening statement.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

This morning we are holding a hearing to get an overview on the Federal Housing Administration (FHA) and discuss the future of housing finance. I want to welcome Secretary Donovan back before the subcommittee to discuss these important issues.

FHA—an institution born out of the Great Depression—has assisted millions of Americans in attaining home ownership.

And in the aftermath of the housing crisis, FHA has played a central role in ensuring that the Nation had a functioning mortgage market when the private market failed. It has served the role it was intended to play.

FHA'S ROLE IN THE MARKET AND CONSEQUENCES OF A SHUTDOWN

Today, FHA insures around 20 percent of all mortgages being originated and almost 40 percent of all new home purchases.

The pivotal role that FHA is currently playing in the fragile housing market is important to keep in mind as the threat of a Government shutdown looms.

The Federal budget provides FHA with the commitment authority that allows the agency to insure loans. If a budget isn't passed, FHA will be unable to endorse any new loans. So anyone who was planning to close on a home using FHA insurance will be out of luck.

At a time when the housing market remains so fragile, this seems particularly irresponsible.

The debate about the Government's budget is an important one. But we must get on with the business of making the decisions necessary to fund the Federal Government in a responsible manner. The time has come for a resolution.

The consequences are too great for too many Americans—and the Nation's economy—to refuse to come to an agreement because of political agendas or pressure.

But as we await a resolution to the fiscal year 2011 budget, we must continue to do our job in exercising oversight over the programs we fund.

OVERSIGHT OF FHA

For several years, this subcommittee has focused on the solvency of FHA's Insurance Fund.

FHA has never received an appropriation to support its Insurance Fund; and I am committed to ensuring that it never does.

Yet in the wake of the housing crisis, FHA has sustained substantial losses. As a result, its capital reserve fund has fallen below the level of 2 percent mandated by the Congress.

While this does not mean that FHA will require taxpayer dollars, it highlights the need for vigilant oversight of the agency's portfolio, which has increased dramatically in the last few years.

In recognition of this task, this subcommittee has worked to provide FHA with the resources necessary to hire skilled staff and develop the technology necessary to oversee FHA's growing portfolio.

I want to applaud the efforts of the Administration, under the leadership of Secretary Donovan, as well as Former Commissioner Stevens, to bring a renewed focus on managing risk at FHA.

The Administration has moved quickly to institute significant and necessary reforms to the program.

Among other reforms, FHA has:

—Increased premiums to shore up its finances;

—Set minimum FICO scores;

—Increased down payment requirements for riskier borrowers; and

—Stepped up enforcement so that lenders who aren't following the rules can no longer participate in the program.

In October of 2009, FHA also hired Bob Ryan as the agency's first Chief Risk Officer. The Administration recently announced that Mr. Ryan will serve as acting FHA Commissioner, and I am pleased that this role is being filled by someone who will continue to focus the agency on managing and mitigating risk.

HOUSING MARKET

Despite all of these reforms, the overall health of the housing market is critical to the continued stability and improvement of FHA's finances.

Improving jobs numbers and fewer new delinquencies are positive signs in the market.

But the reality is that:

—Millions of Americans are still in foreclosure and 30 percent of all homeowners have not made a payment over the past 2 years;
—Roughly 7 million borrowers are seriously delinquent and at risk of foreclosure;
—New and existing home sales continue to fall;
—And home prices are declining in most markets—leaving nearly 27 percent of all mortgages in a negative or near-negative equity position

We have a long way to go before the market fully recovers. And it is critical that we continue to look for ways to address the needs of millions of Americans facing the prospect of foreclosure or who are underwater on their mortgage.

We must work to increase opportunities for:

—meaningful modifications;
—achieving a fair and efficient foreclosure process; or
—reasonable options for borrowers trying exit home ownership.

I hope that there will be a global deal that will provide a way to work through the current inventory of delinquent or foreclosed homes that will also provide real relief to borrowers that have been wronged in the process.

THE HOUSING MARKET AND GOVERNMENT-SPONSORED ENTERPRISE REFORM

The market also needs certainty about the new reforms and the future of the Nation's housing finance system.

As we think about the future, we should draw on the important lessons from the recent boom and bust.

This boom was fueled by overconfidence of lenders and investors in the perpetual appreciation of home prices, coupled with inadequate regulatory oversight.

As a result, millions of Americans have lost their homes, and millions more who didn't participate directly in the market run-up have nonetheless seen their wealth eroded as home values declined.

The Dodd-Frank Wall Street Reform and Consumer Protection Act began to address many of the failures of our system and its outdated regulatory structure.

But it is clear that we must also address Fannie Mae and Freddie Mac so we no longer promote a system of private profit and public loss.

However, reform must be approached thoughtfully, so that we don't undermine the fragile housing recovery.

And in our effort to guard against another crash, we must be careful not to overcorrect and put home ownership out of reach for millions of Americans.

As a first step, FHA released its report to the Congress on options for reforming the Nation's housing finance structure.

This report presents three options that range from one with the Government's role limited to FHA, to one where the Government has a more significant presence in the market, though substantially reduced from the role it is playing today.

Each of these options presents tradeoffs that we must consider—tradeoffs between the level of appropriate risk for the taxpayer and the ability of individuals and families to obtain a mortgage.

RISK RETENTION AND QUALIFIED RESIDENTIAL MORTGAGE

A similar debate is also occurring around the rule on risk retention recently proposed by FHA. This rule also includes the definition of a qualified residential mortgage (QRM), which will be exempt from risk retention requirements.

This rule ensures that lenders have an incentive to properly underwrite loans by requiring them to retain partial exposure to their performance.

Under the proposed QRM definition, loans with a downpayment of 20 percent or more would be exempt from this retention requirement.

Ensuring that borrowers have more equity at stake in their home is an important goal.

At the same time, many hardworking, creditworthy Americans will have a difficult time coming up with a 20-percent downpayment—particularly in high-cost areas, like Puget Sound.

So, I want to have a discussion today about the potential impact of this rule on the availability and affordability of mortgages in the future. Especially as we contemplate the role that FHA or other Government-supported institutions will play in the future.

CLOSING

We find ourselves at a critical moment—we continue to deal with the ramifications of the housing crisis while trying to establish a better housing finance system for the future.

This challenge is similar to that which FHA has faced over the last few years. It is working to improve its financial position so it can deal with the fallout of past loans.

At the same time, the Department is working to improve its future business and financial position by implementing reforms and creating a culture focused on sound risk management.

Through all of this, FHA has worked to balance the need to mitigate risk with serving its mission of providing access to affordable and sustainable home ownership to underserved Americans.

As we look toward the future, we must find the appropriate balance between strengthening and protecting the housing finance system from undue risk, while maintaining access for creditworthy Americans to achieve sustainable home ownership.

I look forward to hearing from Secretary Donovan on these issues. And with that I turn it over to my partner in these efforts, Senator Collins for her opening statement.

STATEMENT OF SENATOR SUSAN COLLINS

Senator COLLINS. Thank you very much, Madam Chairman. Like you, I will submit my opening statement for the record and just make a few very brief comments.

First of all, I wholeheartedly agree with your comments on the need for the Congress to resolve the budget crisis. It is the height of irresponsibility if Government is allowed to shut down, and would represent a colossal failure that would reflect poorly on everyone involved.

And you're right about the impact on the housing market. The Secretary and I were talking prior to the hearing about the critical role that FHA is playing, and the fact that those pending mortgages would come to a screeching halt, and potential homeowners would not be able to close on their properties.

The Department of Housing and Urban Development (HUD) faces many challenging responsibilities that include balancing the goal of strengthening responsible home ownership, while minimizing the financial risk to FHA and the taxpayer, and promoting long-term stability and motivating the private sector to reinvest in the housing market.

Today in my questions I'm going to talk about my concern about HUD's oversight of FHA's Single Family Housing program. I do appreciate and recognize the progress that's been made in minimizing risk to this program, including the creation of a Chief Risk Officer position in 2009. But there, it is clear from a recent USA Today report that FHA has been slow to flag problem lenders and stop them, despite the withdrawal of approval from more than 1,500 approved lenders in the last fiscal year.

The housing market is still very weak, and FHA is going to continue to play a critical role.

PREPARED STATEMENT

Another issue that I want to explore today if we have time is what the impact on FHA will be if we dramatically change the role of the Federal Home Loan Mortgage Corporation (Freddie Mac) and the Federal National Mortgage Association (Fannie Mae). So, those are some of the issues I want to touch on. Again, I'll put my full statement in the record, with your consent. Thank you, Madam Chairman.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN COLLINS

Chairman Murray, thank you for holding this important hearing to review the Federal Housing Administration (FHA) and to discuss the future of the housing finance market. It is a pleasure to see Secretary Donovan before our subcommittee again, and I join you in welcoming him to this hearing.

The Department of Housing and Urban Development (HUD) faces many challenging responsibilities that include balancing the goal of strengthening responsible home ownership while minimizing the financial risk to FHA and the taxpayer and promoting long-term stability and motivating the private sector to reinvest in the housing market.

FHA is largely financed by proceeds from the mortgage insurance premiums paid by homeowners. As we all know, home purchases provide an important economic stimulus, with benefits to local communities in the form of jobs and local development.

Part of our discussion today will include the status of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), which were originally established by the Congress to promote liquidity, affordability, and stability in the housing finance market. The future of FHA heavily relies upon the debate on how to reform Fannie Mae and Freddie Mac. This will be a critical discussion that will shape not only FHA, but also the future of the Nation's housing market.

Recent news articles have highlighted the lack of recovery in most housing markets. Last week, according to Standard & Poor's (S&P) Case-Shiller home price index, U.S. home prices in major cities across the Nation dropped 3.1 percent since January 2010. According to the chairman of the S&P Index Committee, "The housing market recession is not yet over, and none of the statistics are indicating any form of sustained recovery."

These data are particularly concerning since FHA currently insures nearly $1 trillion in mortgages for the single-family home program. The agency's role has dramatically expanded since the beginning of the housing crisis. At the peak of the crisis, FHA accounted for less than 4 percent of the single-family housing market; now it holds more than 20 percent.

Another important issue relates to HUD's oversight of the FHA Single Family Housing program. I recognize and appreciate that HUD has made progress in minimizing risk to this program, including the creation of a Chief Risk Officer position in 2009. A number of reforms have also been implemented to the mortgage insurance premium structure and eligibility requirements to help ensure the long-term economic viability of this program. For example, FHA withdrew approval from more than 1,500 FHA-approved lenders and imposed more than $4 million in civil penalties on noncompliant lenders in fiscal year 2010.

While progress has been made, more needs to be done. Just last month, HUD's Office of Inspector General reported underwriting issues concerning FHA-insured loans. After reviewing 284 loans from 15 lenders, the inspector general found nearly 50 percent of the loans were not underwritten in accordance to FHA requirements. As a result, HUD missed critical opportunities to recover losses of more than $11 million.

It is also troubling that FHA cannot meet its statutory requirement of maintaining a 2-percent capital reserve ratio. According to HUD's own data, the earliest FHA can reach this requirement is 2014. This is a major concern since the reserve ratio was intended to cover unexpected losses.

I am eager to hear the administration's overall plan for revitalizing the financing of the housing market and for the future of FHA, Fannie Mae, and Freddie Mac. We must ensure that we limit taxpayers' exposure to additional financial losses in the housing market.

Chairman Murray, I look forward to working with you and Secretary Donovan on ways to enhance and protect homeowners and to stabilize the housing market by reinvigorating the investments and participation of the private sector. These are not easy issues to resolve, but they are critically important to our Nation's long-term economic health.

Senator MURRAY. Thank you very much. Both of our opening statements will be printed in the record.

And with that, we'll turn it over to Secretary Donovan for opening remarks.

SUMMARY STATEMENT OF HON. SHAUN DONOVAN

Secretary DONOVAN. Thanks, Madam Chair. Thank you, Ranking Member Collins.

And I want to just echo your concerns about the potential impact of a shutdown and the critical importance of resolving this. The President yesterday in remarks talked about the importance of FHA to the broader housing market, to individual Americans on the verge of closing a purchase of a home, or selling a home, and the critical role we play in the housing market today, and the potential significant risks that it would pose if we can't resolve this budget issue.

And he talked about the fact that we have come a great distance. We have agreed to the original cuts that were asked for, proposed by Speaker Boehner, and that, really, what we are down to is politics in this debate. And we must resolve this in order to ensure that we can continue to do the people's business.

In the interest of time, I will also submit my statement. I do just want to make a few comments beyond the concern about the potential shutdown—in particular, to thank you both, and your colleagues in the Congress for your leadership. Thanks to the partnership that we have had with this subcommittee and with the Congress, we have been able to put in place the most sweeping combination of reforms to credit policy, risk management, lender enforcement and consumer protection in the agency's history. And thanks to those, FHA is in a stronger financial position today.

In the last year, we've taken 10 times more lender enforcement actions than FHA had taken in the previous 10 years combined. The agency has implemented a two-step credit score policy that requires borrowers with credit scores below 580 to contribute a minimum down payment of 10 percent. And with your help, FHA has increased premiums to bring back private capital, begin putting into place the cutting-edge modern financial services—IT environment—that FHA needs for the 21st century, and taken steps to increase staffing, which the fiscal year 2012 budget would further.

And I would note that it's our hope that the kind of flexibility that we've proposed for the Government National Mortgage Association (Ginnie Mae) in this budget—to use fees paid by Ginnie Mae's customers to address critical staffing in emerging issues, without requiring any additional congressional appropriations—could be a possible template for addressing critical FHA issues in the years to come.

While we still need the Congress to pass FHA reform legislation that allows us to be prepared for any future crisis, the reforms we've already implemented have resulted in the fiscal year 2010 book of business being the highest quality on record. The average credit score of FHA borrowers has risen to 700. Total reserves have increased. And while foreclosure processing delays are certainly a factor, claim payments are much lower than projected by the independent actuary. As a result, in fiscal year 2012 we expect FHA and Ginnie Mae to generate more than $6 billion in receipts that will offset the Department's gross budget authority request of $47.8 billion and help to rebuild FHA's capital reserves—this in addition to the $9.8 billion in receipts FHA is projected to generate in fiscal year 2011.

Indeed, Madam Chair, even with the decreased loan volume we've seen in recent months, we expect FHA to make substantially more money for the taxpayer this year than our actuary predicted and an even larger amount more than the Congressional Budget Office (CBO) predicted when they did their projections last year. And I'm very pleased to note, thanks to our work with CBO, that our offsetting budget receipts in fiscal year 2012, our estimates of those, are dramatically closer than they have been in years past.

PREPARED STATEMENT

With that, let me stop, and make sure that we can get to your questions. Again, I thank you for the partnership that we've had in working together to make sure that FHA has the resources and the tools that it needs to fulfill its mission. Thank you.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

INTRODUCTION

Chairman Murray, Ranking Member Collins, and members of the subcommittee, thank you for the opportunity to testify today regarding the Federal Housing Administration (FHA), in the context of the Department of Housing and Urban Development's (HUD) proposed fiscal year 2012 budget, and also with respect to FHA's key role in the Obama administration's efforts to both address the foreclosure crisis and to reform America's housing finance market.

I was pleased to have the opportunity to testify before this subcommittee on March 6, 2011 to discuss in detail the Department's 2012 budget, Creating Strong, Sustainable, Inclusive Communities and Quality Affordable Homes. As you know, the budget proposal works to "win the future", and I look forward to discussing with you in my testimony how FHA will play a central role in that effort.

I would be remiss if I didn't say a few words about David Stevens, the recently departed FHA Commissioner. Dave brought to the job a unique blend of private sector expertise and commitment to providing underserved communities access to our programs. The strong team that Dave and I were able to put in place was instrumental to ensuring that, in the midst of the worst economic crisis in decades, FHA was able to fill the gap left by the retreat of private capital, while also significantly strengthening FHA's financial position and toughening enforcement. I am delighted that Robert Ryan, our Deputy Assistant Secretary for Risk Management and Regulatory Affairs, will be serving as Acting Assistant Secretary for Housing and FHA Commissioner. While I anticipate the naming of a permanent Commissioner in the near future, I would like to assure the subcommittee that under Bob Ryan's leadership, there will be continuity in FHA's operations, based on the strong foundation laid down by Dave Stevens, including the bipartisan approach he consistently followed.

OVERVIEW OF HUD'S FISCAL YEAR 2012 BUDGET

As I discussed when I last appeared before the subcommittee, we are in an economic environment that is significantly improved from when the President took office. An economy that was shrinking is growing again—and instead of rapid job loss, more than 1.8 million private sector jobs were created in the last 13 months, including 230,000 private sector jobs in March. But we know there's still more work to be done to ensure that America and its workers can compete and win in the 21st century. And we have to take responsibility for our deficit, by investing in what makes America stronger and cutting what does not, and in some cases making reductions in programs that have been successful.

HUD's fiscal year 2012 budget tackles these challenges head on:

—by helping responsible families at risk of losing their homes and by providing quality affordable rental housing;

—by transforming neighborhoods of poverty to ensure we are not leaving a whole generation of our children behind in our poorest communities;

—by rebuilding the national resource that is our federally assisted public housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires; and

—by leveraging private sector investments in communities to create jobs and generate the economic growth we need to out-innovate, out-educate, and out-build the rest of the world.

As a downpayment toward reducing the deficit, the President has proposed a freeze on nonsecurity discretionary spending for the next 5 years, cutting the deficit by $400 billion over 10 years and bringing this spending to the lowest share of the economy since President Eisenhower. HUD's fiscal year 2012 budget more than meets the President's goal—the Department's net budget authority of $41.7 billion is 2.8 percent below the fiscal year 2010 actual level of $42.9 billion. To maintain this commitment to fiscal discipline, we have protected existing residents and made the difficult choice to reduce funding for new units and projects, including cuts to the Community Development Block Grant, HOME Investment Partnerships, and new construction components of the Supportive Housing Programs for the Elderly (section 202) and Disabled (section 811).

As discussed in more detail below, this budget balances the need for FHA and the Government National Mortgage Association (Ginnie Mae) to continue supporting the housing recovery in the year ahead and ensuring that underserved borrowers have access to home ownership, with affirmative steps to encourage the return of private capital to the housing market. I want to thank the members of the subcommittee for working with your colleagues to enact legislation (H.R. 5981) in the last Congress to reform FHA's mortgage insurance premium structure. With this authority, FHA announced a premium increase of 25 basis points last month. Because of these reforms and others, the current President's budget reflects estimated FHA offsetting budgetary receipts of $9.8 billion in fiscal year 2011, which will reduce the Federal deficit. This is far more than the $5.8 billion originally estimated by the administration for the current fiscal year. These changes are largely due to the premium increase and the policy changes we have made since the President's budget was published last February. While the ultimate receipts for fiscal year 2011 are subject to fluctuations in loan volume, FHA is on track to outpace both of these figures in the current fiscal year. Furthermore, in fiscal year 2012, the President's budget projects FHA and Ginnie Mae to generate, collectively, more than $6 billion in receipts that will help to rebuild FHA's capital reserves and offset the Department's gross budget authority request of $47.8 billion.

I am pleased to note that, as the members of the subcommittee are no doubt aware, the Congressional Budget Office (CBO) estimate of these offsetting budgetary receipts in fiscal year 2012 are quite close to those reflected in the President's budget—the magnitude of difference between CBO's estimate and the President's budget for fiscal year 2012 is significantly smaller than in previous years at approximately $300 million. I am hopeful this new estimate will make the development of the fiscal year 2012 HUD appropriations bill—a challenging task in any year, and particularly so in the current fiscal climate—somewhat more manageable. I look forward to working with the members of the subcommittee in that effort.

Last, because winning the future also means reforming Government so it is leaner, more transparent, and ready for the 21st century, we are also continuing to reform the administrative infrastructure that oversees our programs. For example, the Transformation Initiative (TI)—important funding and programmatic flexibility the Congress provided beginning in 2010—is enabling HUD to establish the FHA Transformation project, which will give FHA cutting-edge, modern financial services information technology (IT) systems.

RESPONDING TO THE EVOLVING HOUSING CRISIS

Before describing in detail FHA's 2012 budget and the future of the housing market in which FHA will continue to play a central role, I believe it is important to take a brief look at the response of HUD and the administration as a whole to the housing crisis, both in its early stages and today.

In the face of an economic crisis that experts across the political spectrum predicted could turn into the next Great Depression, the Obama administration had no choice but to step in with a plan to aggressively confront the economic crisis as soon as we took office, including taking steps to stabilize the housing market. The Federal Reserve and the Department of the Treasury helped keep mortgage interest rates at record lows with combined mortgage-backed securities purchases of almost $1.5 trillion. Because low-interest rates only matter if there are mortgages available at those rates, the administration also provided critical support for the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage

Corporation (Freddie Mac), while FHA and Ginnie Mae stepped in to play critical countercyclical roles in helping to stem the crisis and enabling a robust refinancing market to emerge.

As reported in the Obama administration's March Housing Scorecard, since April 2009, nearly 13 million homeowners have been able to refinance their mortgages to benefit from lower-interest rates, saving them an average of $140 per month or $17.6 billion annually. In addition, the administration proposed, and the Congress enacted, a homebuyer tax credit to spur demand in the devastated housing sector. We also took significant steps to help families keep their homes—through mortgage modifications and FHA's loss mitigation efforts.

The results of these extraordinary actions are clear. Since April 2009, more than 4.4 million borrowers have received restructured mortgages, including more than 1.5 million Home Affordable Modification Program (HAMP) trial modification starts, more than 775,000 FHA loss mitigation and early delinquency interventions, and more than 2.1 million proprietary modifications under HOPE Now—more than twice the number of foreclosures completed in that time. Today, monthly foreclosure starts are down more than 30,000 per month from this same time 1 year ago. I would note that while the sharp decline may be partially attributed to servicer process reviews in light of foreclosure processing deficiencies, the number of homeowners entering delinquency in the first place was down significantly even before these reviews began. That said, this number may trend upwards as servicers revise and resubmit foreclosure paperwork in coming months,

Additionally, FHA and HUD recently launched two programs to address the two most pressing problems facing the housing market, negative equity and unemployment.

—In September 2010, FHA launched the FHA Short Refinance Option to assist non-FHA borrowers to refinance their underwater mortgages into sustainable fixed rate, FHA-insured mortgages. This option provides an additional opportunity for lenders to voluntarily offer principal writedowns and restructure loans for some families who owe more than their home is worth. To date, more than 400 applications have been submitted by a wide diversity of lenders and four large servicers have announced that they are finalizing development of the infrastructure that is required to participate in this program and voluntarily offer principal writedowns to select underwater borrowers, which will benefit homeowners by reducing their monthly payments and addressing negative equity, while also significantly reducing the investors' risk of default.

—As part of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Congress provided HUD authority and funds to assist unemployed and underemployed homeowners struggling to make their mortgage payments via the Emergency Homeowner Loan Program (EHLP). Last week, HUD announced that five States—Connecticut, Delaware, Idaho, Maryland, and Pennsylvania—have been approved to provide a combined total of almost $200 million of assistance from these funds. These States are expected to be ready to accept applications as soon as next week to help eligible residents in these States. HUD continues to responsibly develop additional components of the program to serve the remaining 27 States that have been awarded EHLP funds, and we will announce additional details and program specifics for these States in the coming weeks.

FHA'S FISCAL YEAR 2012 BUDGET

The number of borrowers who depend on FHA for access to mortgage financing has increased greatly during this economic recovery as access to private capital has contracted in the recent difficult economic period. In fiscal year 2012, HUD is requesting $400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, which will provide an estimated 1.2 million single-family mortgages. In addition, HUD is requesting $25 billion in loan guarantee authority for the General and Special Risk Insurance Fund, which will enable FHA to insure an estimated 190,000 units in multifamily housing properties and an estimated 98,000 beds in healthcare facilities.

As housing markets continue to be stressed, FHA is taking on business that is resulting in a portfolio of historically high borrower credit quality. These new loan guarantees and mortgage insurance premiums that they generate are providing net income that can be used both to offset claim expenses on the earlier books and to start rebuilding FHA's capital position.

FHA Multifamily Mortgage Insurance

With more than one-third of all American families renting their homes, during this time of economic hardship for so many it is more important than ever to provide a sufficient supply of affordable rental homes for low-income families. Multifamily mortgage insurance programs make critical contributions toward the Department's mission of creating strong, sustainable, inclusive communities and quality affordable homes for all by expanding the supply of rental housing in areas where they are most needed, and by preserving the affordability and quality of both federally assisted and private unassisted rental housing. The role of FHA's multifamily mortgage insurance programs is especially significant in the current economic climate. Driven by low-interest rates, more constrained lending in the conventional mortgage market, and improvements in HUD business operations, demand for FHA multifamily programs has increased dramatically. At this time of unprecedented stress in the financial markets, FHA multifamily programs provide necessary liquidity so that apartment construction and rehabilitation can continue. FHA financing is often paired with low-income housing tax credits, rental subsidies for low- and moderate-income families, tax-exempt bond financing, and/or other State and local resources to expand the offering of affordable units in areas where they are needed most. Multifamily mortgage insurance programs also contribute significantly to local revitalization efforts and economies by providing liquidity to uniquely sustainable projects located in centers of job growth, near transportation and other community opportunities.

In 2008, FHA supported the development of about 49,000 rental homes. Now, however, conditions are very different, reflecting the sharp decline in fully private financing and most notably commercial mortgage-backed securities. In 2010 alone, FHA supported the development or refinancing of more than 150,000 rental units with a total dollar volume of nearly $11 billion—almost four times the level of 2 years earlier, and now almost 25 percent of the multifamily market. This activity is projected to increase further to $13.1 billion in 2011 and to be at a level of $12.8 billion in 2012. HUD estimates that these construction volumes will support up to 85,000 direct jobs annually.

I'd like to thank the Congress for passing legislation last summer—H.R. 5872, the General and Special Risk Insurance Funds Availability Act of 2010—to increase FHA's commitment authority for our multifamily and healthcare facilities insurance programs. This was a key step to help facilitate the continued production and refinancing of multifamily properties and healthcare facilities. To ensure that these programs continue to operate responsibly despite the unprecedented demand, FHA simultaneously implemented the most significant reforms to its multifamily programs to strengthen underwriting guidelines and minimize financial risk to taxpayers while providing this critical support.

FHA-Insured Healthcare Facilities

In fiscal year 2011, FHA is continuing to provide critical support to enable the construction and refinancing of acute-care hospitals, skilled nursing, assisted living, and board and care facilities. Additionally, these projects contribute to stimulating the local community economy where the project is based as well, expanding employment, and reducing healthcare capital costs. In fiscal year 2010, 17 hospital facilities received commitments to advance their mission in communities throughout the country. For fiscal year 2010, the total construction expenditures for all hospital commitments amounted to $1.4 billion, which HUD estimates will result in 15,465 new direct jobs that will be created during construction, with $3.9 billion of overall economic benefit. Following construction, fiscal year 2010 projects will generate estimated annual new economic activity of $1.4 billion and 8,464 new jobs.

Demand for section 232 Residential Care Facilities (Skilled Nursing, Assisted Living, and Board and Care Facilities) has also increased. FHA considered 347 applications and issued commitments for 318 facilities in fiscal year 2010. As of March 18, 2011, an additional 241 insurance commitments have already been issued in fiscal year 2011 for 232 program applicants serving the senior housing market. Through LEAN processing methods and high productivity from FHA staff members, this industry-generated volume is being addressed as responsibly as possible given staffing and capacity constraints.

Home Equity Conversion Mortgages

In October, FHA launched the Home Equity Conversion Mortgages (HECM) Saver product. Designed as a second reverse mortgage option for senior home owners to tap into their equity, the HECM Saver product has lower upfront loan closing costs and is optimal for homeowners who want to borrow a smaller amount than that which would be available with a HECM Standard loan.

HECM Saver has a nominal upfront premium of only 0.01 percent of the property's value. Under the HECM Standard option, the upfront premium remains at 2 percent. The mortgage insurance premium for both HECM Saver and HECM

Standard is charged monthly at an annual rate of 1.25 percent of the outstanding loan balance. The 2012 President's budget request estimates that these two programs will generate $304 million in receipts.

Borrowers using the Saver option have access to home equity in amounts that are between 10–18 percent less than would be available with the HECM Standard option. The reduction equity take-out for Saver substantially lowers risk to the FHA Insurance Fund, and thus permits the virtual elimination of the upfront premium charge.

HECM Standard remains as an option for senior home owners who need to tap the highest-possible home equity to cover living expenses and/or healthcare costs, while continuing to live in their homes without having to make the mortgage payments required with a traditional mortgage or home equity loan.

Transformation Initiative

Winning the future means reforming Government so it's leaner, transparent, and ready for the 21st century. While HUD programs already make a significant difference in the lives of ordinary Americans, this administration is also committed to making Government more efficient, more effective, and more accountable. The fiscal year 2012 budget provides up to $120 million for the TI Fund to support cutting edge research and demonstrations and technical assistance to our partners. In fiscal year 2010, thanks to the TI Fund, HUD began to fundamentally alter how we approached our investments in delivering technical and capacity-building assistance, conducting research demonstrations, and maintaining and upgrading our IT systems so that we can hold ourselves and our local partners accountable for the outcomes needed to achieve the Department's strategic goals.

Twenty-First-Century Technology To Protect the Taxpayer's Investment

In fiscal years 2010 and 2011, IT investments constituted the largest share of proposed TI project funding, $122.5 million was allocated for IT in fiscal year 2010 and $119 million was requested in fiscal year 2011. The Department's careful investment planning has prepared us to act responsibly to modernize our use of IT to meet today's mission challenges. Our intent is to fully leverage these resources to meet our transformation needs. Additional funding was not requested in fiscal year 2012 on the presumption that sufficient funding would be available to support these projects for fiscal year 2012, between prior-year TI funding and the Working Capital Fund.

One of the top-priority IT projects is the FHA Transformation project, which involves the development of a modern financial services IT environment to better manage and mitigate counterparty risk across all of FHA's insurance programs. The new tools will minimize the exposure of our insurance funds and support the restoration of the capital reserve ratio to congressionally mandated levels by enabling risk detection, fraud prevention and the capture of critical data points at the front-end of the loan life cycle. More simply put, FHA Transformation will enable HUD to identify trends, and seamlessly take action, before problems occur. This approach will protect consumers and the economy by ensuring that lenders adhere to safe underwriting standards. Importantly, FHA Transformation will also allow HUD to start the careful process of migrating relevant portions of our legacy applications, most of which were built in a 1970s era programming language, to a more cost-effective platform.

In addition to prior-year TI fund transfers, in fiscal year 2012 HUD will utilize $315 million in Working Capital funding to support HUD's transformation efforts, providing resources for the development of, modification to, and infrastructure for department-wide information technology systems.

Housing Counseling Assistance

Each year, HUD awards grants to hundreds of local counseling agencies and State Housing Finance Agencies that offer a variety of services, which are especially critical in today's economic climate. HUD-approved counselors help clients learn how to avoid foreclosure, how to purchase or rent a home, how to improve credit scores, and how to qualify for a reverse mortgage. In 2009, HUD assisted more than 2.5 million families through its housing counseling program, including 1.58 million potential and current homeowners with issues pertaining to mortgages and financing of their homes. In 2010, HUD awarded $79 million for housing counseling grants, a 27-percent increase over its 2009 funding.

In fiscal year 2012, HUD is requesting $88 million in Housing Counseling Assistance. The primary benefits of the program are to expand home ownership opportunities, improve access to affordable housing and preserve home ownership. With this level of funding, HUD anticipates serving as many as 318,187 low- to moderate-income families, as well as training approximately 4,400 counselors.

Salaries and Expenses—Flexibility To Respond in a Crisis

As the subcommittee knows, HUD's salaries and expenses budget is divided into multiple sub-accounts, with limited transfer and reprogramming flexibility. While the Department has once again submitted this portion of the budget proposal in that structure, recent FHA and Ginnie Mae staffing needs have illustrated the challenges of proposing a personnel plan a full year and a half prior to the onset of the fiscal year. Events, including developments related to the housing crisis, can intervene and the Department needs the flexibility to respond. Accordingly, I hope that we can work with the subcommittee to strike an appropriate balance between the need for transparency and oversight of HUD's salary and expenses expenditures, and this need to be able to respond nimbly to changing circumstances.

In the fiscal year 2012 budget, we have proposed to restructure the Executive Direction account by removing subfunction allocations to provide the Department with the flexibility needed to respond promptly to emerging issues or unanticipated needs as they arise throughout the year. Moreover, we would like to explore with your subcommittee, the possibility of providing additional administrative flexibilities in accounts funding salaries and expenses across the Department. Over the past 2 years, it has become clear to us that the administrative burden and lack of flexibility afforded by the current structure outweighs the potential management benefits.

Ginnie Mae Budget Request for Salaries and Expenses as a Model

Our budget request with respect to Ginnie Mae's staffing needs, provides an example of the kind of flexibility that can be achieved to enable greater capacity, service, and protection to taxpayers, without requiring additional appropriations. In light of Ginnie Mae's vastly increased market share (from 4 percent to more than 30 percent in the past few years) and a guaranty portfolio that now tops $1 trillion, the fiscal year 2012 request proposes to fund its personnel expenses through commitment and multiclass fees rather than through a separate appropriation for personnel compensation and benefits. This will allow Ginnie Mae to increase its staff level to strengthen risk management and oversight, and to move in-house some functions that are performed by contractors.

Our budget proposal affords Ginnie Mae more flexibility in funding its critical personnel and administrative needs. Importantly, the Congress will retain its role in determining annual Ginnie Mae funding. However, with receipts accumulating in Ginnie Mae's program account, a ready source of funding will be available to help the agency fund both current needs along with contingencies that may arise in the future. In addition, the budget allows Ginnie Mae to increase the amount for salaries and expenses if its volume of guaranty commitments rises above a specified level. The budget proposes to allocate $100 for salaries and expenses for each $1 million of guaranty commitments exceeding $300 billion. As Ginnie Mae's role in the housing finance market continues to grow, it is critical that the agency have this additional flexibility to be able to respond to market needs. This proposal positions Ginnie Mae to continue to effectively and responsibly bring global capital into the American housing finance system.

With respect to FHA, we have requested a significant increase in staffing in the fiscal year 2012 budget—92 additional FTEs compared to fiscal year 2010 enacted levels.

REVIEW OF FHA'S FINANCIAL CONDITION

Results From FHA Reforms to Date

As you know from the Secretary's Annual Report to Congress on the Financial Status of the FHA Mutual Mortgage Insurance (MMI) Fund at the end of fiscal year 2009, the secondary reserves held in FHA's Capital Reserve account to support single-family loan guarantees had fallen below the required 2-percent level—to 0.53 percent of the total insurance in-force. At the same time, total reserves held in the Capital and the Financing accounts at that time were at an historical high of more than $31 billion. Total reserves grew again to more than $33 billion in fiscal year 2010. These funds are available to cover potential future losses on outstanding loan guarantees. The independent actuarial study for fiscal year 2010 indicated that these would be sufficient for even a stressed scenario of loan performance over the next 5 years. Even prior to the release of the fiscal year 2009 actuarial review that indicated capital reserves had fallen below the statutory threshold, we took several steps to strengthen the fund. Today, I am pleased to inform you that tangible, measurable progress has been achieved and we continue to see improvements in the financial condition of the fund, while holding lenders more accountable, and reducing risk to taxpayers.

Making that progress required FHA to put in place the most sweeping combination of reforms to credit policy, risk management, lender enforcement, and consumer protection in the agency's history. These reforms have strengthened its financial condition and minimized risk to taxpayers, while allowing FHA to continue fulfilling our mission of providing responsible access to home ownership for first-time homebuyers and in underserved markets.

Specifically, FHA implemented a two-step credit score policy for FHA borrowers. Those with credit scores below 580 are now required to contribute a minimum downpayment of 10 percent, or have equity of 10 percent at the time of refinance. Only those with stronger credit scores are eligible for FHA-insured mortgages with the minimum 3.5 percent downpayment.

To balance the need to provide access to our mortgage markets with the need to protect taxpayers from financial risk, we established FHA's first Office of Risk Management. With this new office and additional staffing, FHA is expanding its capacity to assess financial and operational risk, perform more sophisticated data analysis, and respond to market developments.

Further, FHA has strengthened credit and risk controls—toughening requirements on FHA's Streamlined Refinance program, making several improvements to the appraisal process and to condominium policies, and implementing the two-step credit score policy discussed above. We are very grateful for the support that the Congress has provided to our efforts to reduce fraud and risk. Through the $20 million Combating Mortgage Fraud funds that the Congress granted HUD in fiscal year 2010, we have begun to implement several risk management and systems modernization reforms to incorporate modern risk and fraud tools and counterparty data consolidation. Additionally, FHA introduced policy changes and improved lender oversight and enforcement to increase the quality of FHA-insured loans.

As a result of these actions, FHA finds itself in a stronger position today. In particular:

—The quality of loans endorsed in 2009 and 2010—the years FHA has done the most significant volume—is much improved. Fiscal year 2010 is the highest quality FHA book-of-business on record, and fiscal year 2011 may prove to be even better.

—The credit-score distribution for new insurance continues to improve. The average credit score on current insurance endorsements has risen to 700. And in the second-half of calendar year 2010, average credit scores were equally strong across refinance and purchase books-of-business.

—Loan performance, as measured by early period delinquency and by seasonally adjusted serious delinquency rates, continues to show significant improvement from the high rates experienced in 2007 and 2008.[1]

—FHA's seasonally adjusted 90+ day delinquency rate in December 2010 was 5.8 percent, compared to 7.45 percent in December 2009.

Summary of Fiscal Year 2010 Actuarial Review

Total capital resources (combined Capital Reserve account and Financing account) in fiscal year 2010 increased by $1.5 billion to $33.3 billion. At the same time, the overall capital ratio held steady at 0.5 percent reflecting that more conservative economic forecasts and model changes offset the benefits of improved borrower credit profiles and increased premium income. On a stand-alone basis, had capital resources not been shifted from the forward loan accounts to HECM accounts to cover HECM budget re-estimates, the capital ratio of single-family forward loans (96 percent of the portfolio) would have increased from 0.42 percent in fiscal year 2009 to 0.79 percent in fiscal year 2010, demonstrating significant improvement in loan quality and underlying reserves. Without any additional policy actions, and incorporating conservative economic forecasts, the capital ratio for the entire MMI Fund is projected by the independent actuaries to exceed the 2-percent statutory requirement early in 2015. Furthermore, we have implemented a wide range of additional policy actions that are expected to strengthen the fund even more quickly than forecasted.

While we are not yet completely out of the woods based on the evidence we're seeing, FHA is weathering the economic storm. And we're doing so, Madam Chairwoman, while simultaneously reducing financial risk to taxpayers and helping to create a firm foundation for the recovery of the housing finance system.

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[1] HUD's Annual Report to Congress Regarding the Financial Status of the FHA Mutual Mortgage Insurance Fund fiscal year 2010 can be found at http://www.hud.gov/offices/hsg/rmra/oe/rpts/actr/2010actr__subltr.pdf.

The Need for FHA Reform Legislation

As discussed, within the existing authorities granted to us by the Congress, we have already begun the necessary process of making changes to FHA to ensure that it will be able continue its mission. Moving forward, we look to the Congress to pass FHA reform legislation that enhances our lender enforcement capabilities and risk management efforts that are critical to our ability to monitor lender performance and ensure compliance, among other things. Indeed, last year the House of Representatives passed an FHA reform bill, H.R. 5072, containing an array of changes along these lines, and, while similar legislation was introduced in the Senate, action on the bill was not completed. I urge the Congress to make passage of legislation along these lines a top priority in the 112th Congress. In addition to provisions strengthening FHA's lender enforcement ability, the 111th Congress bill also included technical clarifications that will allow third-party loan originators to close FHA-insured loans in their name. This third-party originator provision is particularly important to ensuring that several hundred community banks are able to continue originating FHA loans. Additionally, HUD is seeking congressional authority to extend FHA's ability to hold all lenders to the same standard and permit FHA to recoup losses through required indemnification for loans that were improperly originated and for which the error may have impacted the original loan decision, or in which fraud or misrepresentation were involved. We also hope to work with the Congress to give FHA additional flexibility to respond to stress in the housing market and to manage its risk more effectively. This will mean giving FHA flexibility to adjust fees and programmatic parameters more nimbly than it can today. FHA should also have the technology and talent needed to run a world-class financial institution.

THE FUTURE OF HOUSING FINANCE

Toward a New System of Housing Finance

Despite all of the efforts to date, there is much more to do. We must continue to take steps to facilitate the return of private capital to the housing finance system in a responsible way. Last summer, the Congress passed, and the President signed, sweeping financial reform legislation. Crucially, the Dodd-Frank Act provides vital protections for consumers and investors that will help end abusive practices in the mortgage market and improve the stability of the overall housing finance market.

In keeping with our obligations under the Dodd-Frank Act, the Obama administration recently delivered a report to the Congress, Reforming America's Housing Finance Market, which provides a path forward for reforming our Nation's housing finance system. The report outlines steps that will be taken to wind down Fannie Mae and Freddie Mac and help bring private capital back to the market in a first loss position. Moreover, it describes how to fix fundamental flaws in the mortgage markets and better target the Government's support for a full range of housing that is affordable for its occupants, and lays out choices for longer-term reforms.

Bringing private capital back into the housing finance system does not mean eliminating all Government involvement in housing finance. We believe that a Government role, targeted correctly, and with the right protections for taxpayers, should remain an important component of any future system. That is why all three of the reform options we lay out in the white paper include a strong, resilient FHA and solid consumer and investor protections.

To that end, reforming and strengthening FHA is the first of four primary areas of reform to achieve a system with transparent and targeted support for mortgage access and housing affordability. The other crucial components of reform are a commitment to affordable rental housing, a flexible and transparent funding source for access and affordability initiatives, and strong measures to ensure that capital is available to creditworthy borrowers in all communities, including rural areas, economically distressed regions, and low-income communities.

The Importance of a Robust and Responsible Private Mortgage Market

Today, FHA is the largest insurer of mortgages in the world, with a portfolio that today exceeds $1 trillion, and a history that includes insuring more than 39 million home mortgages and 52,000 multifamily project mortgages since 1934.

But a critical component to further recovery of the broader economy, and to reducing the financial risk to taxpayers, is to facilitate the return of private capital to the housing finance system in a responsible way. This was a central goal of the administration's recently released report on Reforming America's Housing Finance Market, which proposed to wind down Fannie Mae and Freddie Mac, fix fundamental flaws in the mortgage markets, make the Government's support for affordable housing explicit and better targeted, and provide choices for longer-term reforms. The return of private capital is particularly important given that today, Fannie Mae, Freddie Mac, FHA, and Ginnie Mae collectively insure or guarantee more than 9 out of every 10 new mortgages.

During the height of the housing boom in 2006, FHA-insured mortgages constituted less than 4 percent of the number of new home purchases. This was a significant decrease from FHA's historically traditional share of approximately 10–15 percent, and an indication that the private sector was aggressively extending credit. All too painfully, we learned that this extension was often irresponsible. As poorly underwritten subprime loans and other products that were securitized into private label securities (PLS) began to default at an alarming rate, their defaults led to losses throughout the private market and private capital vanished from the housing sector at an unprecedented pace—in 2006, more than $1 trillion of such mortgages were securitized into PLS; in 2010, that figure was less than $60 billion.[2]

FHA's temporarily elevated market share of more than 20 percent of the overall loan volume (home purchases and refinances) is the result of our efforts to fulfill our mission to be a countercyclical facilitator of responsible capital liquidity in the housing sector at times when the private sector exits the market abruptly. As the subcommittee knows, FHA does not lend directly to homeowners, but instead insures lenders against losses that may result in the event of a borrower default, under the condition that lenders are required to abide by extensive documentation and underwriting guidelines to originate sustainable mortgages, as well as providing numerous loss mitigation opportunities to help borrowers avoid default or foreclosure.

The most recent data shows that 60 percent of African-American and Latino homebuyers purchase homes with FHA backing.[3] FHA thus plays a vital role in opening up access to home ownership for the underserved in our country.

A Reformed and Strengthened FHA

Strengthening and reforming FHA in a way that is healthy for its long-term finances and ensures that FHA is able to continue its mission of providing access to mortgages for low- and moderate-income families is a central component of broader systematic reforms. While FHA has already changed policy to require that borrowers with lower FICO scores make larger downpayments, FHA will consider other options, such as lowering the maximum loan-to-value ratio for qualifying mortgages more broadly. In considering how to apply such options, FHA will continue to balance the need to manage prudently the risk to FHA and the borrower with its efforts to ensure access to affordable loans for lower- and middle-income Americans, including providing access to home ownership for first-time homebuyers and underserved markets.

FHA will take any steps for reform carefully to ensure that they do not undermine the broader recovery of the housing market. Similarly, as we consider changes in such areas as downpayments and loan-to-value ratios, we will make sure to retain the flexibility to respond to changing market conditions, so that we are able to manage risk, and maintain access, as effectively as possible.

Some have expressed concerns that the increases to the monthly premium set to go into effect next month—on the order of $30 per month for the typical home-purchase borrower—and any increase in downpayment requirements have the potential to excessively restrict access to credit or perpetuate a dual credit market. We believe that the benefit to the financial health of FHA of the relatively modest premium increase is appropriately balanced with the need to maintain access, as the change remains affordable for almost all homebuyers who would qualify for a new loan. Similarly, we will strongly consider the impact on access with any proposal to increase downpayment requirements.

Proposed Rule for Qualified Residential Mortgage

Last month, HUD joined with the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the Federal Reserve, and the Securities and Exchange Commission to announce the consideration and release of their Notice of Proposed Rulemaking for section 941 of the Dodd-Frank Act, which sets proposed rules to implement the credit risk retention requirements for asset-backed securities and sets a 60-day comment period where all stakeholders are able to comment and provide feedback. Following this comment period, the rule writers will consider all comments received before releasing final rules.

[2] Source: Inside Mortgage Finance, HMDA, and Mortgage Bankers Association.
[3] HUD analysis of 2009 Home Mortgage Disclosure Act data.

The goal of the proposed rule is to provide clarity and rules of the road to the securitization markets. The proposed rule is one part of the administration's goal of bringing private capital back into the housing finance system.

Getting this right is critical. With the financial crisis, we saw how bundling and packaging mortgages to sell on Wall Street with no accountability helped lead to the erosion of lending and underwriting standards that fed the housing boom and deepened the housing bust. The Dodd-Frank Act requires that securitizers or originators have "skin in the game" by retaining at least 5 percent of the credit risk and the rule proposed today sets out options to accomplish that mandate.

Importantly, the rule seeks to define qualified residential mortgages—the loans that would not be subject to the risk retention requirements. Much debate will center on the size of downpayments. While there is no question that larger downpayments correlate with better loan performance, downpayments only tell part of the story. That's why we have laid out two alternatives, one requiring a 10-percent downpayment and another requiring 20 percent.

We look forward to comments from stakeholders on the relative merits of these choices, so that we strike the right balance between managing risk and maintaining access to safe, responsible home ownership.

CONCLUSION

Madam Chairwoman, between our budget request and the Obama administration's proposals to reform the housing finance system, it is clear that FHA will continue to play a central role in the continued recovery of the housing market—particularly its ongoing commitment to provide access and affordability to low- and middle-income Americans. And as the reforms we have already made demonstrate, FHA has the capacity to perform this role in a way that minimizes risk to the taxpayer.

I look forward to working with this subcommittee—and this Congress—to ensure that FHA has the tools it needs to fulfill that mission. Madam Chairwoman, thank you again for this opportunity to testify. I would be glad to respond to any questions.

GOVERNMENT SHUTDOWN

Senator MURRAY. Thank you very much, Mr. Secretary. And we will put your entire statement into the record for all of our members.

We've all been talking about it—obviously, this hearing is about writing the fiscal year 2012 appropriations bill—but we are all very concerned about finishing the fiscal year 2011 budget, and the concern about the prospects of a Government shutdown. There are a lot of consequences, obviously. You mentioned a few.

But I wanted to ask you specifically today—particularly for Americans hoping to buy a home with FHA insurance, what are the consequences if Government shuts down?

Secretary DONOVAN. Quite simply, if there is a shutdown, FHA cannot endorse any further loans. Individual lenders would have the ability to continue to fund loans on their own. They would have to draw funding from their own balance sheets to do that, under the hope that they could then come back and insure those once the shutdown was ended.

But unlike in the prior shutdown, when FHA represented a very small fraction of the market, given that we are endorsing close to $30 billion in loans a month, I am very concerned that a significant number of lenders would not choose to continue to close on those loans, and particularly, if there were any extended period that the shutdown continued, that both the costs of funding those loans and the potential risks of defaults or other issues with those loans would increase the pressure on lenders to stop funding loans during that period.

Senator MURRAY. This is going to affect a lot of people. If you're hoping to sell your home because you're buying another one—it could impact you, too, obviously, if you are purchasing a home. Do we have any idea how many homebuyers would be affected by this?

Secretary DONOVAN. The President spoke eloquently yesterday about the impacts on someone on the verge of buying their first home—80 percent of our loans went to first-time homebuyers last year—and also, about the impact on anyone in the process of selling their home—if you're planning to move, to take a new job in a different location. Multiply that by the millions of homeowners that depended on FHA financing last year. We represented 40 percent of all home purchases in this country last year. And so, the impact isn't just on individual families. It's on entire communities, and the international housing market.

So, we do have real concerns, at a time when our market continues to be fragile, when our economy has shown real progress with 1.8 million private sector jobs created over the last 13 months. This is the worst time that we could introduce that uncertainty into this fragile housing market.

Senator MURRAY. For any of us who have been there—known we have to move out by a certain date, and we're waiting for a closing to occur—this is a very, very stressful moment for many families. So, I'm very concerned about that.

We also know that Federal funds support HUD and FHA's efforts to oversee its growing portfolio. That would, of course, be put on hold as well, correct?

Secretary DONOVAN. That's correct.

And I would also add, Madam Chair, that while the focus today is on FHA, we have millions of families who depend on our assistance—whether it's through vouchers, or public housing, or a range of our other programs—more than one-half of the residents of HUD-assisted housing are elderly or disabled. And our ability to provide funds for the operations of those units—the capital to do repairs on those units, and the jobs that that creates in construction, which is an industry that's been particularly hard-hit by the downturn—all of those are put at risk, because we simply can't provide any further funds. And so, while it may be a number of weeks that housing authorities could continue to operate, the lack of payments, particularly if there's an extended shutdown, would be very problematic for those families as well, and put millions of families at risk.

Senator MURRAY. Okay. Thank you very much for outlining it. I think we need to understand what the consequences of this are, and that's been very helpful.

I'm going to turn it over to Senator Collins, and then I have a few additional questions as well.

Senator COLLINS. Thank you, Madam Chairman.

First, let me associate myself with the Chairman's comments. I was thinking, having recently moved, that this affects not only the buyer of the house, the seller, the moving company—the ripple effects go on and on. And that's why we simply must resolve this issue.

Mr. Secretary, I mentioned in my opening statement that I would like you to comment on what the role of FHA would be if Fannie

Mae and Freddie Mac's roles were diminished, or the entities were privatized. Would that have an impact on the role played by FHA?

Secretary DONOVAN. Absolutely. And I think our housing finance reform proposal that we laid out 2 months ago with the Department of the Treasury made clear that, in all cases, we foresee a smaller role for FHA, and a smaller role for Fannie Mae and Freddie Mac going forward; that, simply, we must take steps, as we've begun to do, to shrink the footprint of Government in the housing finance market. And in particular, the proposed increase in premiums that we have in the budget for 2012 is an important step, along with our endorsement of allowing the loan limits to step down on October 1, as they would currently do without further action by the Congress.

So, having said that, in the context of believing that we need to work to reduce the footprint of both the Government-sponsored enterprises (GSEs) and FHA, we lay out a set of options in the white paper, and in particular, if option 1—which would have no additional ability for the Federal Government to provide mortgage insurance outside of FHA—were the path, then I think we would see a significantly increased role of FHA relative to other options. And in particular, in moments of crisis, it would be enormously important that FHA have the flexibility and the ability to step up even more significantly than it has done through this crisis. We've reached, as I said earlier, 40 percent of the purchase market. But in the kind of crisis that we've experienced, without a Fannie Mae or Freddie Mac, it would be absolutely critical that FHA could potentially go even further to ensure that the housing market is not further damaged by the kind of crisis that we've seen.

LOAN LIMITS

Senator COLLINS. At your previous appearance before this subcommittee, you recommended a reduction in the loan limit from $729,750 to $625,000. There are several bankers with whom I've talked who believe that is still far too high if the goal of Government is to try to make housing more accessible to lower- and middle-income families. What is your response to that criticism?

Secretary DONOVAN. The administration believes that we ought to work together with the Congress to design lower limits for FHA beyond the initial step on October 1.

Having said that, it is absolutely critical that we do that in the context of what the housing finance system would look like more broadly. In other words, if we have a well-designed, targeted, explicit guarantee that would be available outside of FHA, I think it would be wise to look at a reduction of those loan limits that would go further than if we did not have an alternative mechanism for guaranteeing loans, either in a crisis or during more normal times in the market. Because, frankly, FHA would be called on, as I just said, to do more without some alternative form of explicit, targeted guarantee.

And so, I think we can't, in the absence of coming to some agreement with the Congress about the broader solutions for the housing finance market, be too specific about what an FHA loan limit would look like, other than to say it should be lower than the $625,000 that we've talked about.

Senator COLLINS. Thank you.
Senator MURRAY. Senator Blunt.

STATEMENT OF SENATOR ROY BLUNT

Senator BLUNT. Thank you, Chairman, just a couple of questions quickly. I know we're on a timeframe here, and I appreciate that.

So, what impact does it have on the housing market when you—this may be in your prepared statement, too, Secretary, I apologize if I've missed this already—if you lower this limit? How does that impact an already fragile housing market? Are you concerned about that?

Secretary DONOVAN. What we have seen, in fact, is that there is a relatively small share of FHA's overall lending, significantly less than 10 percent, that is above that $625,000 limit at this point. So, that initial step——

Senator BLUNT. Significantly lower than what?

Secretary DONOVAN. Than the $625,000 limit which would go into effect—that lower limit that would go into effect on October 1. So, while it has some impact on FHA, the bigger impact would be on lending by Fannie Mae and Freddie Mac. And that would be an important step for us, to see if private capital were to return to that level of lending, and what kind of rates it would be at.

As we just discussed, the much more significant impact would be to begin to look at going back down to significantly lower limits—$417,000 was the limit before. It was raised by the Housing and Economic Reform Act (HERA) up to the $625,000, then to be raised further after that.

Really, what you're looking is more like about 20 to 25 percent of our lending that's between that $417,000 limit and the $625,000 limit. So, that's really where I think we need to have a fuller discussion with the Congress about where we ought to go. And I would particularly mention that this will be important in higher cost markets; a much larger share of our lending in California, in certain metropolitan areas, like Seattle, is at that higher limit. And so, the localized impacts could go significantly higher than that 20 or 25 percent of our business that I talked about.

FHA PREMIUM INCREASE

Senator BLUNT. And in terms of the premiums—I know you're talking about FHA, raising the new premium structure—what's the likelihood that that structure will serve the purpose for the full budget year and beyond, or that you'll have to have another adjustment?

Secretary DONOVAN. First of all, the impact of the 25-basis-point increase is in the range of $30 a month. And given that interest rates remain very low, given that our Ginnie Mae securities, in particular, continue to be very attractive investments, I am not substantially concerned. We do expect some decrease in volume. As I've said, we do expect to see private capital return—mortgage insurers and others—to step up as we increase the premiums. But I don't think that it will have a major effect, and certainly not a significant effect, on the overall national market.

I think it's very hard to say, Senator, today, without knowing the initial impacts that the combination of a change in loan limits and the premium structure—we've also seen Fannie Mae and Freddie Mac increase their pricing structure as well. I would really want to see what the impacts are, where the housing market is, through the critical summer period that we're going to be coming into, before I would say specifically whether we need to continue to increase premiums or not. At this point, given the actuarial review and where we are, I'm confident that this premium increase will help us rebuild the reserves to through 2012. Beyond that, I really would like to come back once we see the initial impact and have a fuller discussion with you.

PREPARED STATEMENT

Senator BLUNT. Okay, Madam Chairman, thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR ROY BLUNT

Thank you Chairman Murray and Ranking Member Collins for holding today's hearing. The topics for this hearing are extremely important and in the forefront of many people's minds.

Also, welcome back Secretary Donovan and thank you for appearing before our subcommittee on behalf of the now acting commissioner, Bob Ryan. As we recover from the recent housing crisis, I look forward to serious discussions with you about our current housing finance system.

Since the crisis, Federal Housing Administration (FHA) has become the lender of first resort for both homebuyers and homeowners who want to refinance. FHA alone now guarantees about one-third of all home loans, up from about 3 percent before the financial crisis. Like many, I have grave concerns that with an implicit guarantee from the Federal Government, this agency could be the next big bailout waiting to happen.

FHA was to be self-sustaining and was founded to help low- to moderate-income borrowers achieve home ownership; so it is troubling to see this dramatic increase in lending authority. People with substantial borrowing power should not make up such a substantial portion of the FHA loan portfolio, and I am interested in hearing how you plan to address this unsustainable growth.

Last year, FHA's capital-reserve ratio fell below the congressionally mandated level of 2 percent for a second year in a row. While I recognize that FHA is in a stronger fiscal position this year than it was in 2009, I would like to hear when these reserves will return to their mandatory levels and how FHA intends to keep these reserves from dipping below 2 percent in the future.

I have serious concerns about the current vacancies in both the FHA Commissioner and the Federal Housing Finance Agency Director positions. In a still very fragile housing market, all agency oversight positions must be filled without disruption and I will continue to remind the President.

Mr. Secretary, I know you realize how serious these issues are and I look forward to hearing your plans to keep FHA solvent and off of the backs of the taxpayers as we consider alternatives to the Federal Government's role in financing the housing market.

MUTUAL MORTGAGE INSURANCE FUND

Senator MURRAY. Thank you very much.

I think you answered my question that I was going to ask you about the independent audit on the Mutual Mortgage Insurance Fund (MMI Fund), and why you felt it was necessary to raise that premium again.

Can you just give me a quick glimpse on how you determined the size of that increase, and just let us know what your thinking is on that?

Secretary DONOVAN. Yes. We did very careful analysis of the impacts that we would see, both on the capital reserves, but also looked at what barrier it might pose to access to home ownership, and analyzed that across a range of income groups, a range of markets, and felt that 25 basis points was the right balance of helping to build our reserves and yet not impacting particularly underserved communities that we've seen have been particularly hurt by the downturn. And so, we felt it was the right balance.

I also would just have to add a thank you to the subcommittee for working with us. It would not have been possible to implement that—a premium increase, which goes into effect on April 18—without the very strong partnership that we had with this subcommittee as well as your colleagues on the Banking Committee to get that passed very quickly and give us that flexibility. So, thank you again.

Senator MURRAY. Okay. Over the last 2 years, FHA has implemented a series of reforms which you talked about in your written testimony. These changes will improve the quality of new loans being insured, but the MMI Fund problems right now stem from the loans that FHA endorsed in prior years—particularly those that it took on in the height of the housing boom. So, the size of the losses facing FHA will be affected by the overall recovery of the housing market, which, as we know, continues to deal with foreclosures and depressed home values. In fact, the current discussion on the housing market is about the possibility of a double dip in home prices.

Are you concerned about a possible double dip?

Secretary DONOVAN. Certainly the data that we've seen over the last few weeks has raised concerns about where the market is going. We have seen declines in house prices pretty consistently over the last few months, as well as, after a number of months of increasing existing home sales, a decline. There is some information through pending home sales that we may see home sales start to trend up. And obviously, as we're entering the spring and the summer selling seasons, which are the strongest seasons of the year, we're going to be watching very, very closely.

What I would say is, really, two things. First of all, rightly, as you point out, our ability to ensure that we continue to grow the capital reserve—there are many factors that we control. We've taken enormous steps forward—again, working with this subcommittee and the Banking Committee—to improve our enforcement. We need to continue to do that so that we weed out bad lenders and can enforce against problems that we've seen with our existing book.

But beyond that, I think the most critical thing that we can do is to hold servicers accountable to helping those that can remain in their homes to do that. And frankly, what we have found in our investigations of FHA servicers is a consistent pattern of not helping borrowers soon enough in the process—and that is a lose-lose situation. It's a loss for that homeowner, obviously—devastating impacts; it's a loss for that community, where homeowners who are paying their bills, are current on their mortgages, see their house prices decline even further; and it's a loss for the servicers and the investors in those loans, because they, where they could help that family recover and continue to see them pay, will end up taking deeper losses on those loans because they haven't helped those families stay in their homes.

So, that's why I'm very focused, and working closely with my colleagues in the Administration, the State Attorneys General, to hold those servicers accountable and to make sure that we help families who can stay in their homes, stay in their homes. Mark Zandi has said that if we can help an additional 500,000 borrowers to stay in their homes, he thinks that could make the difference between a double dip and a stronger recovery in the housing market. So, that is a critical focus that I have in making sure that we hold not just FHA servicers accountable, but all servicers accountable.

LENDER OVERSIGHT AND ENFORCEMENT

Senator MURRAY. I personally appreciate the focus you've put on oversight and enforcement that you've just talked about. We know that at the height of the housing boom, really, too many loans were poorly underwritten and putting people in unaffordable mortgages, and here we are.

I know, I've watched carefully and seen that you've really increased the enforcement. I know the Mortgagee Review Board meets regularly now, and it's removed nearly 15 times as many lenders in the last 2 years than in the previous 9 years combined.

Can you talk a little bit about how that enforcement has actually impacted FHA's financial standing and the performance of FHA lenders?

Secretary DONOVAN. I think the most direct impact of that is that what we've seen is substantially improved quality of loans that we're making. As we've weeded out bad lenders, we've seen our early payment defaults decline substantially. And frankly, all of that comes back to benefiting the taxpayer. We have out-performed the predictions, as I said earlier, not just of our own actuaries, but dramatically out-performed the predictions that CBO had for the performance of our loans. And that is, I think, the most responsible thing that we can be doing, particularly given the context—as you said, the elephant in the room today is this broader budget discussion. And the President has talked about smart government. I think FHA is a very good example of how, through better managing government, we can ensure that we have benefits—not just to homeowners, but to taxpayers as well.

Senator MURRAY. I very much appreciate that. Thank you.

Senator Collins.

Secretary DONOVAN. Thank you.

FHA UNDERWRITING

Senator COLLINS. Thank you.

Let me follow up on the issue of problem lenders and HUD's efforts to protect the FHA Insurance Fund from bad loans. I note that HUD has made enormous strides in this area in recent years, and I want to give you credit for that. But, nevertheless, the inspector general continues to have concerns regarding HUD's oversight of its underwriting program, despite the significant actions that HUD has taken.

For example, there's a recent inspector general report that says the Department missed critical chances to recover up to $11 million in losses to the FHA's Insurance Fund on bad mortgage loans. And what was more troubling to me is the inspector general raised the concern that there are still systemic problems with the underwriting of FHA-insured loans, and the resulting costs for the Insurance Fund for loans that just never should have been insured in the first place.

In the sample that the inspector general conducted, it found that lenders did not properly underwrite 140 of the 284 loans reviewed—that's almost 50 percent—because they were not properly following FHA requirements. Similarly, there was a very recent story in USA Today that talked about a New York mortgage company that had been flagged in October 2007, and it says that HUD knew back then, or, FHA knew back then that this company, Cambridge Home Capital, posed a danger to homebuyers and repeatedly violated the agency's safe lending standards. Even so, FHA continued to approve mortgages for this company until June of this year, and that was nearly 3 years after the agency had flagged this company as being potentially fraudulent.

What is being done to ensure that when FHA's early warning system, which is the database that flags problem lenders, identifies a lender, that there is swift action to prevent that lender from continuing to make more mortgages that are insured by FHA?

Secretary DONOVAN. Senator Collins, first, let me just start by saying, I am very proud of the work that we've done to increase enforcement. And in fact, the partnership that we've had with our inspector general has been, I think, very strong. The inspector general report, the report that you talked about, was actually focused on lenders that we brought to their attention, and had identified as problem lenders through our systems, and I would just quote from Ken Donohue when he testified last May, that he had seen FHA do more in the last year than he had seen in all of the previous 8 years combined as inspector general. So, I think we've made substantial progress.

And in particular, I would point to the fact that we have done more enforcement actions—I think, Madam Chair, you just cited this—15 times more enforcement actions in the past year than we'd done in the 9 previous years combined.

Having said that, are we perfect? Do we still have a ways to go? We are not perfect. We still have a significant distance that I think we can go, and we should go, to strengthen those tools. And I would really point to two things: Too often today, our—what we call—postendorsement technical reviews, which are really one of our ways of catching these problems, are manual, or, we don't have the depth of automated systems that we need. One of the critical things that we worked with this subcommittee to do last year was to create the Transformation Initiative (TI).

One of the two largest investments we're making with TI is to create a much more sophisticated set of systems within FHA that would allow us to have a structural way, a systemic way, of identifying potential fraud and poor underwriting much earlier in the process. So, I want to make sure that we continue to work together to invest in the state-of-the-art technology that will allow us to identify that fraud on a systemic basis earlier.

The second thing I would say is, we still have limitations in our statutory authority to be able to go after some of the worst lenders, and in particular, to go after some of the principals. And it is frustrating to us, for example, that we can only terminate a branch, or a region of a lender, but not terminate the entire company from operating in FHA through our Neighborhood Watch system. That is one of the legislative changes that was proposed in legislation last year that we got close to getting done but we didn't get done. I would really like to make sure that we continue to work with the Banking Committee to get further authority to allow us to enforce more strongly.

Senator COLLINS. Thank you.

Secretary DONOVAN. Thank you.

Senator MURRAY. Senator Blunt.

FHA COMMISSIONER VACANCY

Senator BLUNT. Yes. I have one more set of questions here that I hope will be pretty quick.

Mr. Secretary, last month David Stevens, the FHA Commissioner, who'd only been on the job 6 or 7 months, I think, I think started last July, announced he was going to leave and become president of the Mortgage Bankers Association. You haven't had a permanent Director at the Federal Housing Finance Agency (FHFA) since 2008. I'd just like your comment. What are we doing here, and how is this hampering your efforts as Secretary, not having these positions filled—and when we do fill one, I think that was confirmable, and the person's confirmed, and then they come and go so quickly, as——

Secretary DONOVAN. Yes. Actually, Commissioner Stevens was at FHA for closer to 2 years. He was a nominee right when we came into office. It took roughly 3 months for him to get confirmed. And so, he was there, and that is not atypical for a commissioner to stay for 2 years. And frankly, he was pretty clear, having worked in the private sector, that he would return there at some point. But I think the important thing there is that we have built a very strong team within FHA. With Dave's help, we brought in the agency's first ever Chief Risk Officer, Bob Ryan. The President asked Bob to be Acting Commissioner during this period. And I'm fully confident, with his work, the work of Vicki Bott, and Carol Galante's leadership, that there is a very, very strong continuity, and that while we will be nominating a successor in the coming weeks, I'm very confident that the work that we've done continues.

On the FHFA post, to be frank, I think, we were frustrated. We had nominated an outstanding candidate in Joe Smith. And because of delays in the ability to get confirmed, he was asked to take on increased responsibilities in the State of North Carolina and made a decision when the last Congress ended in December that he would withdraw from the process, given the delays that we've had. And so, I think it's absolutely critical that we have a strong permanent nominee and leader at FHFA. I think Ed DeMarco's done a good job as Acting Commissioner. But the confirmation process there has really stood in the way of our being able to get a permanent leader at FHFA.

Senator BLUNT. Thank you.

Chairman, I'm sure you're probably involved in these discussions to try to cut down the number of people that have to go through this process. I'm supportive of that and hope that we can give more attention to the people that we think absolutely need attention, and be less of an impediment to leadership in the Government generally——

Senator MURRAY. I'll agree with that.

Senator BLUNT [continuing]. So, thank you, Chairman.

RISK RETENTION RULE

Senator MURRAY. Thank you.

I just have a couple more questions. I wanted to ask you, as we continue to think about how to create a stronger, safer housing system—managing risk is going to be a central concern. And we have to be very careful not to overcorrect.

Looking at the administration's proposed rule for risk retention and the definition of a qualified residential mortgage, I do have some concerns about the impact of a 20-percent downpayment requirement. I get the skin in the game. I understand that. But when I think about the high cost of housing in my State, the idea of middle-class families trying to come up with 20 percent of a downpayment on a mortgage is really daunting. And I really worry that we're putting home ownership out of the ability of many middle-class Americans today with that.

FHA demonstrated last year when it announced its new tiered downpayment system that credit risk is more than just about loan to value ratio—it's also about creditworthiness. So, the risk retention rule calls for 20 percent. But I saw that you also have an alternative for 10 percent. Can you talk a little bit about why you put that out?

Secretary DONOVAN. I think you've just made an eloquent case for why it's important that, as we are discussing this rule—it's a proposed rule—that we have a vigorous debate about the proper balance between downpayment requirements, and access and affordability. Home ownership has been, continues to be an important gateway to the middle class. And we've made, in our broader housing finance reform proposal, a strong case that FHA needs to continue to be a critical source of access to home ownership by insuring that first-time homebuyers, for whom a downpayment is typically the biggest barrier to home ownership, can continue to get access to the wealth building and the stability that home ownership can provide.

So, there's no question the downpayments affect performance. But too often, I think, in this debate we focus on downpayments and don't focus on the other aspects of underwriting—whether it be credit history, whether it be debt-to-income (DTI) ratios, the nature of the products that we're talking about—all of those are critical steps. And what we've learned from the crisis is, it's really when you start to layer risk—low downpayments with high DTIs, with poorly chosen products for that homeowner—all of those, when you layer them on top of each other, lead to exponential increases in risk. And so, we thought it was very important, as we put out the rule, to have an alternative in the preamble that focuses on a 10 percent downpayment, rather than a 20 percent.

Again, we want to make sure, as we finalize this rule, that we have this full and open debate. I do think it's important that, in particular, we ensure that we don't pull up the drawbridge, if you will, to those who can be successful homeowners in this debate.

Senator MURRAY. Yes. And as you know, getting the downpayment, can be a huge barrier, but the question is, for many homeowners, were you able to make the mortgage payment every month? So, creditworthiness has to be an important part of that, and I appreciate your thoughts on that. And we'll continue to follow it.

The same question can be asked about the GSE reform. Do we put in place so many barriers and changes that we don't allow average middle-class families to be able to get into the market? And you put forward three proposals on that. Are you thinking about that in the same context?

Secretary DONOVAN. Absolutely. I think part of the question is really about what happens in a moment of crisis like we've been through, and ensuring that we can step up our response in a responsible way, just as I think FHA's been able to do through this crisis.

But there's also a fundamental question about, what does our housing finance market look like in normal times? There's no question that we went too far.

Senator MURRAY. Yes.

Secretary DONOVAN. Seller-funded downpayments, all of the, frankly, crazy products that we saw. People making loans that we knew families couldn't afford on the day those loans were made. We have to get back to safer, saner products, there's no question. But we have to think about as well, as we've acknowledged, that relative to the crazy place that we were, the cost of housing finance is going to go up—we have to balance that, those increases in costs, the strengthening of underwriting standards, with really looking carefully at the data and understanding where we are confident that families can be successful homeowners. And I think we've had that experience in FHA, and that we really bring that to this debate as we will go forward.

Senator MURRAY. Yes, and I appreciate that. I mean, we all know that we went too far, the market went too far. But we can't overcorrect and create a situation that makes it impossible for people to purchase homes. So, it is a tough balance, and I appreciate your thoughts on that.

Senator Collins.

FDA'S RISK EXPOSURE

Senator COLLINS. Mr. Secretary, I'm curious what the impact has been on FHA's risk exposure as a result of the increase in the higher mortgage limit that FHA is insuring. Has that increased the risk exposure for FHA?

Secretary DONOVAN. Because the loans that we've made at these larger loan limits are relatively young—they're relatively new loans—it's too early to definitively say whether the performance of those loans is better or worse than other loans, and whether they would increase the risk exposure. There have been some faulty studies, frankly, that have looked at this.

Our best estimate at this point, as we look at it—obviously, with Bob Ryan's work as the first Chief Risk Officer, this is an issue he's looked carefully at—and the early data that we have shows that those loans perform roughly the same as the rest of the portfolio. So, I think it's fair to say that moving to those larger loans—particularly given that the highest-cost loans represent a relatively small share, as the loans that are above $625,000 represent only around 3 percent of our lending—that we really haven't seen a significant change in our risk profile as a result of the higher loan limits. But, we should continue to look at that as these loans age.

Senator COLLINS. Because they're pretty young loans.

Secretary DONOVAN. Yes.

Senator COLLINS. What percentage of FHA's insured loans are delinquent at this point?

Secretary DONOVAN. Let me get specifics. What I will say is both our seriously delinquent share and our 30-plus day delinquencies have declined quite consistently over the last roughly 15 months. So, from the beginning of last year we've seen fairly significant declines. We're in the range of 8 percent today—serious delinquency at 8.2 percent today.

And I would just point out, we'd be happy to get you more data that looks at this in a range of ways. We analyze this by how recently the loans were made, as well. And one of the most encouraging things we see is, when we separate out recent originations, we see dramatically lower early payment defaults, and at just about every stage, as they age we've seen significantly lower defaults on newer loans.

I would also point out that our defaults remain about one-third of the performance of subprime loans. And so, while we do have somewhat higher serious default rates than, for example, prime loans in the GSE books, if you look at them compared to the subprime default rates, which are well more than 20 percent—serious delinquencies—it's a dramatic difference, and that you can see the sort of consistent, safe underwriting that we've done coming through in that.

CAPITAL RESERVE RATIO

Senator COLLINS. My final question, because I know that we do need to adjourn, concerns the capital reserve ratio. It's my understanding that the ratio is currently below the congressionally mandated level of 2 percent, and I know that last year HUD established a performance goal to restore the excess capital reserve ratio of the MMI Fund to the mandated level of 2 percent by the year 2014.

Could you give us an update on whether you believe that at the end of this fiscal year you will improve over last fiscal year? And are you on track to reach the congressionally mandated level by 2014?

Secretary DONOVAN. Based on everything that we know today, we are somewhat ahead of the path that was laid out in the actuarial review last year, which was to be able to get back to the 2 percent by 2014.

The reason for that is because we have outperformed predictions that the actuarial review made in a range of areas, to the point where, as I said earlier, our projection is that our receipts would be about almost $10 billion this year. Our volume's down a little bit in the last few months. It may be that they come in somewhat lower than that. But that's substantially higher than what the actuary predicted and, as I mentioned, CBO. So, the indications are good.

There are two cautions I would give to that. One is that we have seen a buildup in pending foreclosures, so we're not realizing claims on those. Because we've seen delays on behalf of lenders, particularly with the problems that we've found in servicing and in the foreclosure process, many lenders have gone back to re-look at those processes. So, I think it's fair to say we will see a jump in claims as those foreclosures proceed—at least some of them—in the coming months.

I think the larger issue, though, is what we don't control. The single largest factor in the performance or where we are in the actuarial review in the capital ratio is the direction of home prices. We were relatively conservative in the projections that we used—they're independent projections, but I think they were relatively conservative—they predicted a more than 5-percent decline this year in house prices.

There's nothing that concerns me at this point in terms of the performance being worse than was projected in the actuarial. Having said that, if we do see a slowdown in the broader economy—whether it's the effects of what's happening overseas or other issues that would slow down the economy—a jump in interest rates, those kind of broader macroeconomic effects and the way that they affect house prices, is the single biggest variable that we, frankly, don't control with our actions at FHA, that could impact where we are on the capital reserve ratio.

I don't want to get in the business of predicting or saying I'm absolutely confident that we'll be in a stronger position next year. All indications are that way, but there's lots of time between now and then for the market to evolve.

Senator COLLINS. Thank you.

Senator MURRAY. Thank you very much.

And, Mr. Secretary, thank you so much for your statements this morning.

ADDITIONAL COMMITTEE QUESTIONS

We will leave the record open for any additional questions to be submitted, and we look forward to your responses.

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

QUESTIONS SUBMITTED BY SENATOR PATTY MURRAY

OPERATION WATCHDOG RECOMMENDATIONS

Question. Last month, the Department of Housing and Urban Development (HUD) Office of Inspector General (OIG) issued a report based on "Operation Watchdog", an initiative prompted by the Federal Housing Administration (FHA) concerns over increasing claim rates. This OIG focused its attention on Direct Endorsement (DE) lenders, and discovered instances where HUD failed to identify problems in underwriting resulting in claims paid on unqualified FHA loans. The OIG has recommended that FHA implement procedures to review riskier loans and that HUD seek administrative remedies to recover losses. I understand that one of the FHA legislative reforms being sought is indemnification authority against DE lenders, which would address part of the OIG's concern.

How HUD is working to address the OIG recommendation?

Answer. In recent years, FHA has significantly strengthened its ability to review and evaluate mortgagees' underwriting and servicing operations for compliance with HUD requirements. Even before Operation Watchdog was announced, FHA had been taking stock of its oversight and enforcement activities and had begun to initiate several changes to its policies and practices. Recent changes include:

—The expansion of the Credit Watch Termination Initiative to include DE mortgagees. This endeavor allows FHA to evaluate lender underwriting performance on a quarterly basis and take action to quickly terminate poorly performing lenders.

—The development of comprehensive lender performance metrics and reporting. These reporting capabilities significantly improve FHA's ability to analyze and evaluate lender performance in order to timely identify lenders whose performance poses potential or actual risks to FHA.

—The pursuit of statutory authority to require indemnification by DE mortgagees. At present, FHA only has authority to request rather than require indemnification from DE mortgagees. Therefore, the Department has eagerly sought legislation that would expand its authority to require indemnification from these lenders.

—A comprehensive overhaul of FHA's loan-level review procedures. This effort has yielded improved risk-based targeting and evaluation methodologies and better aligned the Department's various loan review processes to more effectively identify loans that do not comply with FHA's requirements.

—The development of a comprehensive counterparty risk management information technology (IT) solution. Employing state-of-the-art technologies and practices, these new IT tools will improve HUD's risk analysis and recognition capabilities throughout the FHA lending life cycle.

In sum, FHA is executing substantial changes to its policies and procedures that are dramatically improving the Department's ability to identify and mitigate risks to its insurance funds, via the development of risk-based monitoring and analysis, implementation of strengthened oversight and enforcement mechanisms, and the acquisition and utilization of substantially improved technologies. FHA is ensuring that it possesses the tools necessary to conduct its business in ways that are consistent with industry best practices and appropriately protect the Department's insurance funds. These changes were underway long before the release of the Operation Watchdog audit report. Operation Watchdog merely validated that the improvements FHA is pursuing already are both necessary and appropriate.

Question. Why does HUD lack the authority to recoup losses against these types of lenders and how will the legislation you are seeking address this?

Answer. FHA-insured single-family mortgages are originated and underwritten through the DE process, which permits an FHA-approved DE lender to underwrite mortgages without FHA's prior review and submit them directly for insurance endorsement. High-performing DE lenders with acceptable default and claim rates may apply for approval to participate in the Lender Insurance (LI) Program, which enables them to endorse FHA mortgage loans without a pre-endorsement review by FHA. As of April 30, 2011, there were 1,859 active DE lenders. Of this total, 687 were approved for participation in the LI Program.

Current statutory authority at section 256(c) of the National Housing Act (12 U.S.C. 1715z–21) permits the Secretary to require indemnification if a mortgage approved by the Secretary pursuant to delegation of authority through the LI Program was not originated or underwritten in accordance with requirements established by the Secretary, and the Secretary pays an insurance claim within a reasonable period specified by the Secretary. If fraud or misrepresentation was involved in connection with the origination or underwriting, the Secretary may require the lender to indemnify the Secretary for the loss regardless of when an insurance claim is paid. This existing authority only applies to indemnification by LI lenders and does not include DE lenders that are not participants in the LI Program.

Therefore, FHA is seeking to extend the Secretary's authority such that HUD can require indemnification by all DE lenders, not simply those approved for participation in the LI Program. The Secretary's existing indemnification authority only provides recourse for FHA to avoid or recoup losses through required indemnification for loans that were improperly originated or underwritten, or in which fraud or misrepresentation were involved, from LI lenders. As stated above, only 687, or 37 percent, of DE lenders, are approved LI Program participants. Therefore, FHA would benefit from explicit authority to require indemnification from DE lenders, and thereby recover losses from the remaining 63 percent of lenders authorized to make underwriting and loan approval decisions on FHA's behalf. The current limitation on FHA's counterparty risk management authority with regard to DE lenders poses obvious and unnecessary risks to FHA's insurance funds. Extending the Secretary's authority to require indemnification by lenders to include all FHA-approved DE lenders will ensure that FHA will be able to mitigate losses arising from claims on inappropriately or fraudulently originated or underwritten loans.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION HIRING

Question. The budget for fiscal year 2012 requests authority to alter the way we fund the Government National Mortgage Association (Ginnie Mae) salaries and expenses. Instead of receiving direct annual appropriations, the budget proposes to allow Ginnie Mae to fund its operations using fees it generates under authority provided in appropriations bills.

I share the concern about ensuring that Ginnie Mae has the appropriate staff to monitor its growing portfolio, which is why the Senate bill for fiscal year 2011 proposed an increase above the President's budget request—which actually sought to reduce funding for Ginnie Mae staffing. However, I am not convinced that the proposal in the budget actually addresses all of the challenges with building Ginnie Mae's workforce. As I understand it, Ginnie Mae did not use all of the funding the Congress provided it last year, and it wasn't the first time Ginnie Mae lapsed funding. This suggests the problem isn't really a question of resources.

What has been the problem with hiring at Ginnie Mae, and given that you didn't use all of the resources allocated to Ginnie Mae last year, how would this language address the challenge?

New Funding Structure

Answer. The President's budget request for fiscal year 2012 includes a proposal to fund Ginnie Mae with $30 million in personnel compensation and benefits, and other administrative expenses through collections of multiclass and commitment fees. The proposal is forward looking and is designed to provide Ginnie Mae with flexibility to accommodate a multiyear hiring initiative. The administration's proposal provides Ginnie Mae with certainty as to the level of funding that will be available in the next year and thus, Ginnie Mae will be able to staff to that level of funding. With the new funding structure, Ginnie Mae's hiring would not be hampered by the uncertainty and interruptions sometimes caused by insufficient appropriations or continuing resolutions.

During the last few fiscal years, Ginnie Mae has sought an increase in its salaries and expense appropriation to increase our staff to better manage the housing crisis. Small increases were approved in fiscal year 2010 and fiscal year 2011 through reprogramming. However, in each of those years, a continuing resolution was in place holding agency expenditures to prior-year levels for part of the year making it very difficult for Ginnie Mae to take full advantage of the additional funds. In addition, even if reprogrammed funds are given in one fiscal year, there is no guaranty that the same reprogramming will be available the next fiscal year. Thus, in order to avoid beginning the next fiscal year at payroll higher than the base appropriated amount, Ginnie Mae has limited its hiring. The proposed funding structure will provide certainty as to the level of funding available and will allow Ginnie Mae to execute its multi-year hiring plan.

Lapsed Funds Due to Uncertainty

In recent years, HUD has not had an approved budget at the beginning of the fiscal year and has had to operate under a continuing resolution. The lack of certainty as to the funding level for the year has hampered Ginnie Mae's ability to move aggressively on its planned hiring schedule in the past few years. Under a continuing resolution Ginnie Mae receives a fraction of the previous year's approved salaries and expense budget until a full budget is approved.

SUPPORTING COMMUNITY BANK MORTGAGES

Question. According to estimates, nearly 70 percent of all mortgage originations flow through the big four lenders—JPMorgan Chase, Bank of America, Citigroup, and Wells Fargo. In the aftermath of the housing crisis hundreds of small, community banks have failed. Yet, community banks serve an important role and are an important part of a healthy market. In your testimony you refer to reforms that you are proposing that would assist small, community banks.

Can you elaborate on the current problem, and how the reforms you are proposing would address it?

Answer. FHA began requiring the submission of audited financial statements from Supervised Mortgagees (i.e., banks, thrifts, and credit unions) because without receiving audited financial statements from these institutions, FHA was not able to adequately assess their financial stability and possession of sufficient capital. To put supervised lenders on par with FHA's existing requirements for other lenders, and to avoid potential losses from undercapitalized institutions, HUD decided to begin requiring supervised entities to submit audited financials. The failure of 157 banks in 2010 testifies to the prudence of this policy change.

For some small FHA-approved supervised lenders that originate low volumes of FHA loans the expense of obtaining an external audit of their financial statements is deemed too burdensome to justify their continued participation in FHA programs. Because many of these small supervised lenders are located in underserved communities that possess a limited selection of residential mortgage lending entities, small supervised lenders' relinquishment of FHA-approval may decrease access to FHA programs for some communities. Given FHA's present prominent role in the Nation's mortgage market, a reduction in the availability of FHA-insured mortgage credit could adversely impact the recovery of some States and communities. In order to accommodate the needs of such community banks, HUD issued a waiver in April 2011 of the new audited financial statement requirements for small supervised lenders. Small supervised lenders that meet the asset thresholds delineated by their Federal regulators (the current asset threshold being $500 million) will be permitted to submit a copy of their unaudited regulatory report (e.g., consolidated or fourth quarter Call Report or Report of Condition and Income, Office of Thrift Supervision Report, consolidated or fourth quarter Thrift Financial Report, Form 10–K, NCUA Supervisory Committee Audit) that aligns with their fiscal year end. These lenders will also be required to submit a report on their compliance with HUD program requirements.

The accommodations afforded to small supervised lenders, including community banks, represent an appropriate balance between FHA's management of counterparty risk and the Department's continued commitment to ensuring the participation of community banks and other small lenders in its programs.

Question. What other steps can be taken to make sure that small and community banks can compete for mortgage business?

Answer. In addition to the measures to assist community banks described above, HUD is also seeking legislative changes that will expand the opportunities for small banks and other lenders to participate in FHA programs. Another option by which community banks and other small supervised institutions may participate in FHA programs is through a sponsored origination relationship. Sponsored originators are not subject to FHA lender approval, but are permitted to originate FHA loans by partnering with an FHA-approved underwriting mortgagee. Community banks that wish to continue originating FHA loans, but that do not want to be subject to FHA lender approval requirements and processes, may act as sponsored originators.

Many community banks have cited their inability under the National Housing Act to close loans in their own names should they forfeit their FHA approval as a deterrent to their acting as sponsored third-party originators. FHA has proposed an amendment to 12 U.S.C. 1709(b), which has been included in comprehensive FHA Reform legislation, that would allow sponsored third-party originators to close loans in their names, addressing what has been a chief concern of small community banks in considering a switch in status from FHA-approved mortgagee to nonapproved sponsored third-party originator. The passage of FHA's proposed amendment (which passed the House last fall) would provide yet another sensible solution for small community banks, while enabling FHA to continue prudently managing its risk and mitigating losses to its insurance funds.

Additionally, the passage of the proposed amendment to the National Housing Act would significantly expand access to FHA programs for small business lenders of all types without unnecessarily increasing the risk to FHA. FHA strongly encourages the Congress to pass the proposed amendment in order to protect FHA insurance funds and accommodate the interests of community banks and other small lenders.

SUBCOMMITTEE RECESS

Senator MURRAY. And thank you again for everything.

Secretary DONOVAN. Thank you. Get us a budget.

Senator MURRAY. All right. Thank you.

This hearing is recessed.

[Whereupon, at 10:24 a.m., Thursday, April 7, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2012

THURSDAY, MAY 12, 2011

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

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

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

DEPARTMENT OF TRANSPORTATION

FEDERAL AVIATION ADMINISTRATION

STATEMENT OF HON. J. RANDOLPH BABBITT, ADMINISTRATOR

ACCOMPANIED BY HON. CALVIN L. SCOVEL III, INSPECTOR GENERAL

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. This subcommittee will come to order.

This morning we are going to be holding a hearing on the President's budget request for the Federal Aviation Administration (FAA). We will be hearing testimony from the Administrator of the FAA, Mr. Randy Babbitt, and the Inspector General for the Department of Transportation, Mr. Calvin Scovel.

I want to thank both of you for being here this morning, and I look forward to hearing your testimony.

The United States is a leader in air transportation, and I am very proud of our innovation and our safety record. For 3 out of the past 4 years, there has been less than 1 fatality for every 100 million passengers on board commercial air carriers. As the agency in charge of overseeing the safety of air transportation, the FAA has built a strong record for more than 50 years.

But while we can be proud of the safety record, we can never believe that our work is done or let down our guard, not even for a moment. So I am very troubled by recent news reports that include stories about air traffic controllers falling asleep on duty and a dramatic increase in the number of errors committed by air traffic controllers.

The FAA made a series of announcements as more and more of these incidents came to light. Soon after the first news reports, the FAA promised air traffic controllers will no longer be working alone in the middle of the night, and the FAA would no longer use certain kinds of schedules that are known to worsen fatigue. More recently, the FAA announced a series of initiatives, including a new working group that will make recommendations to improve the qualifications, placement, and training of air traffic controllers. These initiatives may be important work for the FAA, but I am troubled by the fact that they came as a result of unflattering news reports, especially when the inspector general has been sounding the alarm on these issues for years.

Back in 2004, the inspector general recommended the FAA develop a method for placing newly hired controllers at its various facilities based on skill and ability. This recommendation was repeated in 2010. In both cases, the FAA agreed and said the agency was working on a test that would be used in the placement of its new hires. Today, however, the FAA still does not have an objective-reliable test it can use to place newly hired controllers.

The FAA also knew it needed to evaluate how well graduates from the training academy in Oklahoma City were prepared to enter the workforce and begin their on-the-job training. In 2008, the inspector general found the FAA had not yet fulfilled this promise. In 2010, the inspector general found academy training was focused on short-term memorization, and facility managers did not believe new hires were prepared for their on-the-job training.

In short, the FAA has known about troubles with how it trains and places newly hired controllers for a long time, and yet, after a series of news reports, suddenly the FAA announces a new working group to address this issue and we are supposed to believe that in a few short months, this working group will be able to do something the FAA could not accomplish for the past 7 years.

So, we have been down this road before. In fact, it was just 3 years ago that this subcommittee held a hearing with the FAA and heard about how FAA managers allowed Southwest Airlines to violate Federal safety regulations and punished the safety inspector who tried to bring these violations to light. The FAA acknowledged its safety office had an inappropriate relationship with the very airline it was supposed to oversee.

Again, there was a history of reports and recommendations from the inspector general. Importantly, the inspector general found safety inspections were being missed and FAA headquarters needed to take a more a hands-on approach to make sure individual inspection offices were getting the job done.

I know the FAA is dedicated to its safety mission, but we cannot afford to let news stories determine how the FAA does its work. We need the FAA to make the right decision before an issue gets in the news.

The Next Generation Air Transportation System (NextGen) is another area where we need to see more from the FAA. This subcommittee has long understood the importance of NextGen, and until this year, we have met all of the administration's budget requests for its modernization programs. In fact, this subcommittee has provided targeted increases for NextGen, giving additional funds to push for more capabilities out of the Automatic Dependent Surveillance-Broadcast (ADS–B) program and to see more demonstrations of network-enabled operations.

Still, even when there has been a steady stream of funding, we have seen delays and management problems with some of the most important capital programs. For example, the En Route Automation Modernization (ERAM) program is now years behind the FAA's original target, and we still do not know for sure if this program is working well enough to control traffic at additional sites. Only recently has the FAA started to work hand in hand with the air traffic controllers who will be working with the ERAM software.

This year, however, we find ourselves in a completely new budget environment. For fiscal year 2011, the Committee enacted the largest 1-year cut to discretionary spending in our Nation's history, and debates over the fiscal year 2012 budget continue to focus on spending cuts. In this kind of environment, we cannot afford further delays and mismanagement.

We need to see a realistic strategy for funding NextGen. To date, the FAA has filled its budget request with a laundry list of programs and development activities and a vague promise that somehow the agency will achieve its goals by 2018, but that approach is not enough this year. The FAA must be able to show how each of its programs contribute to NextGen goals, and we need to hear a clear set of priorities from the FAA so we know what the impact of various funding levels will be on modernization.

We are waiting now to get a final spend plan from the FAA on how it will distribute the funding levels provided for 2011, but the FAA also needs to think about the impact of various funding levels in a different way, not a year-by-year basis, but with a long-term strategy in mind.

PREPARED STATEMENT

With that, I am going to turn it over to my ranking member, Senator Collins, for her opening statement.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

The subcommittee will come to order.

This morning we will be holding a hearing on the President's budget request for the Federal Aviation Administration (FAA).

We will be hearing testimony from the Administrator of FAA, Mr. Randy Babbitt, and the Inspector General for the Department of Transportation, Mr. Calvin Scovel.

I would like to thank both of you for being here this morning, and I look forward to hearing your testimony.

PROFESSIONALISM OF AIR TRAFFIC CONTROLLERS

The United States is a leader in air transportation, and I am proud of our innovation and our safety record. For 3 out of the past 4 years, there has been less than 1 fatality for every 100 million passengers on board commercial air carriers.

As the agency in charge of overseeing the safety of air transportation, the FAA has built a strong record for more than 50 years.

But while we can be proud of this safety record, we cannot believe that our work is done, or let down our guard—not even for a moment.

So, I am troubled by recent news reports that include stories about:

—air traffic controllers falling asleep on duty; and

—a dramatic increase in the number of errors committed by air traffic controllers.

The FAA made a series of announcements as more and more of these incidents came to light. Soon after the first news reports, the FAA promised that air traffic controllers will no longer be working alone in the middle of the night, and that the FAA would no longer use certain kinds of schedules that are known to worsen fatigue.

More recently, the FAA announced a series of initiatives, including a new working group that will make recommendations to improve the qualifications, placement, and training of air traffic controllers.

These initiatives may be important work for the FAA, but I am troubled by the fact that they come as the result of unflattering news reports.

Especially when the inspector general has been sounding the alarm on these issues for years.

For example, in 2004, the inspector general recommended that the FAA develop a method for placing newly hired controllers at its various facilities based on skill and ability. This recommendation was repeated in 2010. In both cases, the FAA agreed, and said that the agency was working on a test that would be used in the placement of its new hires.

Today, however, the FAA still does not have an objective, reliable test that it can use to place newly hired controllers.

The FAA also knew that it needed to evaluate how well graduates from its training academy in Oklahoma City were prepared to enter the workforce and begin their on-the-job training. In 2008, the inspector general found that the FAA had not yet fulfilled this promise. And then in 2010, the inspector general found that academy training was focused on short-term memorization, and that facility managers did not believe that new hires were prepared for their on-the-job training.

In short, the FAA has known about troubles with how it trains and places newly hired controllers for a long time.

And yet, after series of news reports, suddenly the FAA announces a new working group to address this issue. And we're supposed to believe that in a few short months, this working group will be able to do something that the FAA couldn't accomplish for the past 7 years.

We've been down this road before.

In fact, it was just 3 years ago that this subcommittee held a hearing with the FAA and heard about how FAA managers allowed Southwest Airlines to violate Federal safety regulations and punished the safety inspector who tried to bring these violations to light. The FAA acknowledged that its safety office had an inappropriate relationship with the very airline it was supposed to oversee.

Again, there was a history of reports and recommendations from the inspector general. Importantly, the inspector general had found that safety inspections were being missed, and that FAA headquarters needed to take a more hands-on approach to make sure that individual inspection offices were getting the job done.

I know the FAA is dedicated to its safety mission. But we cannot afford to let news stories determine how the FAA does its work. We need the FAA to make the right decision before an issue gets in the news.

A STRATEGY FOR FUNDING NEXTGEN

The Next Generation Air Transportation System (NextGen) is another area where we need to see more from the FAA.

This subcommittee has long understood the importance of NextGen, and until this year, we have met all of the administration's budget requests for its modernization programs. In fact, this subcommittee has provided targeted increases for NextGen, giving additional funds to push for more capabilities out of the Automatic Dependent Surveillance-Broadcast program and to see more demonstrations of network-enabled operations.

Still, even when there has been a steady stream of funding, we have seen delays and management problems with some of the most important capital programs.

For example, the En Route Automation Modernization (ERAM) program is now years behind the FAA's original target. And we still don't know for sure if the program is working well enough to control traffic at additional sites. Only recently has the FAA started to working hand-in-hand with the air traffic controllers who will be working with ERAM software.

This year, however, we find ourselves in a completely new budget environment. For 2011, the Committee enacted the largest 1-year cut to discretionary spending in our Nation's history. And debates over the 2012 budget continue to focus on spending cuts.

In this kind of environment, we cannot afford further delays and mismanagement.

We need to see a realistic strategy for funding NextGen. To date, the FAA has filled its budget requests with a laundry list of programs and development activities, and a vague promise that somehow the agency will achieve its goals by 2018.

But that approach is not enough this year.

The FAA must be able to show how each of its programs contribute to NextGen goals. And we need to hear a clear set of priorities from the FAA, so that we know what the impact of various funding levels will be on modernization.

We are waiting to get final spend plans from the FAA on how it will distribute the funding levels provided for 2011. But the FAA also needs to think about the impact of various funding levels in a different way—not a year-by-year basis, but with a long-term strategy in mind.

With that, I will turn to my ranking member, Senator Collins, for her opening statement.

STATEMENT OF SENATOR SUSAN COLLINS

Senator COLLINS. Thank you very much, Madam Chairman, for holding this hearing on the fiscal year 2012 budget request for the FAA.

I want to welcome our two witnesses this morning, Administrator Babbitt and Inspector General Scovel, to our hearing.

Let me begin my remarks by associating myself with the comments that the chairman made about safety.

It is extremely worrisome to learn of the incidents over the past couple of months regarding air traffic controllers who have behaved unprofessionally. It is unacceptable that Federal employees who are responsible for the safe arrival and departure of our flying public were asleep on the job or inattentive to pilot requests, and of course, in reading these incidents, one cannot help but think that it is the tip of the iceberg—that this problem, as the inspector general perhaps will illuminate today, has been going on for some time, but it has only recently come to the public's attention.

The Administrator of FAA has one of the toughest challenges in overseeing the national airspace system, the most complex airspace in the world. This includes monitoring more than 45,000 flights per day from commercial air, cargo, military, and nearly 240,000 general aviation aircraft that could enter the system at any given moment.

While there are not nearly as many flights going in and out of the State of Maine as I would like to see, it is important that we ensure that sufficient options are available to rural communities, particularly those that support our smaller municipal airports.

In rural States, such as my home State, aviation helps to keep residents connected to the rest of the country and is a key element in economic development. A lot of times, when we are doing business attraction efforts in Maine, the first question that we get is what the air service is like. FAA resources help airports, particularly general aviation or smaller airports with limited resources, to make the necessary infrastructure upgrades to improve air traffic services, availability, and safety.

Recognizing safety as the No. 1 priority, ensuring a safe civil aviation system is also critically important to the overall economy. According to the FAA, aviation adds $1.3 trillion to our economy and accounts for more than 11 million jobs.

As the chairman has indicated, as we move forward to the fiscal year 2012 budget, we will face even tougher choices than those in the recently passed 2011 budget. It is, therefore, essential that the FAA identifies and prioritizes programs to ensure the least amount of consequences to safety and operations, and I am particularly concerned about any cuts that would delay the implementation of NextGen. The full implementation of NextGen by 2025 will total between $20 and $25 billion from FAA resources alone.

The airline industry also needs to be a team player in the decisionmaking process, as it too must make an equal amount of investments in retrofitting their aircraft. With NextGen, however, and despite the costs, the benefits are enormous. Airlines will see a reduction in fuel consumption. Travelers will see fewer delays, and the environment will benefit from lower carbon emissions.

PREPARED STATEMENT

I look forward to hearing the testimony of our witnesses today as we consider this very important budget request.

Thank you, Madam Chairman.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN COLLINS

Good morning, and thank you Chairman Murray for holding this hearing on the fiscal year 2012 budget request for the Federal Aviation Administration (FAA). I welcome Administrator Babbitt and Inspector General Scovel and thank you both for being here today.

This subcommittee faced many challenges passing the fiscal year 2011 budget in which important programs had to be reduced or eliminated. I appreciate the leadership of Chairman Murray and am glad we worked in a bipartisan effort.

The soaring debt of more than $14 trillion and growing poses a grave threat to our Nation's future prosperity. We simply must rein in our spending and get our financial house in order.

It is unacceptable that we came at all close to a government shutdown. It is my hope that the Congress and the administration will take a much more thoughtful and reasoned approach to the difficult task of developing a budget for 2012 and demonstrate to the American people that we are willing to work together to put our country back on a strong fiscal course.

Administrator Babbitt has one of the toughest challenges overseeing the national airspace system, the most complex airspace in the world. This includes monitoring over 45,000 flights per day from commercial, air cargo, military, and nearly 240,000 general aviation aircraft that could enter the system at any given moment.

While there are not as many flights going into and out of Maine as I would like to see, it is important we ensure that sufficient and adequate options are available to rural communities, particularly those that support small or municipal airports.

In rural States, such as my home State of Maine, aviation helps keep residents connected with the rest of the country. FAA resources help airports, particularly general aviation or small airports with limited resources, make the necessary infrastructure upgrades to improve air travel services and safety.

Recognizing safety as the No. 1 priority, ensuring a safe civil aviation system is also critically important to the overall economy. According to FAA, aviation adds $1.3 trillion to our economy and accounts for more than 11 million jobs.

As this subcommittee moves forward to the fiscal year 2012 budget, we will face even tougher choices than those from the recently passed fiscal year 2011 budget. It is essential that FAA identify and prioritize programs to ensure the least amount of impacts to safety and operations, particularly those that could delay the implementation of the Next Generation Air Transportation System (NextGen).

FAA estimates full implementation of NextGen by 2025 will total between $20 and $25 billion from FAA resources alone. The airline industry also needs to be a team player in the decisionmaking process as they too must make an equal amount of investments retrofitting their aircraft while struggling with unstable profits and rising operating costs. FAA must present the benefits early enough in the process of implementing NextGen that outweigh the costs of equipage. With NextGen, airlines will see a reduction in fuel consumption, travelers will see fewer delays, and the environment will benefit from lower carbon emissions.

I also want to highlight the serious concerns as the chairman noted in her statement. It is troubling to hear recent media reports over the past couple of months regarding air traffic controllers who behaved unprofessionally. It is unacceptable that Federal employees who are responsible for the safe arrival and departure of our flying traveling public to be asleep on the job or inattentive to pilot requests.

I appreciate the department for taking action within the Air Traffic Organization. Accountability starts at the top with management and I am hopeful that FAA will be able to quickly address the issues surrounding air traffic controller and pilot fatigue and training to avoid further incidents from occurring.

Chairman Murray, thank you and I look forward to hearing the testimony of Administrator Babbitt and Inspector General Scovel as we consider the fiscal year 2012 budget request of FAA.

Senator MURRAY. Thank you very much.

Senator Lautenberg, do you have an opening statement for us?

STATEMENT OF SENATOR FRANK R. LAUTENBERG

Senator LAUTENBERG. Thank you very much, Madam Chairman.

I am pleased that we are inspired with some extra funds to do our job here, and we welcome the President's budget for the next year.

We are constantly wrestling with whether or not we have adequate population, based on the outline of what should be the number of fully trained professionals. And we see in the airports in the New York area nowhere near the number that should be there to manage the traffic flow. It is made up for with trainees, but we would not like trainees going into the operating room with us and we should not have an excessive number of trainees doing the job of fully prepared, fully certified controllers.

Madam Chairman, one of the things that I look at here with some degree of—more than annoyance, and that is the extra fees that are put on for baggage. If you want the large pretzels, it is $1. If you take the small ones, you might have to pay only 50 cents. But these things—you do not get it when you use other means of travel. I consider it an affront to a welcome to travel for the average passenger. One of these days I suspect that you are going to be charged for going to the lavatory, and maybe they will say, okay, you do not have to pay going in, but you have to pay getting out, some kind of scheme that will put you under the gun, as they say.

So we have important things to do. NextGen has been NextGen for years. We have spent billions of dollars trying to get there and have not yet got what we consider an up-to-date plan in place, and we have got to wrestle, as all of you know.

And I thank you both. The system is terrific. It really is when you consider how many passengers are handled each day and each year, and with the shortages and with the problems that we have—despite them, thank goodness, air travel is really safe.

So I encourage us to move the budget along as we have, Madam Chairman. I am glad that you are doing this and that we have Senator Collins here also, people who understand what we have got to do to improve our aviation system. So thank you very much.

Senator MURRAY. Thank you very much, Senator Lautenberg.

With that, we will turn it over to the testimony from our witnesses today and begin with Randy Babbitt.

SUMMARY STATEMENT OF HON. J. RANDOLPH BABBITT

Mr. BABBITT. Good morning, Madam Chairman, Ranking Member Collins, subcommittee members as well. Thank you very much for the opportunity to come in and discuss with you the administration's budget request for the FAA for the fiscal year of 2012.

As you have mentioned, everyone at the FAA is committed to continuing to run the safest and most efficient airspace system in the entire world. I want to take a moment, however, to address some of the issues in the news recently and update you on some of our actions.

Yesterday, we proposed a comprehensive overhaul of pilot and crew training that will require pilots to work together and demonstrate their skills in real-world scenarios during training that will expose them to situations they might actually encounter in the cockpit. This is a major effort to strengthen performance and represents the most significant changes in crew training in more than 20 years. With this proposed training, we want pilots and crews to have more training in the kinds of rare—but they do happen—type of emergency events that test their skills and give them the confidence to appropriately handle the situation.

In addition to this update on crew training, I want you to be aware of the latest steps that we have taken with regard to the incidents involving air traffic controllers who have behaved unprofessionally.

Last month, I traveled all around the country with the National Air Traffic Controllers Association's (NATCA) Paul Rinaldi. We went to air traffic facilities across the Nation in a call-to-action on professionalism. The visits reinforced for me that we have a workforce that is committed to the safety of this system 24 hours a day, 7 days a week, 365 days a year, but the incidents of a few employees falling asleep on position showed us that we have to make changes, and we have.

We have added a second controller on the midnight shifts in some facilities where we only had one.

We made significant changes to long-time scheduling practices that will reduce further the possibility of fatigue, and we will do more.

We have changed management within the FAA in some critical positions to ensure that we have the right people in the right places.

We, unfortunately, found it necessary to terminate three controllers who were found sleeping on the job.

We continue to review the 12 recommendations developed by a joint FAA/NATCA task force work group that I believe you referenced, which was undertaken more than 1 year ago in an effort to reduce controller fatigue and do so in a collaborative fashion.

Controllers have a responsibility to report rested and ready to work for their shifts, and as management, we have the responsibility to make sure that they have the opportunity for adequate rest between those shifts. The American public trusts us to perform our jobs and make safety the highest priority each day, year in and year out. We are committed to making whatever difficult changes are necessary to preserve that trust.

The President's 2012 budget is designed to maintain and enhance operational safety, as well as to invest in NextGen infrastructure and technology. We are facing a very pivotal time in aviation history. We are transforming to NextGen. We are moving from ground-based radar to a satellite-based style of navigation. Air travel will, in fact, become more precise and safer. It will leave a smaller carbon footprint, and NextGen will create thousands of good jobs. We need to embrace this opportunity and lead the way.

Our budget contains limited discretionary increases and really emphasizes cost efficiency. We are taking a good hard look at our organizational structure and we are making changes to create a more streamlined, as well as a more efficient, agency.

The infrastructure of the future is going to be a marriage of NextGen procedures with our airports, our runways, our airlines, and the flight crews. This budget supports the airport grant program, which enhances the safety, efficiency, and capacity of the aviation system. This is vital, because delaying infrastructure investments today means the ultimate long-term cost to our Nation, to our passengers, and to our environment will far exceed the cost of going forward today.

This budget also pays for safety inspectors who inspect the latest generation of innovative aircraft that Americans are building. We do not want to be the chokepoint in the assembly line of progress. We want to certify aircraft. We want to certify equipment and new procedures that keep the Nation's aviation economic engine running and running smoothly. So I sincerely ask for your support in helping the men and women of this agency to perform the tasks that they so proudly do day in and day out.

PREPARED STATEMENT

So, thank you very much for this opportunity, and I would be happy to answer any questions, should you have some.

[The statement follows:]

PREPARED STATEMENT OF HON. J. RANDOLPH BABBITT

Good morning, Chairman Murray, Ranking Member Collins, and members of the subcommittee. Thank you for the opportunity to discuss the administration's fiscal year 2012 budget request for the Federal Aviation Administration (FAA).

FISCAL YEAR 2012 BUDGET

The FAA's mission is to provide the safest, most efficient air transportation system in the world. We have proudly delivered on this promise for more than 50 years, providing the world's leading aviation system and setting an unparalleled standard for safety and efficiency that is emulated globally. Since 2001, we have managed more than 600 million airport operations, including more than 93 million successful flights on U.S. commercial aircraft, transporting more than 6.5 billion passengers safely to their destinations. Commercial aviation fatality rates are at historic lows and the number of commercial air carrier accidents has decreased 83 percent since the mid-1990s. In the last 10 years, 16 new runways have opened at large commercial airports. And we've put in place financial systems that have helped us better account for and save taxpayers' money. Despite our many successes, there is still more to be done.

The demand for FAA services has never been more complex or comprehensive. We are heading into a period of unprecedented challenge as we pilot the future of aviation into our skies and into space. We must work to stay ahead of changing technological, economic, social, environmental, and energy needs of both our Nation and our global partners. We are confident that the President's fiscal year 2012 budget request will enable us to take aviation to the next level of safety, while providing the public, U.S. business, and our international partners with secure, convenient, and environmentally sustainable air travel.

Our vehicle for this transformation is the Next Generation Air Transportation System (NextGen), which will enable increased safety, capacity and efficiency while providing for a cleaner environment and bolstering America's continued economic growth. The next 15 years promise to be a pivotal time in the history of air transportation, as the face of aviation is transformed around the world. Parts of NextGen are already on the ground and in cockpits, and are improving air travel for passengers and aviation professionals today. From flight decks to control towers, our system is already changing, delivering access through innovation. As we change, FAA remains deeply committed to providing the safest, most advanced and efficient aviation system in the world, and to ensuring air transportation is safe and efficient wherever U.S. citizens travel.

We must continue to fulfill our mission for the flying public, delivering a safe and efficient system that continues to set the global standard. We are working to promote an increased sense of professionalism and accountability, while fostering a culture of vigilance and safety. We also aim to support aviation's crucial role in our Nation's economic recovery, building on today's successes to meet tomorrow's growing demands. That means delivering on the promise and benefits of NextGen, offering economic and environmental efficiencies and technologies that support America's ability to shape international aviation standards and development around the world.

Operations

The fiscal year 2012 request of $9.8 billion funds the development of the performance-based navigation routes and procedures necessary to support NextGen, increased safety staffing, enhanced Information System Security protection, implementation of environmental and energy technologies, and appropriate staffing to improve safety and hazardous materials compliance. The request also supports annualization costs of new hires, adjustments for inflation, and maintenance and operating costs of National Airspace System (NAS) systems and equipment.

The fiscal year 2012 request maintains our critical aviation safety (AVS) inspector staff changes from recent years, while further increasing overall AVS staffing by 178 positions. The request, recognizing increasing flight operations and complexity, adds 100 new safety inspectors to implement new flight procedures, operation methods, airmen qualifications, and Air Carrier Evaluation Program functions. These inspectors will also oversee the conformity of new designs and the production of new aircraft and aircraft parts. We must be responsive to innovation in our Nation's market place while ensuring that safety always remains our top priority. We must certify new aircraft and new equipment as expeditiously as possible so as not to become a bottleneck in the industry's assembly line. The fiscal year 2012 request enables FAA to perform additional rulemaking, certification, and outreach activities necessary to move NextGen forward.

As the National Aeronautics and Space Administration (NASA) retires the space shuttle, it will begin to utilize commercial space transportation systems to access the International Space Station (ISS). The FAA is solidifying our relationships with the Air Force and with NASA to ensure a seamless transition to a commercial space transportation model that provides access to ISS as we focus on the development of commercial human spaceflight systems.

This change increases the workload of FAA's Office of Commercial Space Transportation. In response, our fiscal year 2012 budget includes $5 million for the FAA Commercial Spaceflight Technical Center at the Kennedy Space Center in Florida and includes $1.3 million to begin development and implementation of safety requirements for commercial human space flight. We also request $5 million to establish a Low-Cost Access to Space Incentive program.

We must protect against persistent and organized threats that beset FAA systems every day, as hackers launch attacks that may compromise service to our users. We must also improve safety standards and compliance for hazardous materials transportation, while meeting an increased requirement for security investigations of new hires and existing staff. The budget request includes the enhancement of FAA's Cyber Security Management Center (CSMC) to increase information system security protection and increased staffing to more effectively support our intelligence activities and oversight of hazardous materials in air commerce.

The fiscal year 2012 Operations request includes $45 million in new cost savings. In the Air Traffic Organization (ATO), we expect the flight services contract to save FAA $1.9 billion over its 13-year lifespan and $8 million in fiscal year 2012. The Aviation Safety Organization expects to achieve $2.4 million in administrative efficiencies. Finally, our budget request incorporates base transfers that better align our resources with organizational functions.

Facilities and Equipment

Our fiscal year 2012 budget request of $3.1 billion allows FAA to meet the challenge of improving the capacity and safety of the current NAS while keeping our comprehensive modernization and transformation efforts on track.

To spur job growth and initiate sound multi-year investments, the President's budget includes a $50 billion boost more than current law spending for roads, railways and runways. As part of this initiative, our facilities and equipment (F&E) request includes $250 million in mandatory General Fund appropriations that will be used to advance NextGen and make near-term improvements in FAA's air traffic control infrastructure. Two hundred million dollars will be used to accelerate applied research, advance development, and implement engineering solutions for NextGen technologies, applications, and procedures while $50 million will be used to upgrade existing capital infrastructure such as power systems and air traffic control centers and towers.

The F&E NextGen portfolio of $1.14 billion in fiscal year 2012 will continue our ongoing NextGen modernization activities. This includes nation-wide Automatic Dependent Surveillance-Broadcast (ADS–B) deployment, the data link communications services program, NextGen future facilities investment planning, and follow-on En Route Automation Modernization (ERAM) data side-position development for future NextGen capabilities.

The remainder of our investment—representing $2 billion—will be in legacy areas, including our extensive infrastructure, power systems, information technology, navigational aids, and weather systems. In fiscal year 2012, FAA plans to award four tower construction contracts. Funding is also requested to replace and upgrade aging aerospace medical equipment needed to perform research in pilot certification and performance, aircrew health, atmospheric and radiation risk data, and other medical areas to keep FAA in the forefront of aeromedical research.

Research, Engineering, and Development

The fiscal year 2012 request of $190 million supports FAA's continued work in both NextGen and other research areas such as fire research and safety, propulsion and fuel systems, advanced materials research, aging aircraft, and environment and energy.

The request supports our research to enable the use of "drop in" sustainable jet fuels for commercial aviation, reinforcing American leadership in clean technologies and enhancing energy supply security. It also supports developing alternatives to leaded aviation gasoline to lessen general aviation environmental impacts. Other environment and energy investments ($35.8 million including NextGen) support a range of research activities, from improved science and modeling capabilities that characterize and quantify aviation's environmental impacts to maturing certifiable clean and quiet aircraft technologies via the Continuous Lower Energy, Emission and Noise (CLEEN) program and other vehicles.

FAA must meet our Nation's growing need for unmanned aircraft systems (UAS). Our research, engineering, and development (RE&D) request continues to support this critical area, providing $3.5 million to develop minimum performance requirements for ground control stations and to revise standards and guidance that address UAS crew resource management and training for both pilots and crewmembers.

Grants in Aid for Airports

Airports remain the critical foundation of our Nation's aviation system infrastructure. Our fiscal year 2012 request provides the funding needed to ensure safety, capacity, and efficiency at our Nation's airports through a combination of continued grant funding and an increase in passenger facility charges (PFCs). Our fiscal year 2012 request totals $5.5 billion for the Airport Improvement Program (AIP), which includes $2.4 billion from the Airport and Airway Trust Fund and $3.1 billion in mandatory General Fund resources. The fiscal year 2012 request will continue our focus on safety-related development projects, including runway safety area improvements, runway incursion reduction, AVS management, and improving infrastructure conditions.

The budget proposes to lower funding for ongoing airport grants to $2.4 billion by eliminating guaranteed funding for large- and medium-hub airports. The proposal is consistent with the recommendation of the President's National Commission on Fiscal Responsibility and Reform to eliminate grants to large- and medium-hub airports. Our budget continues to support smaller commercial and general aviation airports that do not have access to additional revenue or other sources of capital. The reduction in AIP funding for larger airports is premised on an increase to PFCs of $4.50 to $7 per enplanement, providing these airports greater flexibility to generate their own revenue.

In addition, FAA requests a one-time appropriation of $3.1 billion in mandatory General Fund resources for the Grants-in-Aid program. While regular AIP eligibility will be suspended for large- and medium-hub airports, eligible airports in all size categories will be able to compete for the $3.1 billion. Most of this funding will be used for runway construction and other airport improvement projects aimed at increasing overall system efficiency in the future.

Our request also includes $101 million for Personnel and Related Expenses to support Safety Management Systems (SMS) training in the Office of Airports; improved joint use agreements between the Department of Defense and airports; data trend analysis; engineering support; field operations program/portfolio management/inspectors; and information systems security and privacy.

The budget also provides $29.3 million for Airport Technology Research to support enhanced safety and pavement research efforts and conduct noise studies. In addition, the budget provides $15 million for Airport Cooperative Research.

The American Recovery and Reinvestment Act of 2009 (ARRA) provided resources to preserve and enhance safety, capacity and access while maximizing efficiency and operational performance. The FAA obligated 100 percent of the ARRA funds available for airport grants ahead of schedule. Work has been completed on 98 percent of 372 airport grant projects at 334 airport locations nationwide. We have improved runways and taxiways, modernized terminal buildings, and provided aircraft rescue and firefighting improvements at airports that serve millions of passengers every year. Our commitment to successfully implementing ARRA established FAA's place as a recognized leader in the Department of Transportation's (DOT) efforts to bring Americans back to work.

NextGen Implementation

The fiscal year 2012 budget request reflects FAA's ongoing commitment to the implementation and deployment of innovative NextGen solutions. The application of these critical 21st century technologies represents a pivotal shift that will transform aviation. NextGen is already yielding immediate results for a safer America while working to maximize efficiencies to meet future demands. The investment in NextGen will reduce taxpayer and industry costs while safeguarding our world's precious environment and resources. We are working in cooperation with industry toward a shared vision, leveraging powerful technologies and setting new standards for the future of global aviation.

NextGen is our evolutionary blueprint for modernizing air transportation with revolutionary technologies. NextGen represents a wide-ranging transformation of the entire national air transportation system to meet future demand and support the economic viability of aviation while improving safety and protecting the environment. The application of critical 21st century solutions is already transforming aviation from a ground-based system of air traffic control to a satellite-based system of air traffic management. We continue to work in full partnership with industry, other agencies and departments, and our labor groups to achieve a shared vision, leveraging powerful technologies and setting new standards for the future of global aviation.

Our fiscal year 2012 budget request bolsters FAA's NextGen investment to $1,237 million, distributed among F&E programs ($1,135 million), RE&D ($77 million), and Operations activities ($25 million).

The FAA continues to support the Radio Technical Commission for Aeronautics (RTCA) NextGen mid-term implementation task force recommendations. Our fiscal year 2012 budget request further emphasizes our commitments in the areas of surface, metroplex, runway access, cruise, as well as some cross-cutting recommendations. As FAA moves forward on NextGen implementation, we will continue to evaluate and adjust our strategies, priorities and deployment timelines in full collaboration with aviation stakeholders.

We have also been working hard at our Nation's airports to reduce delays and improve the environment with NextGen initiatives that help curb fuel burn and emissions by improving surface efficiencies. We move forward with these initiatives knowing we might have to make adjustments due to new information, program interdependencies, realignment of priorities, and other changes that can't always be anticipated as we pursue our mid-term operational vision.

Fiscal year 2012 promises to be every bit as productive as last year. Design and implementation teams will focus on streamlining arrival and departure traffic at clustered metroplex airports. Our work on data communications is setting the stage for the delivery of a NextGen technology that the 2009 RTCA task force identified as a priority. And the report of our ADS–B In rulemaking committee, due in September, will give us an indication of which cockpit-based ADS–B applications may be most important to the aviation community.

Our fiscal year 2012 budget includes $9 million in the Operations account for 30 new AVS staff to support the certification and oversight of NextGen systems and procedures. They will play a pivotal role in the implementation of several NextGen initiatives including efficient aircraft designs, revolutionary cockpits, data link communications, new interactive instrumentation, SMS, and aviation safety information analysis and sharing (ASIAS). This will enable AVS to review, process, and certify new NextGen-related technology applications from aircraft manufacturers and operators, as well as evaluate the safety aspects of changes in the airspace system proposed by the ATO. We also are striving to streamline our own internal processes to ensure that the NextGen capabilities emerging from our test beds and research centers begin producing operator benefits as quickly and safely as possible. The new policies, standards, and guidance produced by these additional staff will facilitate the transition of maturing NextGen research and development toward implementation.

ADS–B is a proven centerpiece component of NextGen, evolving from a radar-based system to a sophisticated satellite-derived aircraft location data system. Future ADS–B applications will provide surveillance, like radar, but will offer greater precision and additional services, such as weather and traffic information for pilots. In 2010, we successfully integrated ADS–B into all four air traffic control automation platforms at key sites across the country. Our ADS–B technology deployed in the Gulf of Mexico has opened up 250,000 square miles of new, positively controlled airspace in the gulf, in an area where radar cannot reach.

We cleared the way to begin integrating ADS–B into FAA air traffic control facilities nationwide, and to train both our workforce and users. We have issued our ADS–B Out rule requiring aircraft operating in most controlled airspace to be equipped to broadcast their position to the ADS–B network by the start of 2020. This rule allows manufacturers to start mass-producing certified ADS–B avionics, which we believe will drive prices down, addressing a key concern of the operators.

Our budget request includes $285 million for our continued rollout of ADS–B. This will ensure that our deployment of the ground infrastructure that will support ADS–B surveillance remains on time and on budget. We are installing more than 800 ground transceiver stations nationwide, and 330 ground transceiver stations have been installed to date. Of these, 260 are operationally providing services in the NAS. FAA plans to complete the ADS–B network in 2013.

The budget designates $200 million from the President's $50 billion "up-front boost" in support of NextGen research, so we can stay on the forefront of the technology. We have enjoyed success in our early efforts to leverage surface data sharing in support of collaborative surface traffic management at select locations. We must continue developing innovative programs to manage air traffic and provide better weather data to general aviation and commercial carriers alike.

The FAA has already produced a significant number of performance-based navigation (PBN) routes and procedures, exceeding our fiscal year 2010 goal. Our fiscal year 2012 request also includes $26 million to improve performance-based GPS-based precision approach and departure procedures, better known as area navigation/required navigation performance (RNAV–RNP), at airports across the country. Performance-based navigation offers our airline industry better routes, added capacity, improved on-time performance and lower fuel bills. Our country benefits from reduced airspace congestion, more efficient air travel, reduced emissions, and a reduced dependency on oil.

There is a strong business case for NextGen that many companies have already embraced. They are already seeing fuel savings. Fuel represents about 40 percent of an airline's total expenses, on average, and the cost of jet fuel has increased significantly in the last 6 months. Southwest Airlines started using the precision procedures at a dozen airports this year and estimates it will save $60 million per year in fuel when it uses NextGen arrival procedures at airports across the country. Helicopters in the Gulf of Mexico have benefited from ADS–B technology, saving up to 10 minutes and 96 pounds of fuel each flight. Airlines flying over the Pacific Ocean are taking advantage of a combination of improved capabilities to save 200 to 300 gallons per flight. This represents a significant return on their investment, while justifying ours.

Alaska Airlines has long been a NextGen pioneer and is the only U.S. carrier to fully equip its entire fleet for high-performance GPS-based procedures. This allows aircraft to navigate precisely through mountainous terrain in low-visibility conditions. The company estimates it would have canceled 729 flights last year into Juneau alone due to bad weather if it were not for the GPS-based approaches. Alaska Airlines saved $7.5 million last year by making these flights, safely transporting passengers to their respective destinations without diversions or ground holds.

The FAA will maintain an ongoing focus on top priorities for the development and implementation of NextGen. The detailed planning that supports NextGen—including the NAS Enterprise Architecture (EA) and the NextGen Segment Implementation Plans (NSIP)—enable cost-effective decisions for NextGen projects. Cross program dependencies are captured on EA roadmaps, which assist planners in assessing impacts and developing alternative plans. The NSIP documents linkages among programs and promotes coordination and risk management to support cost-effective investments in NextGen.

As we move forward with NextGen, our goal is to reach the next level of safety and prepare our workforce for the future. We will continue to work closely with industry to implement new technologies and procedures that are sustainable. And we want to work with other countries to establish uniform standards around the globe.

The Airport and Airway Trust Fund

The Airport and Airway Trust Fund provides all of the funding for FAA's airport improvement, facilities and equipment, and research and development activities, as well as a share of FAA's operations. As of the end of last fiscal year, the Trust Fund had a cash balance of approximately $9.4 billion, of which $770 million remains uncommitted. The AIR–21 formula for calculating Trust Fund appropriations safeguards the future solvency of the Trust Fund by ensuring that expenditures will not exceed projected revenue. If revenue forecasts are accurate, the uncommitted balance will remain relatively stable for fiscal year 2012.

Reauthorization

We are grateful for the considerable efforts the Congress has made to prepare an FAA reauthorization bill. As you already know, the current and 18th extension expires on May 31. The budgetary and operational uncertainties of repeated extensions make running the FAA much more difficult, which makes the passage of a multi-year bill vital. Most notably, delaying a multi-year reauthorization has produced several hurdles for managing and funding AIP.

While the administration supports the enactment of a multiyear reauthorization bill, the funding levels in the House-passed bill for FAA operations and air traffic modernization represent significant reductions from levels proposed by the administration. While we will never reduce our commitment to safety, if funding were appropriated at the levels proposed in the bill, the safe and efficient movement of air traffic in the air and on the ground would be degraded—today and in the future. In addition, the administrative funding levels for AIP in the House bill, if enacted, will seriously undermine the administration's ability to execute congressionally mandated airport programs.

The administration looks forward to working with the Congress to craft final legislation that will provide adequate funding authorization for infrastructure investment, enhance the efficiency and safety of the national airspace, accelerate and streamline implementation of NextGen, and advance research and sustainable technologies to improve efficiencies and reduce environmental impacts.

SAFETY

Safety is FAA's primary mission and our 2012 budget request reflects this most important of strategic objectives. We have identified and mitigated many of the major risks in the system and we will continue to act on the remaining safety challenges and keep air travelers safe. Approximately 49 percent of our fiscal year 2012 budget will be required to maintain and improve the agency's safety programs. Our day-to-day operations in the four key programs of air traffic, AVS, airports, and commercial space transportation contribute toward a reduction in air transportation-related injuries and fatalities.

The FAA continues to address concerns over capacity and safety with increased vigilance and professionalism. The flying public must have the highest confidence that the airplanes they board are properly designed, produced, operated, and maintained. They must know that their pilots and air traffic controllers are qualified, trained for their mission, and fit for duty. This year we continue to take AVS to a new level, making aggressive effort to take advantage of the latest research on fatigue to create a rule on pilot flight, duty and rest. Our landmark proposal combats fatigue among commercial pilots by setting new flight time, duty and rest requirements based on fatigue science. Additional rulemaking proposals will be put forward this year, such as redefining requirements for pilot certification and qualifications, flight crewmember training, leadership and professional development.

The FAA's implementation of an SMS is a critical component of our overall approach to safety. SMS is a systematic and continuous management process based on proactive identification of hazards and analyses of their risk. SMS gives us the wherewithal to gather information that takes safety to the next level. Our ASIAS team gathers crucial safety information from various data sources and uses sophisticated analysis tools to detect trends, identify precursors, and assess risks. We are pushing the science of advanced data analysis, developing cutting edge tools to find emerging threats, as well as identifying previously undiscovered risks that are buried in terabytes of safety information.

AVS inspectors, engineers, and other staff increases are key to leveraging standardized SMS processes to implement an integrated, risk-based method of oversight while supporting FAA's efforts in rulemaking, certification, and outreach activities that will move NextGen forward.

The FAA will continue to work on focus areas for reducing aviation related injuries and fatalities, such as the air tour industry and in helicopter emergency medical services (HEMS). The HEMS weather tool will be enhanced in 2012 to provide additional altitude and location specific data to increase safety. The FAA will collaborate with NASA to develop measurement technology and forecast capability of the high ice water content conditions that represent a critical safety hazard.

The FAA places a high priority on initiatives to reduce runway incursions and excursions. We continue to implement ambitious training programs for pilots, controllers, and airport operators. We will implement solutions through technologies and advanced programs such as runway status lights, airport surface detection equipment, engineered materials arresting systems, improved runway safety areas, and others. The Runway Incursion Reduction Program remains a catalyst for acquisition of promising safety technologies that have reached a level of maturity appropriate for transition and implementation into the NAS.

The FAA's mandate for AVS includes leading the world safely into an exciting new era where international spaceports, commercial space transportation and orbital tourism are already becoming a reality. Last year, there were four licensed launches, bringing the overall total to more than 200, without any fatalities, serious injuries or property damage to the public. Our fiscal year 2012 budget request allows us to maintain a spotless industry record for safety in the rapidly developing industry of commercial human space flight. The FAA will develop safety requirements, policies, processes and procedures to address and safeguard this bourgeoning industry.

The FAA's 2012 budget supports continued AVS research, focusing on critical areas such as UAS, fire and structural safety, human factors, and airworthiness. It further supports enhanced safety and pavement airport technology research. Weather systems research continues in naturally occurring atmospheric hazards including turbulence, severe convective activity, aircraft icing, and restricted visibility.

STATE OF GOOD REPAIR

As good stewards of our aviation system, we apply asset management principles proactively to maintain and modernize our airport runways. We recognize the safety benefits of ensuring that pavement, marking and lighting at airports identified in the National Plan of Integrated Airport Systems (NPIAS) meet current safety and design standards.

Airport infrastructures, particularly airfield facilities, are exposed to constant heavy use and harsh environmental conditions. Runways, taxiways, and aprons are designed to withstand the heavy equipment that operates on them, but even so these facilities require frequent maintenance and rehabilitation in order to remain in good working condition. Runways and taxiways must be kept clear of snow, ice, and ponding water that can jeopardize aircraft directional control or braking action. Chemicals and plowing, as well as freeze-thaw cycles, all take a toll on runways, taxiways, and other paved areas. The smallest bit of broken asphalt or concrete can represent a major safety hazard to aircraft.

We have had a target to ensure that 93 percent of runways are in good condition for the past several years, and we have exceeded that goal, most recently reaching 97.2 percent. AIP grants and PFC funding will continue to support this goal by funding airport pavement and lighting system rehabilitation projects, treatments to minimize hydroplaning in wet conditions, obstruction removal in runway approach zones, perimeter fencing to prevent wildlife entry, and aircraft firefighting equipment. By continuing to surpass this target, we are not only achieving the goal of a state of good repair, but we are also contributing to our overall primary goal of safety.

ECONOMIC COMPETITIVENESS

NextGen remains our most critical investment to ensure our economic competitiveness on the global market. NextGen involves the total overhaul of our NAS to make air travel more convenient and dependable while ensuring our stakeholders have the safest and most secure flights possible. Technological advancement and integration of new systems, new procedures, aircraft performance capabilities, engines, airframes, renewable fuel technologies, new supporting infrastructure, and new ways to do business as the Air Transportation System will keep the United States globally competitive. We have partnered with industry in our CLEEN technology program to develop new technologies to reduce aircraft noise, emissions, and fuel burn, and to advance sustainable alternative aviation fuels.

The NextGen portfolio of investments focuses on the implementation and integration of key NextGen transformational technologies. The capabilities these technologies provide begin a shift of information flow from the ground to the cockpit. These include:

—Automatic Dependent Surveillance-Broadcast (ADS–B);
—System-Wide Information Management (SWIM);
—Data Communications;
—NextGen Network-Enabled Weather (NNEW);
—Collaborative Air Traffic Management Technologies (CATMT);
—Time-Based Flow Management (TBFM); and
—NAS Voice Switch (NVS).

Our NextGen efforts further include supporting performance-based navigation (RNP/RNAV) between select metropolitan areas. Deployed over a 3- to 4-year period, these high-altitude performance-based routes will provide increased efficiency and flexibility to the aircraft using them, as well as significant savings in fuel costs and usage.

We have already seen the benefits of implementing ADS–B in the Gulf of Mexico. For one major helicopter operator in the gulf, only 14 percent of their flight hours in 2009 were flown by instrument flight rules (IFR). But in 2010, the first full year ADS–B was available, the percentage went up to nearly 21 percent. And just in the first 2 months of this year, 36 percent of flight hours were IFR This means that this very important airspace is more accessible, more of the time thanks to NextGen innovation.

NextGen will also provide numerous benefits for the general aviation community by facilitating better access to airports, and providing more complete weather and traffic information. In addition, even those aircraft that are not fully equipped will benefit from the improved traffic flow that NextGen will achieve.

Implementation of NextGen technologies and capabilities, with the resulting benefits to economic growth in large and small communities around the Nation, is essential if the United States is to maintain its global aviation leadership. Timely and effective progress on NextGen helps the U.S. aviation sector sustain this position.

ENVIRONMENTAL SUSTAINABILITY

Environmental protection and addressing the energy challenge are vital elements to sustaining the future of United States air transportation viability and global leadership. We are continuing efforts to reduce greenhouse gas emissions, improve water use efficiency, prevent pollution, and improve building energy consumption.

Environmental pressures on the national and international aviation system will continue to increase as growth in aviation activity returns. FAA supports DOT's environmental sustainability outcomes to reduce carbon emissions, improve energy efficiency, and reduce dependence on oil. We are reducing transportation-related pollution and impacts on the ecosystems while increasing the use of environmentally sustainable practices in the transportation sector.

We are committed to managing aviation's growth while reducing the negative impacts of aviation noise and air emissions. Through increased efforts on the CLEEN initiative, FAA will develop and mature clean and quiet technologies and advance alternative fuels. The Commercial Aviation Alternative Fuel Initiative is moving forward to qualify and approve new aviation alternative fuels for operational use. And by the end of this year we should have approval for a renewable biofuel for commercial aircraft made from plants, algae or other sustainable sources. These alternative jet fuels are "drop-in fuels." There's no need to change the engines or equipment. The source would be renewable and would reduce greenhouse gases.

Sustainable alternative jet fuels offer benefits for both our environment and our economy. They can help stabilize supply and the cost volatility in the jet fuel market. In 2010, U.S. airlines spent $36 billion on jet fuel. This represents $21 billion more than in 2000 even though the airlines consumed 3 billion gallons less.

The budget request supports identifying and exploring advances in communication, navigation and surveillance technology to advance aircraft arrival and departure, surface movements, and en route/oceanic procedures for reduced noise, fuel burn, and engine emissions. It also supports updating and enhancing the Voluntary Airport Low Emissions Program so that airports located in nonattainment or maintenance areas for National Ambient Air Quality Standards will have continued opportunities to reduce air emissions.

In addition, we are working to mitigate noise impacts for thousands of people exposed to a day/night sound level (the energy-averaged sound level metric used by the aviation industry to determine the impact of noise) equal to or greater than 65 decibels through ongoing noise compatibility efforts. These efforts include the purchase and relocation of residences and businesses, the soundproofing of residences and buildings used for educational or medical purposes, the purchase and installation of noise barriers or monitors, recommended land use planning, and public outreach.

ORGANIZATIONAL EXCELLENCE

The fiscal year 2012 budget request provides for a motivated, well-trained, and dynamic workforce that possesses the vital resources and reliable data necessary to support the continued success of FAA's mission for safety and efficiency. It further includes enhanced cost-control measures to ensure savings that can be effectively managed to fund mission-critical initiatives.

One of the key challenges we face is building the workforce of the future to meet the transition to NextGen. Effecting this transition will involve a systematic approach to getting the right number of people with the right skills, experience, and competencies in the right jobs at the right time.

We will continue to ensure adequate numbers of safety staff. Workforce planning for mission-critical and key occupations will benefit our managers as they make staffing decisions to achieve program goals based on a rigorous analysis of their organization's activities, workforce and expected technological advances. The flying public will benefit from a better prepared and well trained workforce.

The FAA is delivering programs that build leadership capabilities, support professional development and promote continuous learning at executive, manager, and employee levels. The development of our executive corps is grounded in creating a culture of accountability and professionalism. Building stronger leadership within the agency helps us to achieve strategic goals and manage people and resources effectively while driving continuous improvement.

Part of our organizational excellence goal is to protect agency IT assets from cyber-attacks, to ensure alignment between IT investment and agency business needs, and provide certain enterprise-wide shared services. The FAA's CSMC is a core component of our overall Information Security Services. CSMC is tasked with protecting our information infrastructure using advanced cyber defense strategies. The CSMC works to enhance our architecture to include cybersecurity, to harden individual systems and networking elements, improve recover rate times, and enhance boundary protection by completing remediation of vulnerabilities, improved information sharing, and systemic monitoring of systems.

The budget request supports activities to remediate moderate vulnerabilities identified for our information systems that support human resources, finance, security/safety, and air traffic services. In the last few years, we have focused on high-risk vulnerabilities. Now the focus is on remediating the moderate vulnerabilities. The request will cover contracts that will conduct information system assessments, certifications, recertifications, and risk mitigation activities. The funding will allow FAA to handle risks to its information systems sooner, which will save out-year dollars and prevent higher and more costly system vulnerabilities and remediations.

The fiscal year 2012 budget request supports continued efforts to manage our acquisitions responsibly so we deliver programs on time and on budget. In addition, we are implementing a Real Property Asset Management Plan to ensure timely disposition of assets are measured by the number of days to process inactive assets. Since 2000, FAA has removed more than $341 million in real property assets from our portfolio.

CONCLUSION

Despite a challenging economic environment, 713 million passengers flew on U.S. airlines in 2010. We anticipate stronger growth this year, with a projected increase of 3.5 percent. Economic indicators project that we are rapidly approaching a historic milestone of carrying 1 billion passengers on U.S. airlines annually within the next decade. To offer additional perspective, that increase represents an additional 300 million passengers per year, roughly equal to the entire population of the United States.

In this age of global competition, we have a clear opportunity to invest now in America's future even as we prepare our world class aviation system to meet the demands of that future. NextGen technologies offer our Nation a worthy opportunity for investment in safety and innovation. Delaying infrastructure investment means the long-term cost to our system, passengers, and environment will far exceed the cost of a timely deployment today. NextGen technologies are an investment in aviation's continued viability, and will produce economic benefits for decades—far beyond their cost. Our Nation and airline industry will yield immediate and measurable financial returns that will bolster America's future economic stability and continued growth, as we continue to meet the challenge of giving the world new ways to fly.

Our Nation's continued economic recovery demands a cautious and well-considered fiscal policy. We have to invest carefully in America's future where we can be certain of reliable returns.

Aviation is a growth industry worthy of that investment, representing a key element of our country's economy. The FAA is already delivering on the promise of tomorrow, and we are grateful that the Congress continues to recognize our ongoing mission of safety and modernization as a national priority.

Senator MURRAY. Thank you very much.

Mr. Scovel.

STATEMENT OF HON. CALVIN L. SCOVEL III

Mr. SCOVEL. Madam Chairman, Ranking Member Collins, members of the subcommittee, thank you for inviting me here today to testify on FAA's proposed fiscal year 2012 budget.

Like other Federal agencies, FAA faces the formidable challenge of achieving its goals in a constrained fiscal environment. For FAA, this means ensuring safe operations while implementing NextGen, a multi-billion-dollar investment for increasing national airspace capacity.

Our past and ongoing work has shown that a lack of comprehensive analyses and rigorous oversight have created significant challenges for FAA in meeting its safety, modernization, and financial goals. My testimony will outline our ongoing concerns related to FAA's efforts to improve safety and accommodate aviation growth.

Maintaining a safe national air transportation system has been an ongoing challenge for FAA. Between fiscal years 2009 and 2010, operational errors by air traffic controllers increased 53 percent. FAA primarily attributes this increase to the introduction of voluntary, nonpunitive safety reporting. However, other factors may contribute to the increase, such as the introduction of an automated tool to detect operational errors in terminal radar approach controls (TRACONs) and the large influx of new controllers in training. Some critical facilities have 40 percent of their workforce in training.

FAA faces a similar challenge with its inspector workforce. The agency is requesting almost an additional $12 million to support a potential increase of more than 100 inspectors. However, we have concerns about FAA's methodology for assigning inspectors to high-risk areas and the training they receive on how to assess risk. Oversight of aircraft repair stations also remains a concern, despite FAA's implementation of a risk-based system in 2007.

Reducing pilot error and fatigue also remains a key safety challenge, especially given industry opposition to proposed rules on pilot training and rest requirements. FAA's proposed requirements for more realistic flight scenarios and special hazard training could significantly enhance pilot training. However, FAA still lacks adequate systems for tracking poorly performing pilots and overseeing pilot training programs. FAA's proposed rule for new pilot rest requirements is an important, much needed step but may also lack all the elements needed to mitigate pilot fatigue.

As FAA works to address these safety concerns, it must also address key challenges with NextGen's advancement. FAA needs to make decisions about NextGen's overall design—decisions that will impact the program's long-term benefits and costs and overcome problems in NextGen systems.

In particular, FAA needs to resolve technical issues with ERAM, a $2.1 billion system for processing en route flight data. System testing revealed more than 200 software-related problems, pushing estimated completion dates out several years and potentially increasing costs by as much as $500 million. Cost escalations of this magnitude will affect FAA's capital budget and could crowd out other projects.

At the same time, FAA must tackle known vulnerabilities in key programs for delivering critical NextGen capabilities. FAA plans to spend more than $2 billion on these programs over the next 5 years, but has yet to establish consistent requirements, clear lines of accountability, or an integrated plan that will address the complex linkages between programs. Without clearly defined requirements and program priorities, problems with cost and schedule estimates will continue.

To realize the full benefits of NextGen, FAA must maximize capacity at our Nation's airports. Over the past decade, more than 20 runways have been built, reconfigured, or extended. However, funding, environmental, and legal concerns could impede this progress. As runway projects move forward, FAA must maintain vigilant oversight to ensure that they are completed on time and within budget.

Rigorous oversight of DOT's $1.1 billion American Recovery and Reinvestment Act of 2009 (ARRA)-funded airport grants is critical to ensuring funds are available to meet needed improvements. Last September, FAA consultants determined that 14 of 24 airports did not have adequate support to justify their ARRA payment requests, a finding consistent with those we reported in December. Specifically, we identified $6 million in improper payments made to non-ARRA-funded Airport Improvement Program (AIP) grantees due in part to weaknesses in FAA's financial oversight strategies.

Continued schedule delays and program weaknesses in FAA's safety, NextGen, and airport infrastructure programs will have a significant impact on its current and future budgets. FAA needs sound strategies for identifying impediments to meeting its goals that will allow the agency to prioritize its oversight and maximize its investments.

PREPARED STATEMENT

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

[The statement follows:]

PREPARED STATEMENT OF HON. CALVIN L. SCOVEL III

Madam Chairman and members of the subcommittee: Thank you for inviting me to testify today on the Federal Aviation Administration's (FAA) fiscal year 2012 budget request. As you know, FAA faces significant challenges to control costs in a tight budget environment while ensuring a safe and modern National Airspace System (NAS). This past year, FAA has taken actions to address many significant safety issues, most notably with its recent airworthiness directive to inspect aging Boeing 737s in response to a recent in-flight hull breach. However, much work remains to meet other key goals, including improving pilot and air traffic controller training, effectively managing its multibillion-dollar capital investments for the Next Generation Air Transportation System (NextGen), and overseeing Federal airport grants.

My testimony today focuses on three major challenges FAA faces:

—addressing ongoing safety concerns;

—managing NextGen advancement while controlling costs; and

—maximizing airport infrastructure funding to accommodate aviation growth.

In summary, FAA faces the formidable challenge of safely operating and maintaining an increasingly strained NAS system while developing the next generation of air traffic control—all within a severe budgetary environment. FAA will require resources to address safety issues related to pilot, controller, and inspector workforces and to make critical, long-delayed decisions about NextGen's overall design—decisions that will impact the program's long-term costs and benefits. At the same time, FAA requires better controls to instill accountability and better manage airport infrastructure contracts and grants. FAA's fiscal year 2012 budget request reflects the agency's plans to improve its NextGen efforts, but it also reveals the difficulties FAA has had in controlling its costs and schedules. Effectively balancing agency priorities now is essential to deliver a future system to travelers and airspace users that provides a return on taxpayers' investment, functions safely and efficiently, and adapts to growing capacity needs and industry changes for many years to come.

BACKGROUND

FAA's budget funds four accounts:

—Operations;
  —Operations funds most of FAA's day-to-day activities, including the agency's safety oversight and air traffic control functions.
—Facilities and equipment (F&E);
  —F&E funds the agency's NextGen initiatives and other modernization activities such as improving aging infrastructure, power systems, navigational aids, and weather systems.
—The Airport Improvement Program (AIP); and
  —AIP funds grants to airports to pay for runway construction and other related projects.
—Research, engineering, and development (RE&D).
  —RE&D funds NextGen and other research areas such as fire research and safety, aging aircraft, and other activities.

FAA's total fiscal year 2012 budget request of $18.7 billion represents a 17-percent increase more than this year's appropriated amount and includes significant funding increases for infrastructure and modernization projects over its fiscal years 2010 and 2011 budgets (see table 1).

TABLE 1.—FAA BUDGET FISCAL YEAR 2010 THROUGH FISCAL YEAR 2012

[Dollars in millions]

Account	2010 Actual	2011 Enacted	2012 Request	Increase from 2011 to 2012 (percent)
Operations	$9,351	$9,514	$9,823	3
F&E	2,928	2,731	3,120	14
AIP	3,121	3,515	5,524	57
RE&D	191	170	190	12
Total	15,591	[1] 15,929	18,657	17

SOURCE: FAA's Office of Budget.
[1] Figures may not add up due to rounding.

FAA proposes to shift the focus of its AIP account—which represents the largest requested increase—to smaller commercial and general aviation airports and eliminate guaranteed AIP funding for large- and medium-hub airports. The proposal would also increase the passenger facility charge (PFC) limit from $4.50 to $7 per enplanement for all eligible airports, giving large- and medium-hub airports greater flexibility to generate their own revenue.

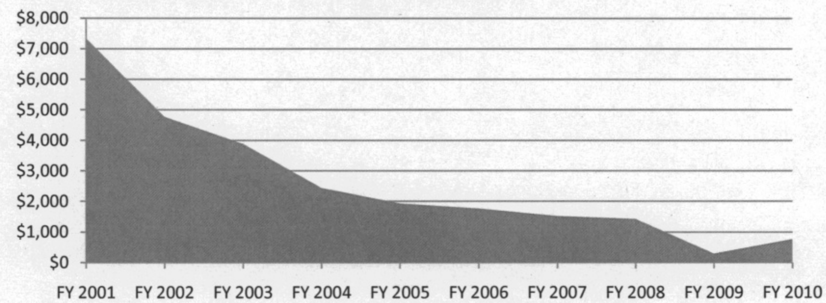
Almost 37 percent of FAA's F&E account request, which represents the second largest increase, is allocated for NextGen activities. Most of the increase in FAA's Operations budget is to fund inflation adjustments and the National Air Traffic Controllers Association (NATCA) contract. Nearly 71 percent of the total requested amount for Operations is used to pay for the salaries and benefits of most FAA employees, including safety inspectors and air traffic controllers.

FAA is currently financed by two mechanisms:

—excise taxes deposited into the Airport and Airway Trust Fund; and
—a General Fund contribution.

While the General Fund has paid for about one-third of FAA's total budget the past 2 years, in fiscal year 2012 the General Fund is expected to contribute $8.2 billion, or 44 percent, toward the total budget. In addition, past differences between FAA's budget, Trust Fund revenues, and General Fund contribution were bridged by drawing down the Trust Fund's uncommitted balance. These draw downs have caused a 90-percent decline in the uncommitted balance, from $7.3 billion at the end of fiscal year 2001 to $770 million at the end of fiscal year 2010 (see Figure 1).

Figure 1. Airport and Airway Trust Fund Uncommitted Balance Fiscal Year 2001 to Fiscal Year 2010 (Dollars in Millions)



Source: FAA

ADDRESSING ONGOING SAFETY CONCERNS

The United States has the world's safest air transportation system; however, our current audit work and recent events, such as the near mid-air collision between an American Airlines flight and two Air Force planes near New York City, underscore the need for FAA to take additional actions to improve its safety oversight functions. Key safety issues that FAA needs to address include a significant increase in operational errors, controller staffing and training at air traffic control critical facilities, oversight of air carrier and repair stations, and pilot training and fatigue.

Causes of Increases in Air Traffic Controllers' Operational Errors Are Not Fully Known

The number of operational errors by air traffic controllers increased by 53 percent between fiscal years 2009 and 2010—from 1,234 to 1,887. According to FAA, the rise in errors is primarily due to the introduction of voluntary, nonpunitive safety reporting programs, such as its new Air Traffic Safety Action Program (ATSAP). ATSAP encourages controllers to voluntarily report operational errors in an effort to better capture the actual number of errors and identify and address their root causes. However, other factors may also contribute to the recent increases, including the large influx of new controllers in training and the implementation of the Traffic Analysis and Review Program (TARP), an automated system to identify when operational errors (or other losses of separation between aircraft) occur at terminal facilities.

The National Transportation Safety Board (NTSB) has raised concerns about the reliability of FAA's process for assessing and reporting incidents involving losses of separation and is currently reviewing reports of Traffic Collision and Avoidance Systems (TCAS) advisories.[1] Since NTSB issued its final rule requiring aircraft operators to report certain TCAS advisories in January 2010, the Board has received nearly 950 reports of these collision advisories and has initiated investigations into nine of the more severe incidents.[2] These mid-air incidents raise further concerns about controller performance and how FAA classifies, reports, and mitigates losses of aircraft separation within these new reporting systems. At the request of mem-

[1] An onboard TCAS issues advisories for pilots to take evasive actions when the system detects a potential collision with other aircraft.

[2] After review by NTSB, many of these reports were considered "nuisance alerts" (i.e., situations in which there was no collision risk, but TCAS generated a resolution advisory). However, about 260 reports required additional data in order for NTSB to understand and evaluate the circumstances that caused the apparent conflict and to determine whether further action was warranted.

bers of the Senate Committee on Commerce, Science, and Transportation, as well as the ranking member of the House Transportation and Infrastructure Subcommittee on Aviation, we will begin two audits to assess FAA's implementation and oversight of ATSAP and evaluate FAA's process for tracking and reporting near mid-air collisions and mitigating those risks.

Critical Facilities May Need More Certified Professional Controllers To Effectively Train New Controllers

FAA is taking action to hire and train nearly 11,000 new controllers through fiscal year 2020 to replace large numbers of retiring controllers hired after the 1981 strike. However, FAA must focus on staffing and controller skill levels at those facilities that are most critical to NAS operations. As of March 2011, 25 percent of FAA's controller workforce was in training—compared to 15 percent in 2004—meaning fewer certified controllers in the workforce to control air traffic and provide on-the-job training for new controllers. In addition, due to the attrition surge, FAA has had to assign newly hired controllers to complex air traffic control locations, such as southern California, Atlanta, Chicago, and New York. Normally, new hires would start their on-the-job training at less complex facilities and eventually transfer to a higher-level facility.

While FAA has ongoing actions or plans to improve controller training and placement, some of the most critical facilities now have a significant percentage of their workforce in training. For example, Denver Terminal Radar Approach Control has 43 percent of its workforce in training, and LaGuardia Air Traffic Control Tower has 39 percent. We are reviewing FAA's plans to provide its critical facilities with appropriate controller staffing, training resources, and other support necessary to ensure continuity of facility operations. We expect to report on our results later this year.

FAA Has Not Addressed Inspector Training and Staffing Issues That Would Enhance Its Risk-Based Oversight

Since 2003, FAA has enhanced the Air Transportation Oversight System (ATOS), its risk-based oversight system for air carriers, by improving inspector guidance and completing key processes for analyzing inspection results. However, in December 2010, we identified additional improvements FAA needed to make to strengthen ATOS, such as requiring that inspectors' risk assessments include analyses of all available data sources—such as voluntary self-disclosure data—and changes that occurred in the airline industry, such as mergers and acquisitions. We also reported that ATOS implementation at smaller air carriers was hindered due to inspectors' frustrations with adapting ATOS principles to their operations, staffing limitations, and insufficient data to support ATOS's data-driven approach. A contributing factor may be that inspectors experienced gaps of 3 years or longer between when they received systems safety training and when they actually used the system. FAA is currently addressing our recommendations to ensure inspectors receive timely training and use all available data sources for more accurate and relevant air carrier risk assessments.

Another concern has been FAA's inadequate oversight of aircraft repair stations, a weakness we reported on in 2003. While FAA strengthened its procedures for monitoring inspections of foreign repair stations that are conducted by aviation authorities on its behalf and implemented a risk-based system in 2007 to target repair stations with increased risk, concerns remain. As a result, the Congress directed us to assess FAA's oversight system for foreign and domestic repair stations. We began our review in January of this year.

FAA must also ensure it targets limited resources to areas of greatest risk by placing its approximately 4,300 inspectors where they are most needed to effectively oversee a dynamic aviation industry. In a 2006 study directed by the Congress, the National Research Council concluded that FAA's methodology for allocating inspector resources was not effective and recommended that FAA develop a new approach. In response, FAA completed a new staffing model in October 2009. After completing the model, FAA tested it using actual staffing data to determine whether it was ready for full deployment. FAA used the model to assist in developing its fiscal year 2012 budget request for an additional $11.9 million to support an increase of up to 106 inspectors. However, FAA is still refining the model to make it more reliable. As directed by the Congress, we are evaluating FAA inspector staffing and the new staffing model.

FAA and Industry Have Not Fully Addressed Pilot Training and Fatigue

Pilot training and fatigue continue to present challenges to FAA. The February 2009 fatal crash of Colgan Air flight 3407 underscores the importance of addressing these long-standing safety concerns. In January 2009, FAA issued a Notice of Proposed Rulemaking (NPRM) to revise crew training requirements by requiring more realistic training scenarios with a complete flight crew, using flight simulator devices, and working with new special hazard practices for pilots and crew members. Because of the extensive industry comments on this proposed rule, FAA plans to submit a Supplemental Notice of Proposed Rulemaking (SNPRM) to address the concerns. However, as of April 2011, the SNPRM had not been issued. While the proposed rule could significantly enhance pilot training programs, FAA still faces challenges tracking pilots with poor performance and training deficiencies and overseeing air carrier programs aimed at improving pilot skills.

FAA has also taken steps to address pilot fatigue issues, as required by the Airline Safety and FAA Extension Act of 2010.[3] In September 2010, FAA published an NPRM to institute new flight, duty, and rest requirements for pilots based on factors such as time of day flown and sleep consideration rather than type of flight operation. Issuing the NPRM was an important step toward changing outdated regulations. However, FAA has already received more than 2,500 comments from industry, most of which oppose the NPRM. Given industry's historical opposition to revamping rest rules, it will be a substantial challenge for FAA to finalize the rule by the congressionally mandated deadline of August 2011. Further, the NPRM would not require carriers to track pilots with lengthy commutes, a factor that can contribute to pilot fatigue. FAA officials stated that enforcing this requirement would be difficult and not necessarily result in responsible commuting. FAA instead issued draft advisory guidance on pilots' and carriers' responsibility to ensure proper rest before flying. However, without FAA and industry efforts to collect and analyze data on pilot commuting, the current proposed actions to mitigate fatigue in aviation may not fully address this critical safety issue.

MANAGING NEXTGEN'S ADVANCEMENT WHILE CONTROLLING COSTS

FAA is developing NextGen, a satellite-based air traffic control system intended to replace the current ground-based system, to better manage air traffic and meet future air travel demands. However, FAA faces several management challenges in implementing key NextGen programs in an efficient and cost-effective manner. These include mitigating ongoing cost increases and schedule delays with FAA's ERAM program that will impact several NextGen programs and capabilities, better managing contracts and its acquisition workforce to protect the taxpayers' interest, and keeping its operating costs from crowding out capital investments in NextGen.

Uncertain Design Decisions Put NextGen's Cost and Schedule Targets at Risk

FAA is making progress on near and mid-term NextGen efforts in response to recommendations from a government-industry task force but must address long-term cost, schedule, and performance issues.[4] In response to one of the task force's most critical recommendations, FAA launched its "metroplex initiative"—a 7-year effort aimed at improving airspace efficiency to reduce delays at 21 congested airports in major metropolitan areas. While FAA has completed studies at two prototype sites and plans to study five more sites this year, many unresolved issues could delay the effort and ultimately increase costs. For example, FAA has not established detailed milestones to complete initiatives at high-activity locations or a mechanism for integrating its metroplex initiative with other related task force recommendations, such as better managing airport surface operations. Further, FAA needs to resolve concerns that airline and air traffic facility officials have expressed about FAA's execution thus far, such as the slow pace of the effort and a lack of clearly defined benefits to airspace users.

Realizing these benefits, however, depends on the timely deployment of new flight procedures. As we noted in our December 2010 report,[5] FAA's flight procedures are mostly overlays of existing routes, which do not provide shorter flight paths to alleviate congestion. Because FAA has mainly focused on developing a targeted number of procedures each year—not on measuring user benefits—airlines have not widely used the new procedures. At the same time, FAA faces several organizational, policy, logistical, and training challenges that could impede NextGen implementation in the midterm, including working across diverse agency lines of business.

FAA's most recent NextGen Implementation Plan provides a framework for what NextGen will resemble in the 2015 to 2018 timeframe and broadly outlines the link-

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[3] Airline Safety and Federal Aviation Administration Extension Act of 2010 Public Law 111–216, section 212 (August 2010).

[4] NextGen Mid-Term Implementation Task Force Report, September 9, 2009.

[5] OIG report number AV–2011–025, "FAA Needs To Implement More Efficient Performance-Based Navigation Procedures and Clarify the Role of Third Parties", December 10, 2010.

ages between FAA and stakeholder investments. While the plan is responsive to the task force, it does not outline NextGen capabilities, timing, and costs, which FAA committed to in previous plans and budget requests to the Congress. For example, the plan does not discuss how delays in critical design decisions will affect NextGen performance. Delayed decisions include:

—division of responsibility delegated to pilots in the cockpit and to controllers and FAA ground systems for tracking aircraft;

—level of automation needed to support division of responsibility, ranging from today's largely manual flight management to a primarily automated system with little controller involvement; and

—the number and locations of air traffic facilities needed to support NextGen.

Unresolved Technical Problems With ERAM Have Resulted in Delays and Cost Increases

Numerous technical problems with ERAM—the primary tool that will process en route flight data—have pushed schedules well beyond original completion dates and increased cost estimates by hundreds of millions of dollars. FAA planned to complete deployment of ERAM to 20 en route facilities by the end of 2010 at a cost of $2.1 billion. However, ERAM testing at initial operating sites revealed more than 200 software-related problems, such as radar processing failures, errors that tag flight data to the wrong aircraft, and hand-off problems between controllers. As a result of these problems at the initial sites, FAA postponed its plans to continue deployment of ERAM at additional sites—originally scheduled for December 2009.

FAA is requesting $120 million for ERAM in its fiscal year 2012 budget request and now plans to complete ERAM in 2014—a schedule slip of 4 years. However, FAA and its contractor plan to add new capabilities while attempting to resolve problems identified in earlier software versions, which could cause further schedule delays. New software releases have already exhibited problems, including a significant software failure that caused one site to revert back to using the legacy operating system for several weeks.

While FAA estimates that delays with ERAM will translate into an additional $330 million to complete deployment, our work and a recent MITRE analysis suggest the total cost growth could be as much as $500 million.[6] Cost escalations of this magnitude will affect FAA's F&E budget and crowd other projects. Further, FAA will incur additional costs to sustain aging equipment longer than planned and retrain controllers on both the legacy and ERAM systems. The MITRE analysis cautions that implementing ERAM at more complex sites, like Chicago and New York, may require additional time and resources. Continued problems with ERAM will also affect both the cost and pace of FAA's other key NextGen efforts—some of which have already been allocated more than $500 million to integrate and align with ERAM. ERAM delays will also affect FAA's ability to develop trajectory-based operations[7] and transition to a common automation platform for terminal and en route operations.

FAA Lacks an Integrated Master Schedule To Mitigate Risks in NextGen's Transformational Programs

FAA has not approved total program cost, schedule, or performance baselines for any of NextGen's transformational programs[8] and faces significant risks and challenges to successfully implementing them. FAA's fiscal year 2012 budget request includes $590 million for the six programs, and the agency plans to spend more than $2 billion on them between 2012 and 2016. Three transformational programs that are critical to achieving streamlined and more efficient data sharing for airspace users face uncertainty with respect to what they will ultimately cost, when they will be completed, and what they will deliver.

Automatic Dependent Surveillance-Broadcast (ADS–B)

ADS–B ($285 million requested for fiscal year 2012) is a satellite-based surveillance technology that combines the use of aircraft avionics and ground-based systems. FAA is planning to implement ADS–B in four segments but has only approved $1.7 billion for the initial two segments to deploy the system's ground infrastruc-

[6] MITRE Corporation and Massachusetts Institute of Technology/Lincoln Laboratory Report, Independent Assessment of the ERAM Program, October 15, 2010.

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

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

ture. FAA has deployed 275 of the planned 800 radio ground stations and also published a final rule mandating that airspace users equip ADS–B avionics by 2020. As we noted in our October report,[9] realizing the full range of ADS–B benefits will depend on:

—finalizing requirements for capabilities to display traffic information in the cockpit;
—modifying the systems controllers rely on to manage traffic;
—addressing broadcast frequency congestion concerns;
—implementing procedures for separating aircraft; and
—assessing security vulnerabilities.

These risks, if not successfully mitigated, could lead to cost, schedule, and performance shortfalls.

System-Wide Information Management (SWIM)

SWIM ($66 million requested for fiscal year 2012) is expected to form the basis for a secure network that manages and shares information more efficiently among all air traffic systems that will comprise NextGen. Key benefits expected from SWIM are streamlined data communications and real-time information that will improve air traffic management, enhance airspace capacity, reduce flight delays, and decrease costs for FAA and aviation users. FAA is planning to implement SWIM in three segments but has only approved funding for the first segment at an estimated cost of $284 million. FAA has already increased costs for the first segment by more than $100 million and delayed its completion by at least 2 years. Further, FAA has not established clear lines of accountability for overseeing how SWIM is developed and managed. Without a consistent vision of SWIM's requirements and clearly defined program priorities, the true cost and timeline to deploy SWIM and the realization of expected benefits are unknown. We have transmitted recommendations to FAA for improving SWIM and expect to issue our final report this spring.

Data Communications (DataComm)

DataComm ($150 million requested for fiscal year 2012) will provide two-way data communication between controllers and pilots that is analogous to wireless email. FAA plans to implement DataComm in at least two segments, and a final investment decision is not expected until fiscal year 2012. Total program costs are uncertain but estimated to be almost $3 billion. Developing and implementing DataComm is a complex, high-risk effort, and industry officials have expressed skepticism about FAA's ability to deliver on such a program because the agency abandoned a data link effort in the past due to cost concerns. The successful implementation of DataComm faces the challenges of integrating with FAA automation systems and overcoming users' reluctance to equip.

FAA's approach of baselining smaller segments of larger programs may reduce some risks in the short-term, but as requirements continue to evolve, programs are left with no clear end-state and decisionmakers lack sufficient information to assess progress. Moreover, delays with one program can significantly slow another, since the programs have complex interdependencies and integration issues with FAA's existing automation and communications systems. While FAA recognizes the need for an integrated master schedule to manage the implementation of these NextGen capabilities, it has yet to develop one. Without a master schedule, FAA will continue to be challenged to fully address operational, technical, and programmatic risks and prioritize and make informed trade-offs among the programs.

Contract Oversight and Administration Problems Contribute to Cost Overruns With FAA Acquisitions

Our work on large FAA acquisition programs and high-risk procurements has repeatedly identified weaknesses in the agency's contract administration. For example, FAA awarded an $859 million contract for training air traffic controllers[10] without correctly assessing how many controllers needed training or addressing the risk that the contractor's proposed instructor hours were too low. These weaknesses contributed to a $46 million cost overrun for the first 2 years of the contract.

Our ongoing work has similarly found weaknesses in FAA's cost and price analysis processes for noncompetitive contracts. In fiscal year 2009, FAA obligated more than $541 million for more than 16,500 noncompetitive contract actions. These contracts have a high risk of overpayment because the contractor is assured to receive

[9] OIG report number AV–2011–002, "FAA Faces Significant Risks in Implementing Automatic Dependent Surveillance-Broadcast Program and Realizing Benefits", October 12, 2010.

[10] OIG report number AV–2010–126, "FAA's Air Traffic Controller Optimum Training Solution Contract: Sound Contract Management Practices are Needed to Achieve Program Outcomes", September 30, 2010.

the award. However, for 8 of the 25 contracts we reviewed, FAA did not perform effective cost and price analyses and was unable to demonstrate that prices paid were reasonable. We expect to issue our final report later this month.

Another ongoing audit has identified concerns with FAA's Systems Engineering 2020 (SE–2020) contracts to augment FAA staff and support NextGen implementation. The contracts have a cumulative maximum value greater than $7 billion—the largest award in FAA history. To date, our assessment of FAA's contract award processes, oversight mechanisms, and performance-based methods found that they may not be adequate to achieve intended outcomes. We plan to issue our report later this year.

At the same time, FAA faces challenges in maintaining an acquisition workforce with the skills needed to oversee its NextGen contracts. Currently, 20 percent of FAA's experienced acquisition workforce is eligible to retire, with a cumulative retirement eligibility of 40 percent by fiscal year 2015. FAA's Acquisition Workforce Plan outlines the acquisition competencies needed, establishes hiring strategies, and describes new certification and training programs.[11] However, the plan excludes Federal and contractor acquisition employees working on FAA's support services contracts and technical officer representatives responsible for overseeing contracts vital to NextGen, such as ERAM. Further, FAA fell short of its planned hiring targets and hired less than 40 percent of the engineers needed to support acquisition programs. FAA's primary staffing needs are for engineers, which are critical to implementing NextGen programs. However, FAA could not accurately determine whether it hired enough engineers or program managers for NextGen because FAA's hiring data were either inaccurate or missing. FAA's tracking systems are also ineffective in monitoring the training and certification of its acquisition workforce. We expect to issue our final report on FAA's acquisition workforce this summer.

Increasing Operating Costs Risk Crowding Out NextGen Capital Investments

FAA estimates that the 2009 collective bargaining agreement with NATCA will cost the agency $669 million more than it would have cost to extend the work rules established in 2006 for 3 more years. In the past, our audit work found that uncontained increases in operating costs have crowded capital investments.

Several factors in the agreement may further increase FAA's costs:

—Most estimated costs are for increased salaries and benefits for controllers, but these will depend on the rate at which veteran controllers retire and are replaced by new controllers with lower salaries and benefits.

—Negotiated memorandums of understanding (MOU) may incur additional costs. FAA has had problems with managing its MOUs in the past. For example, in 2003 we identified negotiated MOUs that resulted in millions of dollars in cost overruns.[12] As a result of our review, FAA established controls that it believes will prevent additional costs with MOUs in the agreement. However, some local air traffic managers and regional managers are not strictly complying with these controls. FAA must consider these issues as well as its budgetary constraints when negotiating its next collective bargaining agreement.

MAXIMIZING AIRPORT INFRASTRUCTURE FUNDING TO ACCOMMODATE AVIATION GROWTH

FAA projects that passenger traffic will grow by 3.7 percent annually each of the next 5 years, and that by 2021 there will be 1 billion passengers. Ensuring enough capacity at the Nation's airports is essential to meeting this demand, reducing delays, and realizing the full benefits of NextGen. This includes keeping key runways that are planned or under construction on schedule and improving oversight of airport grant programs to ensure funds are appropriately spent.

Funding, Legal, and Other Concerns Could Undermine Efforts To Keep Runway Projects on Track

FAA has made progress in overseeing opening and improving runways at our Nation's airports; however, with capacity-enhancing airspace changes being developed, FAA must ensure that current runway projects remain on schedule. Since the start of fiscal year 2000, 17 new runways have been built,[13] 4 runways were reconfigured, 2 runways were extended, and 3 taxiways have opened.

[11] FAA issued its workforce plan in 2009 and updated the plan in 2010, projecting its acquisition workforce needs through fiscal year 2014.

[12] OIG report number AV–2003–059, "FAA's Management of and Control Over Memorandums of Understanding", September 12, 2003. OIG reports are available on our Web site: www.oig.dot.gov.

[13] These projects included new runways at Boston, Chicago O'Hare, Atlanta, and Washington Dulles airports.

FAA is pursuing several airspace redesign projects nationwide—including major efforts to revamp airspace in the Atlanta, New York-New Jersey-Philadelphia, and Chicago areas—that require a sufficient amount of runways to accommodate additional traffic. Several runway projects either under construction or planned at key airports will accommodate future air traffic growth and coincide with airspace redesign efforts (see table 2). However, FAA and local airport authorities face challenges that could impede the progress of these projects, including funding issues, extensive environmental reviews, coordination among numerous stakeholders, and legal issues. As these projects move forward, FAA should continue its efforts to ensure that these projects are completed on time and within budget.

TABLE 2.—STATUS OF MAJOR NEW RUNWAY PROJECTS

[Dollars in millions]

Airport	Phase	Estimated completion date	Total cost estimate
Atlanta (Runway 9L/27R)	Site prep	2012	$46
Chicago O'Hare (Runway 1 0C/28C)	Construction	December 2013	$1,265
Chicago O'Hare (Runway 9R/27L) [1]	On hold [2]	October 2015	$357
Chicago O'Hare (Runway 9C/27C)	On hold [2]	October 2015	$1,470
Chicago O'Hare (Runway 10R/28L)	Site prep	January 2015	$578
Fort Lauderdale (Runway 9R/27L) [1]	Design	June 2014	$720
Philadelphia (Runway 9R/27L, 8/26,[1] 9R/27L) [1]	Record of decision, December 2010.	To be determined	$5,200

SOURCE: OIG analysis of FAA's quarterly report "Runway Projects at Core Airports Under Construction" for October—December 2010 (published February 1, 2011).
[1] Extension of existing runway.
[2] Due to lack of funding, completion dates for these projects could be extended up to 5 years.

FAA's AIP Program Is Vulnerable to Improper Payments

Our continuing work on FAA's $1.1 billion ARRA-funded airport grants indicates that FAA has primarily focused its oversight on the construction status of projects, not on ensuring grantees comply with FAA and Office of Management and Budget financial oversight requirements. While FAA commissioned a review of ARRA payments, its consultants determined in September 2010 that 14 of 24 airports did not have adequate support to justify their ARRA payment requests. This is consistent with findings we reported in December 2010 on FAA's oversight of non-ARRA-funded AIP grants.[14]

In our December report, we identified $13 million in improper payments made to AIP grantees; $7 million of that amount was due to documentation problems, and $6 million could have been recovered by FAA. The $6 million of recoverable funds included grantees receiving payments for ineligible services or paying ineligible recipients and FAA making incorrect and duplicate payments. For example, during fiscal years 2007 and 2008, the county of Sacramento billed FAA and was reimbursed a total of $675,000—the full amount of construction invoices received—but FAA reimbursed the county before the county had actually paid its construction contractor. Subsequently, FAA agreed that these AIP payments were improper.

Both our prior and ongoing AIP and ARRA work have identified several potential weaknesses in FAA's financial oversight that make its grant funds vulnerable to improper payments. First, FAA relies on grantees to self-certify that they adhere to their grant agreements and to maintain documentation validating payment requests. Second, FAA does not review grantee payment requests beyond summary documentation, which does not include actual contractor invoices. Third, grantees approve change orders for contract work without required cost or price analyses—and without FAA approval. Finally, FAA employees often cited staff and resource limitations as impediments to more rigorous oversight.

CONCLUSION

FAA's fiscal year 2012 budget proposal comes at a time when FAA must prepare for the increasingly complex demands of the air system of the future—while continuing to improve safety for the public today. Whether the particular issue at hand is operational errors by air traffic controllers, technical problems affecting NextGen's advancement, or grant oversight of airport infrastructure projects, FAA needs sound strategies for identifying trends that may be impeding its safety, mod-

[14] OIG report number FI–2011–023, "Improper Payments Identified in FAA's Airport Improvement Program", December 1, 2010.

ernization, and financial goals. Effective data, analyses, and oversight will prove critical for FAA to ensure taxpayer dollars are used wisely to maintain a safe, modern, and efficient American airspace.

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

CONTROLLER FATIGUE—OPERATIONAL ERRORS

Senator MURRAY. Thank you very much. I appreciate both of your testimonies today.

Let me start with the issue about the air traffic controllers falling asleep on duty. I know the FAA has announced several new reforms and initiatives.

Mr. Babbitt, you quickly began to work with NATCA to visit some of the FAA facilities and talk about the importance of professionalism, and in the most recent announcement, the FAA started to look more carefully at its own management team. The agency said it would revisit how managers are selected and how their performance is evaluated. And I know that the FAA is going to send out some review teams to look into the management practices of some of the facilities.

But the agency, as I said earlier, already had questions about how well its facility managers follow FAA policies. In fact, in 2007, the FAA learned that managers at certain facilities had been covering up a number of errors committed by their air traffic controllers.

So I wanted to ask you today why the FAA did not take a closer look at the management of its facilities before we saw these stories in the press.

Mr. BABBITT. Madam Chairman, of course, I did not arrive at the FAA until 2009, in the summer.

Senator MURRAY. Correct. I should state that, but yes.

Mr. BABBITT. A number of the things that you have mentioned to us are absolutely points of focus for us. And we have undertaken some very serious attempts to reform. These do not happen quickly. There are 49,000 employees. We have facilities all over the country. But we have been working for more than 1 year. For example, the fatigue study was undertaken by a joint agreement with NATCA.

The management changes that we have taken—first, we have made some changes in the upper management structure, followed by a broader review, as we work our way down, and making certain that all of our facilities do, in fact, stay consistent with the policies that we want and the procedures that we expect them to follow. We made it very clear there is no tolerance in the FAA for this type of "looking the other way."

We have a very dedicated workforce, and unfortunately, what came to light are the sins of a few, not the good deeds of many. And so we are working very, very hard to maintain the morale—as a matter of fact, to increase it, and at the same time, making certain that everyone follows the same guidelines and principles. That is a difficult transition for us to make.

We have streamlined our internal workings. As of 6 months ago, internally, we had more than 30 different governing committees that were structured inside the FAA. Next month, we will have five. We are far more efficient. We have realigned a number of our businesses and streamlined the way we do things to give ourselves better program oversight. I would invite—it is probably unheard of for the administrator to invite the inspector general to come over, but I would be delighted to have them look at some of the changes that we have done in program management and program oversight that we have done in the last 6 to 12 months. So, I think we are going to be a much more efficient agency going forward, and we have taken to heart some of the very constructive criticisms that people have brought to us.

Senator MURRAY. When you announced your review teams, you only identified a couple of facilities that would be visited by those review teams. One of them is Cleveland, where the air traffic controller was found watching a movie, I believe, on duty. Can you tell us why review teams are not going out more aggressively to a larger number of facilities?

Mr. BABBITT. We have a finite number of people that can conduct the review teams, and so we took a few right off the top of the bat. We took a look at the facilities that we thought would most benefit from the immediate review. But the plan is to review everyone, all facilities, over time.

Senator MURRAY. Over what kind of time period?

Mr. BABBITT. I would actually be giving you a wag here, but I would hope within the next 6 months.

CONTROLLER TRAINING—PLACEMENT

Senator MURRAY. In following a lot of these news reports, the FAA announced it was pulling together this working group that will make recommendations about how new air traffic controllers are trained and placed into FAA facilities.

But as I said in my opening statement, the inspector general has actually been talking about this for many years. Mr. Scovel, both in 2004 and again in 2010, your office recommended the FAA develop an objective, reliable method for placing new air traffic controllers at FAA facilities based on skills, and the FAA actually agreed they needed that. But to date we still don't have or see a way that FAA is placing these air traffic controllers based on an objective test.

Can you tell us why an objective, reliable way of placing air traffic controllers is so important?

Mr. SCOVEL. Thank you, Madam Chairman.

Yes, it is important. In the course of conducting our 2010 audit of FAA's practices for assigning new air traffic controllers, we found that new air traffic controllers were promised duty assignments before they had even started training. It appears to us to have been a part of the recruitment and hiring process. There was little attention, if any, paid at that time to an objective, reasonable method based on the new air traffic controllers' capabilities and performance at the Air Traffic Control Academy in Oklahoma City to determine where these people might best be placed. And in fact, we have found that new air traffic controllers in increasing numbers are being assigned to the most complex facilities: the New York TRACON, for instance; the Cleveland facility that you mentioned; areas that govern complex airspace, have high traffic volumes, and require intense on-the-job training by the certified professional controllers assigned to those stations.

We can only urge in the strongest terms that FAA quickly adopt a reasonable method, whether it is by test, by interview, or whether it is by performance at the training academy in determining where new air traffic controllers should be assigned.

Senator MURRAY. After their training, I assume, not pre-, when they are——

Mr. SCOVEL. Exactly. We assume that this will be an item of intense interest to applicants for air traffic controller spots, but it must be made clear to them that while certain duty options and stations might be available, final assignment will remain with the discretion of the agency.

Senator MURRAY. So, Mr. Babbitt, where are we on putting in place a reliable test?

Mr. BABBITT. One of the key changes that has been made might not appear to have anything to do with controller placement, but it has everything to do with it, and that had to do with the collective bargaining agreement. We have a new agreement with our controllers. It was reached shortly after I took the Administrator position.

During the last agreement, there was absolutely no incentive to bid controllers into higher paying positions. So if we had a vacancy in the most complex facility in our system, there was absolutely no incentive for a controller to bid over there. And so we were forced to assign people out of the academy. There was no other way to fill the vacancies. That is not a good practice. I will tell you now, it is not a good practice, and we have eliminated it.

So now we have the ability to incentivize seasoned controllers who can take that opportunity. And in fact, when they go to a more complex facility, they are going to work harder. It is a more difficult task, and they are going to be compensated accordingly. That gives us the opportunity to put new hire controllers into facilities that are more suited to their skill set.

Senator MURRAY. Is there an objective test developed to give to air traffic controllers on assignment yet?

Mr. BABBITT. We test all the air traffic controllers, and while I realize everyone would like to appreciate that we would have a range, we like to think that all of the controllers are qualified. When they are qualified, they are qualified to do anything. We would never want to be in the position of saying, well, we sent the good ones here, but the not-so-good ones went here.

Senator MURRAY. I have additional questions about that, but I have gone over my time. So I am going to turn it over to Senator Collins.

Senator COLLINS. Thank you, Senator Murray.

I actually am going to pick up exactly on the point that Senator Murray was raising with you because I have read the March 30 report of the inspector general, which points out that the FAA will need to hire and train nearly 11,000 new air traffic controllers through fiscal year 2019, because there are going to be a large number of retiring controllers.

And the inspector general's report finds that the FAA's reported training failure rate was not accurate and is critical of the metrics. In the report, it explains that when there are student controllers who are unable to pass the training process, they are either transferred within their assigned facility to a new area of operation, or transferred to a less complex facility, or terminated. It bothers me if individuals who could not pass the training are being placed in any position. So is that still happening?

Mr. BABBITT. I believe that the training that you are talking about—we have a variety of controllers. We have tower controllers. We have en route center controllers, and we also have controllers in the very complex areas. If someone has, for example, been a very effective tower controller working for a number of years fully trained and wished to upgrade to another level and simply did not master that training, we would let them go back to their previous area where they had exhibited a success rate.

Senator COLLINS. That makes sense, but that is not what this report seems to be saying is going on. Are you familiar with this March 30 report from the inspector general?

Mr. BABBITT. Yes, ma'am.

Senator COLLINS. And do you agree with the findings?

Mr. BABBITT. I believe that we have incorporated—and I believe that the inspector general has concurred with the suggestions that we made going forward. One of the points of that report I think we partially concurred with, and I think one area of the report was simply a data measurement point in terms of failure rate. I believe the inspector general's team was looking at a certain period, and we were looking at a longer period of time. I think if you go to the end, the failure rates come back into alignment. In other words, we would say we had someone who was still in school at the end of a year and we failed them at 18 months. We were counting that person as having passed at the 1-year point, and I think the inspector general said, well, they ultimately failed. You should reflect it that way. And we understand the difference in the accounting of that.

OPERATIONAL ERRORS

Senator COLLINS. Let me ask you both a basic question. It seems that in the last year, there has been an alarming increase in close calls in the air and on the ground, collisions that were narrowly averted. In addition, we have seen these reports about the air traffic controllers falling asleep or being inattentive.

What are your views on the increase in operational errors, and also in these incidents with the air traffic controllers? Are we seeing a true increase, or has this problem been going on all the time and there has just not been public awareness of it? There is just better coverage of it now?

I am going to start with the inspector general and then hear the Administrator.

Mr. SCOVEL. Thank you, Senator Collins.

As I mentioned in my opening statement, operational errors by controllers increased between 2009 and 2010 by 53 percent, from 1,234 operational errors to 1,887 operational errors. At this point, we do not have a good handle on what the true cause may be, and I suspect that we will not find a single true cause. We have examined National Transportation Safety Board (NTSB) investigations as well, where operational errors have been discussed, and found that they too have not found any kind of silver bullet. But there have been a number of reasons, perhaps, advanced to explain it.

One that the agency points to frequently—in recent weeks, in the last month or so, since all of this has arisen in the news, is what Mr. Babbitt likes to call the enhanced safety culture and safety awareness in the agency. That is due, in large part, the agency believes, to the Air Traffic Safety Action Program (ATSAP), the voluntary, nonpunitive disclosure program that was recently put in place for air traffic controllers. The theory is that controllers, now, without fearing punishment, will be more willing to report operational errors. And that may be a cause.

Another cause might be the automated tool that was recently put in place at TRACON facilities, which up until recent times did not have any kind of automated tool to capture operational errors committed by controllers in those facilities. This is the TARP program, the Traffic Analysis and Review Program. That certainly has flushed out more operational errors, I would speculate.

A final cause might be—and some point to the fact that we have all been talking about this just this morning—the increase in newly hired controllers at air traffic control facilities, and the question of if they might not be committing more operational errors.

At this point, we do not know and neither does FAA, neither does NTSB.

I commend Mr. Babbitt for naming an independent team—that panel that he has charged with investigating the seeming rise in operational errors that is due to report in the early fall.

This week, too, my office has announced audits to get to the root cause of all these operational errors. We are going to be looking at ATSAP, the voluntary disclosure program that I mentioned. We are also going to be looking at the agency's loss index, their loss of standard separation index, which attempts to capture all the different types of proximity events. We want to look at all of that and see if we can identify the range of causes. And I suspect that, like NTSB, we will not find a single one or even a couple, but it could be attributed to a number of them.

Senator COLLINS. Thank you.

Mr. Babbitt, what are your initial impressions on the cause of the increase in operational errors?

Mr. BABBITT. I believe that the inspector general highlighted a number that we concur with. Certainly it is a concern whenever the rate goes up, but we have made such important strides in so many areas. Runway incursions, for example, have been reducing at a rate of 50 percent per year for the last 3 years. We had a grand total of six serious runway incursions last year, and that is out of 50 million operations. Had we maintained the same rate we had in 2005, there would have been more than 100. So dramatic reductions have been made, and that is attributed to a lot of things: the professional controller workforce, the attentiveness, new electronic gear, Airport Surface Detection Equipment, Model X (ASDE–X) radar on the ground. All of these are leading to that.

By the same token, we may be somewhat being penalized by the fact that we do have better electronic ways of reporting. As the inspector general mentioned, this electronic reporting, this TARP program, allows us to flag things electronically that if no one had seen, we would not have noticed. And so we are taking the position that it is not necessarily the amount of operational errors that is increasing, but that we are capturing them. And that is a good thing. We want to capture what is happening. The next question is, then what is causing them? What do we need to change? Are we asking controllers to put airplanes too close together? Are we not being clear with our navigational instructions? We want to get to the bottom so that we can train to reduce these.

But I use the example: I had an office over in Arlington for years, and at the intersection, there were two or three traffic light violations being given a week. They put in a camera and there were suddenly 40 being given a week. There were not more people running the light. There were more people getting caught running the light. In a sense, that is what we have done with this electronic capture, is our ability to find them. But again, that is a good thing. It is not a bad thing.

Senator COLLINS. And it still begs the question of the cause, as you indicated.

Thank you, Madam Chairman. As you know, I need to leave to go to the White House, and I would ask unanimous consent to put questions in the record. Thank you.

Senator MURRAY. Absolutely. And I appreciate that. Your questions will be submitted for the record, and we will get a response. Thank you very much.

Senator Lautenberg.

FUNDING CONSTRAINTS AND CONTROLLER ATTRITION

Senator LAUTENBERG. Thanks again for your being here and for the excellent support that you have brought to the system—being constantly on guard to rid ourselves of those occasional slips. Mr. Babbitt, you know that no matter how many flights it is compared to, the fact is that we will look simply at the number of incursions or other close calls. Those are the ones. It could be millions of airplanes flying or in the air, but we want to make sure that we catch all of the problems.

In terms of what we see happening, the House Republicans have threatened to cut back FAA funds to fiscal year 2008 levels. Yet, a large number of trainees are entering the air traffic controller system, particularly—with a large wave, not unexpected, of controller retirements expected soon. Now, would that impair the system's ability to maintain the safety levels or that can be improved in the future?

Mr. BABBITT. Let me answer. I read that as sort of a two-part question. We have a training program that will accommodate what we anticipate for retirements. In the hiring program, we did have, from about 2005 through about 2009, an exceedingly high number of retirements, far above what was anticipated, which put a huge demand on our training. That has abated. We now are down to what we believe is a steady state rate of replacing our controller workforce as they age, and I am very comfortable that the profile that we have now—we are also seeing the ratios of fully trained certified professional controllers to train these——

Senator LAUTENBERG. Can we do better with less?

Mr. BABBITT. No, sir, I would fear that we could not. We have four fundamental areas that we have to address, and if you said we are going to do with less, then we would have to certainly take priorities into consideration and something would have to give.

Senator LAUTENBERG. So this would not help protect the public more than they are protected now.

Mr. BABBITT. The priorities—we would certainly share with the subcommittee here what our new priorities would be and——

Senator LAUTENBERG. You are the boss, Mr. Babbitt. You have got the orchestra in front of you and you are the conductor. Will the sounds be the same? Will the system be the same if we have less to work with? Is it fair to assume that the answer would be no?

Mr. BABBITT. You are correct. The answer would be no.

Senator LAUTENBERG. Thank you.

PASSENGER BAGGAGE FEES

The airlines are tacking on fees that account for an additional 20 percent of the ticket costs, and we have seen what happened when one airline imposes a new fee. Others quickly follow suit. These fees are on everything, as I said earlier, from checking your bags to pretzels. I would like to have the airlines required to publish what fees they are going to charge above the basic airline ticket so that a prospective passenger can make a comparison. Maybe I can get a bite to eat and not have to pay for it. And everybody who flies is not a millionaire.

So, Madam Chairman, I would like to propose that we try to put a system like that into play. And I do not know whether this is an appropriate moment or hearing to move this along, but I would like that to be in the works.

JFK AIR FRANCE INCIDENT

Last month, a large Air France plane struck a much smaller Delta plane at JFK. Luckily nobody was seriously injured, but it gave everyone pause to think about how something like that can happen. What went wrong that permitted that incident to take place?

Mr. BABBITT. Yes, sir. That was an instance where an aircraft was on a taxiway that was being controlled by air traffic ground control at Kennedy Airport. The aircraft in front of it, a smaller airplane, was exited onto a private ramp.

Now, I should mention this is under investigation by the NTSB, and we are party to that investigation. There has not been a conclusion reached, but I would say that the airplane went to a traffic area that is managed by their local ramp no longer in our control. Clearance needs to be provided——

Senator LAUTENBERG. We would like to hear the conclusion there——

Mr. BABBITT. Yes, sir.

Senator LAUTENBERG [continuing]. Because it seems almost impossible that that is the situation.

Mr. BABBITT. We will certainly get back to you when the NTSB concludes.

[The information follows:]

The National Transportation Safety Board (NTSB) has not yet completed its investigation into the April 11, 2011, incident at John F. Kennedy International Airport (New York, New York) where the wing of an Airbus A380 (Air France Flight 7 bound for Paris, France) clipped the tail of a Bombardier CRJ 700 regional jet (Comair Flight 293 in-bound from Boston) that was waiting to park at an arrival gate.

The agency will provide the subcommittee with a copy of the NTSB's finding once the investigation report is made available.

Senator LAUTENBERG. Madam Chairman, if my colleague, Senator Pryor, would indulge, just one last thing here.

Is there anything on the drawing board that either of you, or you particularly, Mr. Babbitt, are aware of that might suggest that further noise reductions could take place? Because that affects our airspace usage and design enormously.

Mr. BABBITT. Yes, sir. I know a lot of times we are sort of charged with, so, where is NextGen and how is it progressing. We are actually very well along, and we are operating at a number of airports around the country utilizing very complex and robust procedures that utilize NextGen technologies. In Seattle, for example, we use these continuous descent arrivals that save 60 to 80 gallons of fuel and produce much less noise in the communities by using required navigational performance (RNP), and satellite-based navigation. Aircraft arriving into Seattle use curved approaches and avoid flying over populous areas and therefore produce much less noise with a much smaller carbon footprint. We are doing those procedures in Atlanta, Los Angeles, Seattle, and Philadelphia. We have a lot of opportunities where this is actually being deployed today. So, yes, sir, there is a huge benefit available.

Senator LAUTENBERG. Yes. Bring it up to New Jersey, please, Mr. Babbitt.

Thank you.

Senator MURRAY. Senator Pryor.

AIRPORT IMPROVEMENT PROGRAM

Senator PRYOR. Thank you, Madam Chair. And I want to thank our witnesses for being here today. We appreciate your service.

Mr. Babbitt, let me start with you. I would like to ask about AIP, and I would like to focus on one particular case that I hope you will look at and see if we can get some help with.

There is a city in Arkansas about 30 miles outside of Little Rock called Conway, Arkansas. It is a great community. They have great people there, and it is growing. It is a robust, very energetic community.

For the last 17 years, they have been trying to move their airport, and they have taxed themselves in order to do so. They have done everything they need to do. They have a location. They have a plan. They have all this. They want to do it over a 3-year period. FAA says they need to do it over a 5-year period. I am not sure why the FAA wants to go slower.

But there is a compelling reason why I think we need to move the airport as quickly as possible, and that is the current airport is very old. On one end of the runway is Interstate 40. On the other end is a neighborhood. And I know they have had at least two, maybe more incidents, where planes are landing or taking off and actually crash into homes and kill people. So it really needs to be moved to a safer location.

Again, this community is totally behind this. They have taxed themselves. They have a great plan. I wish you would look at that. I know that they are in line to get some grant money this year too, and I know because of the budget issues we have been going through recently, you guys have not done that allocation yet. But I hope you will look at that as well. Conway, Arkansas. We will get you more information on that.

Why would the FAA want to go slower than a community? Do you know the answer to that?

Mr. BABBITT. I can give you one of several potential answers. Oftentimes we are limited. We might suggest that we could do that in 3 years and—I will just make up a number—that it might cost $20 million. However, between authorizations and appropriations, they might say, well, you can have $15 million and you can get the next $5 million later on. And so we are compelled to say to the airport we simply cannot get the money that fast for you, and of course, you are in competition with a lot of other airports. And it is based on a very thoughtful formula of what that airport expansion and change will do to improve the overall effectiveness of the national airspace system. But usually those are limited simply by the amount of funds that we have to flow at the rate of change, and it is always slower than both of us would like to be, and limited by the amount of money available.

Senator PRYOR. I just hope you will look at the Conway issue.

Mr. BABBITT. Yes, sir. I have jotted that down.

[The information follows:]

The Federal Aviation Administration (FAA) supports the city's efforts to relocate Conway Municipal Airport (KCWS).

The agency has invested more than $5.4 million in seven separate Airport Improvement Program (AIP) grants to support the airport relocation efforts. These grants were used for planning, land acquisition, and the first stage of construction.

The Office of the Secretary of Transportation announced on June 20, 2011, an AIP grant award in the amount of $2.3 million for the second stage of construction at KCWS. The FAA Southwest Regional Office will continue to work closely with the city on the administration of this grant.

Additionally, the FAA Southwest Regional Office carefully assessed opportunities to speed up the project and accelerate the construction schedule, taking into consideration other critical needs across the Arkansas system. After examining various options, a strategy was developed to complete the project over a 4-year period, enabling KCWS to be funded 1 year earlier than previously reported to city officials.

Senator PRYOR. Thank you very much.

And the other thing is I know that we are all—and I know Senator Murray has been a leader in this as well—trying to look for ways to be more efficient and to trim our spending. We are trying to do it in a way that does not harm the public and that would be considered a smart way to trim our spending.

Last year I added a provision in the FAA bill as it came through the legislative process. It would require a study on a proposed Air Traffic Control Modernization Board to look at whether there should be consolidation of air traffic control towers. We had problems a few years ago with some strong indicators that they were going to consolidate a tower—in fact, it was the Little Rock tower—and take it offline and just use the Memphis tower. But we could never get real clarification on that from FAA.

So my question for you is: Are there any plans to consolidate any air towers that we need to know about?

Mr. BABBITT. Yes, sir. We have looked at a number of consolidations. I think for clarity, we would be talking about consolidating the radar functions and the TRACON functions. For example, in the State of California, we have two very large northern and southern California TRACONs where the people in those facilities control the air traffic at literally dozens of airports.

Senator PRYOR. Right.

Mr. BABBITT. NextGen technology will allow us to really capitalize on those kinds of efficiencies. Let me give you an example. If we had 10 facilities in an area, every one of those facilities would have a radar room, and in that radar room, we would have all the necessary hardware, software, backup generators and backup IT capability. All of that would be duplicated times 10. We, on the other hand, could consolidate that, and with the digital technology we have today, the controllers do not need to sit underneath the air traffic they are controlling. They can do it very efficiently. You have a lot easier staffing. You have a lot of efficiencies that come from that. So we are weighing those things with our colleagues in the House and the Senate, as well as the people we work with, the air traffic controllers. We want to look at this thoughtfully. Does this make sense? Is this good use of our technology? And are we truly more efficient, or is there any harm done? So we have working groups that are looking at this, and in the interest of being efficient with our tax dollars, it is something we have to look at.

Senator PRYOR. I am all for efficiency, but you also need some redundancy in the system in case one location goes down. In our region, we have had a situation I know a couple of times in the last 3 or 4 years where the Memphis airport, for one reason or other, storms or whatever, has lost power. And they have had to go down, and the Little Rock TRACON takes up the slack on the Memphis area. So do you not want some redundancy in the system?

Mr. BABBITT. Absolutely, yes, sir.

And one of the things when we talk about—it is very germane to your question there. When we transition completely to ERAM, the ERAM system and aircraft equipped with ADS–B, we have the same fidelity as terminal approach radar so that if a TRACON, for example, were to have some catastrophic power failure, the center controllers would have the same update rates that TRACON enjoys today. That is not the case today with the host system and, essentially, the analog type radar we use.

Senator PRYOR. Thank you.

Madam Chair, I have other questions I will just submit for the record. Thank you very much.

Senator MURRAY. Thank you very much.

EN ROUTE AUTOMATION MODERNIZATION

I did want to ask about the ERAM program. It is a fundamental part of the FAA's NextGen effort, and under ERAM, the FAA is completely replacing a key part of the agency's air traffic control system. Unfortunately, that means that when there are problems with ERAM, there are problems in other parts of NextGen.

Now, this subcommittee has provided a steady stream of funding for ERAM, but the program fell years behind on its schedule, and those delays are now affecting other important programs, like the data communications program, that need the new features that ERAM is supposed to be offering.

According to the inspector general, the ERAM program is facing additional cost increases between $330 and $500 million, and because of those delays and cost overruns, the FAA is going to be establishing a new budget and schedule for ERAM this summer.

If more funds are needed for ERAM, will you be identifying which programs will be cut in order to make room for the cost increases on those?

Mr. BABBITT. I am going to start with the positive approach that I am very optimistic that we will not need sufficient new funds. ERAM was a program that was started more than 9 years ago. It was a quite ambitious program, and I think, candidly, it was more ambitious than people gave it credit for and more complex than people appreciated that it might be. We have run into some serious complications in integrating this type of technology into the national airspace system.

With that said, it was clear to me within 1 year of my arrival that this program was not on track. We literally stopped the program and brought it to a halt and said, let us analyze it top to bottom. We invited MITRE to come in. We invited outside—certainly the inspector general has looked at it and the results. We have revamped it. We have revamped some of the cost allocations.

And yes, those numbers were re-baselined, but they were done with a lot of transparency, a lot of openness. And the cascade of implementation, or waterfall, if you would, that we set forth is a very achievable process and program.

Second, we changed completely our program management oversight. We have completely revamped how we do that. I think it is more state of the art. I think it is something that we probably should have done some time ago. But the bottom line is here today. We also are carefully monitoring each of the stages.

I think one of the most important things that we have done is we have now incorporated our air traffic controllers. They were not really involved in the implementation schedules. They have been a great benefit. These are people who have wonderful practical experience in how this program should work. They have been very helpful in working with us, and we have identified a lot of the open items. I just read a report in the last 2 or 3 days; there was something like 150 open items as of 6 months ago with one of the operating systems. Today we are down to about seven or eight. Granted, that is seven or eight too many, but it is a dramatic improvement over where we were. We now have ERAM operating in two different areas, Seattle and Salt Lake. Once we have our initial service decision in place, we will move on with implementation in other areas, and I believe we are on track.

Senator MURRAY. Mr. Scovel, you have disagreed with the FAA on this cost estimate. They have said that the cost increase will not exceed $330 million. You said it could be as high as $500 million. Why do you see the cost increase being so high?

Mr. SCOVEL. Madam Chairman, the cost increase is a difficult figure to pin down. The agency has specified, as you pointed out, $330 million, and extended the initial timeline for ERAM by about 4 years. The work of our office and that of MITRE as well has suggested that $330 million might only be the start.

Mr. Babbitt has spoken to the extreme technical difficulties and unpredictable nature of putting ERAM in place first at the initial operating sites, much less at other places around the country. We can anticipate that those difficulties, in fact, will continue. The Salt Lake City and Seattle sites were selected as test beds precisely because they are less complex than some of the other locations where ERAM will need to be installed, like New York, Chicago, and Cleveland. When ERAM is put in place in those areas, we can anticipate new problems cropping up, especially more software problems. More time and more effort will be needed in order to bring those to closure, and that, of course, translates into more expense. We and MITRE have predicted perhaps an upper range of $500 million in order to accomplish all of those fixes.

Mr. Babbitt is absolutely correct. ERAM is critical to NextGen. There is a logjam right now in NextGen, and ERAM is the key log. The agency is working night and day to work on fixes. They appreciate the seriousness of the situation.

At times, however, in our opinion, the agency has been over-eager, a bit too quick to declare temporary victory in the face of some of the limited accomplishments that it has achieved. For instance, the in-service decision actually was announced at the end of March but then quickly suspended in the face of protests from the NATCA representatives that Mr. Babbitt has mentioned, and also from an independent operating assessment team that the agency had commissioned to review ERAM fixes to date.

That is the kind of over-eagerness that can sometimes lead to skepticism on the part of decisionmakers like you, and by users in the industry, and by oversight authorities like my office. We would strongly encourage the agency to adopt a very sober and rational approach in deciding what needs to be accomplished with ERAM, and then putting it in place and testing it thoroughly before taking the next step.

Senator MURRAY. And so, Mr. Babbitt, you answered my question on what you would cut in order to make room for the cost increase, with the positive attitude that you will not have to do that. But having been around here for a while watching this, I would come back to you and say that we do need to know from you what programs you will cut in order to deal with that cost increase because that will be what this subcommittee will have to deal with here in the coming months. So I would ask you to go back and look at that, and for the record, if you could give that answer back to me, I would appreciate it.

Mr. BABBITT. Absolutely. I mean, we clearly would have to re-evaluate our priorities, but the savings that come from implementation of NextGen are so powerful and so far outweigh the incremental costs. For example, for every month we delay the implementation—we do appreciate staying on schedule, because every month that we delay the implementation of a fully robust ERAM system, we continue to support an old legacy system that costs us $10 million a month.

Senator MURRAY. I do not disagree with the long-term projections at all. I totally am where you are. I am dealing with the immediacy of a budget that does not appear to be growing. So we need to make some tough decisions here, and we will need your input as we do that.

Mr. BABBITT. We will do that.

[The information follows:]

Budget line item	Program name	Summary of impact	Fiscal year 2011 enacted @ $2.73 billion	Fiscal year 2012 request @ $3.12 billion	Fiscal year 2012 mandatory @ $250 million	Fiscal year 2012 discretionary @ $2.87 billion	ERAM funding adjustment	Fiscal year 2012 revised $2.87 billion—$28.5 million
2B07	ATCT/TRACON Improve	Will delay the execution of backlogged and new projects	$45,508.80	$61,900.00	$5,000.00	$56,900.00	$(6,900.00)	$50,000.00
2D03	WAAS	Funding for the deployment of a 5th GEO Satellite was reduced.	94,810.00	125,500.00	....	125,500.00	(12,200.00)	113,300.00
2B17	ASR–8 SLEP/ Relocation	ASR–8 Relocation—Bismark, North Dakota. This was to complete a congressionally directed item in the fiscal year 2008 budget. The airport secured an earmark to relocate the ASR–8 to make room for an industrial park.	2,594.80	2,700.00	....	2,700.00	(2,700.00)	....
4A08	CAASD	Will reduce the planned level of 263 MITRE technical staff years that will support communications modernization, performance-based NAS, enroute evolution, terminal operations and evolution, airspace design and analysis, NAS System operations, aviation safety, and security—13-percent reduction.	73,755.20	80,800.00	....	80,800.00	(6,700.00)	74,100.00
2A01	ERAM	Accelerated funding for ERAM into fiscal year 2012 from fiscal year 2014 in order to meet the programs fiscal year 2014 schedule goal. Revised fiscal year 2012 funding does not increase the overall program baseline cost which remains at $330 million.	181,935.40	120,000.00	....	120,000.00	28,500.00	148,500.00

[1] The total reduction of ERAM funding adjustment is $0.

SYSTEM-WIDE INFORMATION MANAGEMENT

Senator MURRAY. I wanted to ask about the System-Wide Information Management (SWIM) program. It is an essential part of FAA's NextGen effort as well. And under SWIM, the FAA will be able to have a network of different computer systems and programs. It is about sharing data and working more efficiently, a good long-term goal, and we support that.

But, Mr. Scovel, in your written testimony, you talk about the fact that the SWIM program has already seen a cost increase of about $100 million. Now, I understand the FAA has been setting a very cautious baseline for SWIM, committing to only 2 years of funding at a time, and the FAA has stayed within the budget set by those baselines. But the overall cost of this program is increasing, and I wanted to ask you today to explain what these 2-year baselines mean for a program and how a program can stay within its short-term baselines and still experience long-term cost growth.

Mr. SCOVEL. Madam Chairman, SWIM is a key transformational program for NextGen. It is a program, however, that is now in trouble. It started off at $179 million for the first segment estimated cost. Now it is $104 million or so above that and extended by about another 2 years on this first segment. We do not have the cost estimates, in fact, for the next couple of segments—not that my office has seen, at any rate.

If I could drop a footnote at this point, I would say that had FAA published a detailed NextGen implementation plan or an integrated master schedule that would be of benefit to decisionmakers like you, we might know. We might have some visibility over the longer term of how SWIM would fit in, along with other programs, in terms of cost, benefits, timing, and sequence. The agency has not yet given us that.

In the meantime, we see a program like SWIM that appears to be in trouble. When we commissioned our audit, the initial report, which we have submitted to the agency for their comments back—we think that we have identified a root cause of the problem, and that is the diffused and decentralized nature of the development and management structure of the program. Rather than a strong central program office, SWIM, in fact, has devolved or delegated key implementation decisions to the seven subordinate programs or peer programs that will draw on SWIM's capabilities—programs like ERAM. And we just discussed that and how the requirements and fixes for ERAM are very much in flux.

We have suggested to the agency, and we have recently learned that they have, in fact, put in place a way to clarify accountability and authority over SWIM. It will be the deputy administrator who will adjudicate disputes between the SWIM program office and other program offices as to what SWIM should include, and what requirements should be, and fixes to be put in place.

LIFE-CYCLE PROGRAM COST MANAGEMENT

Senator MURRAY. Mr. Babbitt, can you tell me how the agency manages the cost of a program over its entire lifetime, and does not just look at the short-term baselines?

Mr. BABBITT. It is a complicated answer that I have to give you. We do, in fact, have a NextGen implementation plan, but that is simply the mechanics and the actual layout and rollout of the various functions. To attach a budget to that is more complex.

Oftentimes we would ask for—and I think it explains, or I hope to explain the question to you with a suitable answer. We might say, for example: We would like to be funded. We would like to put this program in place that would cost $50 million and take us 2 years. What we may get back instead is, well, you can only have $30 million. So now it makes it a 3-year program which will be, in fact, more expensive. And so then we will re-baseline and we will reprogram the funding for that. So those things change for us subject to how we are allocated funds. It does make it difficult.

Of course, we are on our 18th extension. It does make it very difficult to give you a budget forecast with all these very short-term extensions. It makes it a little more complicated for us. And sometimes it would appear that, well, you did not do a very good job of your forecast when, in fact, it was necessary to change the timeline.

Senator MURRAY. It is my understanding that SWIM has gotten all of its funding that they requested.

Mr. BABBITT. As the inspector general has noted, it is a complex program, and we have run into some technical difficulties.

Two things that I think are very important: We have changed the reporting structure and the accountability to very much more centralize this to overcome the very things that were pointed out. We had a very diverse and not very transparent process, and we were not leveraging the technology that we had, or the skills inside the agency. I think we have made great steps toward that.

Our program management oversight has been changed. A number of the changes that I mentioned to you that have been undertaken are now being implemented. I truly hope that we will produce a far better and more realistic result to your subcommittee and others.

NEXTGEN FUNDING PRIORITIES

Senator MURRAY. As we face these continuing budget cuts, we have to know that. This subcommittee is watching it very closely. So we will stay in touch with you on that.

You mentioned the managing of NextGen, and I know FAA has come under a lot of criticism for its management. Good questions have been asked about whether the FAA can manage a wide variety of programs as a single portfolio and whether the FAA has set appropriate goals and metrics to measure the success of NextGen. But I think recent pressure to make drastic cuts to the budget raises new kinds of issues about NextGen.

When there is only a limited amount of funding available, we need to know what FAA's priorities are and what benefits we are going to get for the money that we spend. I know that right now you are working on a new spend plan for 2011. But I am just not convinced that the FAA has a strategy for identifying its highest priorities for the long term, and not just on a year-by-year basis. So I wanted to ask you if you could tell me which NextGen capabilities have the highest priority for funding if there is not enough money to pay for all of it.

Mr. BABBITT. That is a very complicated question. Let me see if I can tackle it for you. Some of this is going to be dependent—remember, there are two components, or actually three components internal to the FAA. But there is the fourth component of equipage on aircraft outside the FAA.

Now, we have taken great lengths to determine the prioritization of what we would want to do, and we took it to an outside group, RTCA. We showed them our draft program for the NextGen implementation, and we asked them to review it. Now, these were 300 people from around the industry. These were manufacturers, pilot groups, mechanics, air traffic controllers, all the people directly affected by NextGen. And we asked them to look over what we had done.

And they have given us a new set of priorities, which are now the steps we are following. We revised our NextGen implementation plan to align ourselves with what the industry said would be most effective. In other words, the industry said—for example, we were going to build something for data communication. They said that does not do us any good until we get something else. You should do the something else first. So we have realigned our priorities to that extent.

So if showing you the new NextGen implementation plan and then putting dollars with it—that would probably do about as good a job of laying out for you the priorities that we have accepted, driven by the industry, driven by the consumers, and that would be the steps we would follow.

Now, having said that, I am very concerned that you cannot just take one brick out of a building and say, well, this is the brick we will save. That may be a very foundational brick and we would want to be very cautious in thinking about—even though it might not be the highest priority, it might be very necessary to support the rest of the program. So we would have to go back and look.

And this has been complicated by an uncertainty of funding. Given a finite amount of money, we can tell you what we are going to do. Given sort of an unknown quantity, it is different.

One of the things that does concern me—I just recently read an independent study that shows the benefits of NextGen if it were to be fully implemented by 2025 and if we spent every—even on the high-side dollars, it would cost, in round numbers, $22 billion to fully implement. But the benefit to the global economy of the world is $897 billion. This has an enormous return on its investment. So we would want to be very careful about saying we can save a billion here if it delays the program implementation. But this independent report says, if you delay the implementation 5 years, it reduces the $148 billion.

So we would want to be very thoughtful and we certainly would want to have your understanding and concurrence before we said, well, we are going to cut back here. We are going to save $4 billion over the next 2 years, but it is going to cost us $80 billion in the long run. So I think we need to be——

Senator MURRAY. Those are issues we are dealing with in every program here, and we are trying to be sober about what we can realistically do. So we will work with you.

Mr. Scovel, do you have any ideas on how the FAA can prioritize this as we face these continuing challenges here with budget cuts?

Mr. SCOVEL. We would commend the agency for their efforts in the short-term implementation for NextGen to have worked with the RTCA so-called Task Force 5. And by the short term, we are talking about from the present up to the 2015–2017 timeframe. FAA, we think, has very wisely chosen to focus its short-term efforts on the Metroplex initiative, and working with users in the industry to determine those benefits that can be most quickly and most tangibly achieved at those key locations throughout the country. And FAA has been working on airspace and procedural changes in order to accomplish that.

Looking out over the longer term, we would cite a couple of programs. And I am certain the Administrator would likely agree. ERAM, as we have talked about, needs to be fixed, and as quickly as possible. ADS–B is absolutely critical. One that has not been mentioned yet today, apart from our written statements, is terminal modernization. In order for the benefits of NextGen to be achieved, and specifically for the ADS–B benefits to be put in place, not only ERAM at the en route centers, but also the modernization platforms at the TRACONs need to be in place. The users have been clamoring for some certainty and identification as to when, and how, and where those initiatives will take place, and we would certainly second that.

AIR FRANCE FLIGHT 447—LOSS OF SEPARATION

Senator MURRAY. I appreciate both of your testimony on all those complex budget issues.

Mr. Babbitt, while I have you, I just want to ask you one question. It was almost 2 years ago when Air France flight 447 disappeared into the Atlantic Ocean, and the New York Times published a lengthy story on that this week which was very interesting. I know that was not under FAA's watch, but I wanted to ask you, while you are here, what procedures are followed when U.S. aircraft controllers lose contact with the aircraft.

Mr. BABBITT. I guess that changes depending on other circumstances. But if an aircraft were to lose contact, we would certainly institute a set of procedures to try and regain radio communications. If that is not possible after about 10 minutes, we go into——

Senator MURRAY. That soon.

Mr. BABBITT. Yes. We start notifying other agencies. We escalate it. Now, that is just radio communication.

If we lose radio and radar communication—in other words, we lose sight of the target—we immediately assume that some catastrophic loss has occurred. If we cannot even get a primary target, meaning there is no radar return whatsoever, we would assume that the airplane is down and we would go to another level. We would notify the NTSB. We would notify other agencies. We would begin search and rescue.

Senator MURRAY. How soon? Because I think it was a day before they began search and rescue. How soon would we be looking at search and rescue?

Mr. BABBITT. We would have notified people within 30 minutes. So, we would have been reacting very, very quickly. Of course, this was an airplane that was not a U.S.-registered aircraft and it was not in U.S. control.

Senator MURRAY. Yes. My question was more, what do we have in place that is dissimilar to that. It seemed like it just took them—from reading the article—I do not know if you read it, but it just seemed like it took them forever to do anything.

Mr. BABBITT. Right. Yes. No, we would have responded more quickly. That one was complicated in consideration of the circumstances. That airplane could not have been further from anything than it was. It was in a very remote area across the ocean, which really complicated the authorities' ability to move there. But I do not know the exact timeline of when they implemented. But things would be well underway in this country in 30 minutes.

Senator MURRAY. That is good to know.

ADDITIONAL COMMITTEE QUESTIONS

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

QUESTION SUBMITTED BY SENATOR PATTY MURRAY

PERFORMANCE AND RETENTION BONUSES

Question. Please explain what changes the Federal Aviation Administration (FAA) has made to its procedures in the past year to ensure it is using its retention bonus authority appropriately. Please compare how FAA's retention bonus policy differs from that of other department modes.

Answer. To ensure appropriate and responsible use its Retention Incentive Program, in October 2010, FAA raised the approval level for all retention incentives to the FAA Administrator. In addition, FAA is in the process of strengthening its policy that will:

—require increased analysis and written justification based on specific factors;
—require a period of employment with FAA of at least 1 year prior to being authorized any retention incentive; and
—add an annual review to determine continued business need for the retention incentive.

Other than the approval level, these added requirements mirror the Department of Transportation's incentive policy. Pursuant to 49 U.S.C. 40122, the FAA Administrator holds the final approval authority for pay decisions.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

FAA AIRPORT PRIVATIZATION PILOT PROGRAM

Question. Since the Federal Aviation Administration (FAA) Airport Privatization Pilot Program began in 1997, how many airports have applied to participate in the program?

Answer. Since the program's inception in 1997, 10 airports have submitted applications for participation in the Pilot Program:

—Stewart International Airport, Newburgh, New York;
—San Diego Brown Field, San Diego, California;
—Rafael Hernandez Airport, Aguidilla, Puerto Rico;
—Niagara Falls International Airport, Niagara Falls, New York;
—New Orleans Lakefront Airport, New Orleans, Louisiana;
—Chicago Midway International Airport, Chicago, Illinois;
—Louis Armstrong International Airport, New Orleans, Louisiana;

—Luis Muñoz Marín International Airport, San Juan, Puerto Rico;
—Gwinnett County-Briscoe Field, Lawrenceville, Georgia; and
—Hendry County Airglades Airport, Clewiston, Florida.

Question. How many airports have applied to be sold or privatized under the pilot program? How many airports have successfully been privatized under the program?

Answer. Ten airports have submitted applications for participation in the pilot program. Title 49 U.S.C. 47134 requires that commercial service airports can only be leased while general aviation (GA) airports can be leased or sold. Nine airports have applied for leases; Hendry County Airglades Airport, a GA airport, is the only GA airport considering a sale.

To date, Stewart International Airport (SWF) in Newburgh, New York, is the only airport to receive final agency approval. National Express Group, a private company from the United Kingdom, operated SWF from March 2000 until October 2007, when the Port Authority of New York and New Jersey purchased the National Express Group's Airport Lease. SWF is no longer privatized.

Question. How many applications are currently pending in the privatization program? What airports are currently participating in the program?

Answer. Of the five slots available in the pilot program, FAA has four slots reserved:

—Chicago Midway International Airport, Chicago, Illinois;
—Luis Muñoz Marín International Airport, San Juan, Puerto Rico;
—Gwinnett County Briscoe Field, Lawrenceville, Georgia; and
—Hendry County Airglades Airport, Clewiston, Florida.

Question. The privatization pilot program allows FAA to exempt the public airport sponsor from the obligation to repay Federal grants and return property acquired with Federal assistance upon the lease or sale of the airport. Is this authority discretionary or is FAA required to exempt airport sponsors from repaying Federal grants?

Answer. Title 49 U.S.C. 47134(b)(2) gives the Secretary discretionary authority to grant an exemption to an airport sponsor necessary to waive an obligation to repay Federal grants.

Question. The privatization pilot program allows FAA to exempt the public airport sponsor from the obligation to repay Federal grants and return property acquired with Federal assistance upon the lease or sale of the airport. Has the FAA ever used this discretionary authority?

Answer. In the case of SWF, FAA granted an exemption to the New York State Department of Transportation from its obligations to repay Airport Improvement Program grants. Title 49 U.S.C. 47134(b)(1) requires that the exemption permitting revenue to be used for nonairport purposes must be approved by at least 65 percent of the air carriers serving the airport; and by air carriers whose aircraft landing at the airport had a total landed weight of at least 65 percent of the total landed weight of all aircraft landing at the airport. The air carriers declined to approve New York State's request to use airport revenue for nonairport purposes.

Consequently lease proceeds remained airport revenue. The State of New York could only receive reimbursement for capital contributions incurred within the past 6 years as permitted by existing statute. An exemption was issued waiving the obligation to return Federal surplus property.

Question. The privatization pilot program allows FAA to exempt the public airport sponsor from the obligation to repay Federal grants and return property acquired with Federal assistance upon the lease or sale of the airport. If so, when and how much funding were airport sponsors exempted from repaying?

Answer. In 2000, New York State Department of Transportation was exempted by FAA from repaying $59,118,796 in AIP funds and repaying an Economic Development Administration grant for the construction of an air cargo terminal. The Federal obligations were transferred to the private operator. Since the air carriers declined to approve New York State's request to use the lease proceeds for nonairport purposes, the lease proceeds remained airport revenue, and therefore the exemption was not used.

Question. The privatization pilot program allows FAA to exempt the public airport sponsor from the obligation to repay Federal grants and return property acquired with Federal assistance upon the lease or sale of the airport. If FAA did not require repayment at any airport involved in the privatization program, how much total Federal funding would each airport sponsor in the privatization program be exempted from repaying?

Answer. If FAA did not require repayment by any of the four active applicants in the privatization pilot program, the exemptions issued would equal approximately $215,931,838 in total Federal funding. The amounts due the Federal Government would include:

—Chicago Midway, $145,340,713;
—Luis Muñoz Marín, $42,736,309;
—Gwinnett County Briscoe Field, $24,408,257; and
—Hendry County Airglades Airport, $3,446,559.

These amounts include the remaining useful life of grant-funded pavement, buildings, and equipment. Grant amounts are amortized over the 20-year useful life of the physical asset. The FAA would not require repayment for federally acquired land as long as the airport remained an airport. These amounts do not include improvements older than 20 years or intangible investments like studies and planning that are not depreciable assets.

Question. The privatization pilot program allows FAA to exempt the public airport sponsor from the obligation to repay Federal grants and return property acquired with Federal assistance upon the lease or sale of the airport. Have any of the public airport sponsors interested in privatization received Federal funding for land acquisition to build their airport? How would these types of grants be considered in the requirement to repay Federal grants?

Answer. Yes, some of the public airport sponsors interested in privatization have received Federal funding for land acquisition to build their airport. Since the useful life of land does not end or depreciate, the obligations associated with the Federal purchase of land do not expire. Federal surplus property deeds conveying land for airport purposes also do not expire. FAA would not require repayment associated with land acquisition because sponsors would want those obligations released. FAA would not normally seek reimbursement for the land, in order to ensure that these airports remain federally obligated.

Question. Midway Airport in Chicago is currently the only large-hub airport in the privatization program. How much total Federal funding has gone to build and maintain Midway Airport?

Answer. The FAA has obligated $376,480,477 in AIP grant funds for Midway Airport in the last 20 years.

Question. Midway Airport in Chicago is currently the only large-hub airport in the privatization program. How much Federal funding would the city of Chicago need to repay if it were successfully privatized under the program and FAA did not use their authority to exempt repayment of previously received Federal grants?

Answer. The FAA could require repayment associated with the remaining useful life of the Federal investment without repayment for the cost of land. The city of Chicago and its private operator would have to repay $145,340,713. This would include the depreciated value of pavement, buildings, and equipment. This sum would not include improvements older than 20 years or intangible investments like studies and planning.

Question. Midway Airport in Chicago is currently the only large-hub airport in the privatization program. What other large-hub airports have expressed interest in the privatization program?

Answer. It is unclear what other large-hub airports are interested. The FAA has not received applications from other large-hub airports because Midway currently holds the only slot for large hubs.

Question. Under the current privatization pilot program, what disclosure requirements does the private entity wishing to buy or lease the airport have?

Answer. The disclosure requirements are identified in the FAA's Airport Privatization Pilot Program: Application Procedures, 62 Federal Register 48693, September 16, 1997. Such disclosures include the following:

—qualifications of private airport operator, including the identity, experience and responsibility of key personnel;
—financial resources, including copies of 10K annual reports filed with the Securities and Exchange Commission, if not filed, balance sheet and income statement prepared in accordance with generally accepted accounting principles, with all footnotes applicable to the financial statements;
—description of the private operator's capability of complying with the public sponsor's existing grant assurances;
—affiliations with air carriers or other persons engaged in aeronautical business activity at an airport (other than airport management); and
—description of all charges of unfair or deceptive practices or unfair methods of competition brought against the private operator, private operator's key personnel and in the case of a private operator that is a joint venture, partnership or other consortium, the separate members of the entity in the past 10 years.

The description should include the disposition or current status of each such proceeding. If application is approved, the private operator is subject to financial reporting requirements provided for in 49 U.S.C. 47107(a)(15) and (19) and as implemented in Grant Assurance Nos. 13 and No. 26. Additionally, if the application is approved, the private operator would be subject to periodic audits of the financial records and operations of an airport receiving an exemption under the pilot program and the applicant indicates their express assent to this provision. Private operators may file a request for confidentiality of documents or information submitted to protect the disclosure of confidential business information.

Question. Do private airport sponsors need to disclose any conflict of interests they may have with parties involved in a sale or lease agreement?

Answer. According to the application procedures, private operators must disclose affiliations with air carriers or other persons engaged in aeronautical activity at an airport (other than airport management). Private operators must also disclose all charges of unfair or deceptive practices or unfair methods of competition brought against the private operator and or key personnel within the past 10 years. The private applicant would also be subject to applicable State law conflict of interest requirements when submitting a response to a request for proposal and/or bid.

Question. Do private airport sponsors need to disclose an estimated amount of tax benefits over the life of a long-term lease or sale of a privatized airport?

Answer. Neither the statute nor the application procedures require the private operator to disclose estimated tax benefits over the life of a long-term lease or sale of a privatized airport.

Question. Do private airport sponsors need to disclose savings they may receive from changes in workforce, wages, benefits, or rules? Are the private entities required to disclose any tax or financing benefits they receive from entering into a long-term lease of an asset like an airport?

Answer. Neither the statute nor the application procedures require the private operator to disclose savings or estimated tax benefits over the life of a long-term lease or sale of a privatized airport. The statute does require that any collective bargaining agreement that covers airport employees and is in effect on the date of the sale or lease of the airport not be abrogated by the sale or lease. Additionally, if the application is approved, the private operator would be required to comply with all applicable Internal Revenue Service (IRS) rules and regulations.

Question. Under the current privatization pilot program, what disclosure requirements does the airport sponsor have before they sell or lease their airport?

Answer. The disclosure requirements are identified in the FAA's Airport Privatization Pilot Program: Application Procedures, 62 Federal Register 48693, September 16, 1997. Public Sponsors interested in applying must file a preliminary application to reserve a slot, followed by a final application for the exemption. The application procedures require the sponsor to submit a statement of the public sponsor's authority to sell or lease the airport, with a citation to legal authorities. The sponsor is required to file a distribution ready copy of the request for proposals (RFP) for the management and operation of the airport which should contain references to the nine statutory objectives listed in 49 U.S.C. 47134. In the RFP, the sponsor will need to disclose whether it is proposing to sell or lease a GA airport, or to lease any other type of airport. The applications are filed on www.regulations.gov and available for public review and comment. The FAA conducts a public hearing in the local community and holds a 60-day public comment period before making a decision. Public Sponsors must disclose the amount of airport revenue that will be used for non airport purposes and the amount of airport revenue that will be paid to the private operator. The FAA encourages airport sponsor to augment FAA's efforts with their local means of communicating with the general public. The FAA requires a description of any local public outreach efforts by the applicant.

Question. Does the public airport sponsor need to conduct an assessment of whether a sale or lease with a private entity would represent a better public and financial benefit than keeping the airport under public ownership and control?

Answer. No, not formally through the privatization application process. The FAA views the type of management structure an airport owner chooses to manage its airport as a local decision. However, as a matter of prudence, FAA would expect an airport sponsor to perform appropriate due diligence in considering whether to privatize its public use airport. Most airport owners have conducted some form of assessment and made a decision to seek private investment and operation prior to submitting an application for the privatization pilot program.

As stated in the application procedures, it was the intent of Congress in enacting the airport privatization pilot program to determine if new investment and capital from the private sector can be attracted through innovative financial arrangements. The FAA and the public have a reasonable expectation that a private operator will provide new capital and create new investment opportunities at the airport.

Furthermore, the airport sponsor is required to describe how the private operator, the public sponsor, or both will address operation, maintenance, and development of the airport after the proposed transfer, and the continued operation of the airport in the event of bankruptcy or other financial or legal impairment of the private operator. One approach would be through reversion of the airport back to the public sponsor.

Question. Does the public airport sponsor need to disclose how much revenue they will lose from selling or leasing an airport?

Answer. The application procedures require the public airport sponsor to disclose the lease or sale proceeds from the transaction that will be used for nonairport purposes. As with all Federal obligated airports, FAA can require airport owners and operators to submit financial information. The FAA did caution the sponsor and the private applicant for Niagara Falls International Airport about its concern about the level of investment in a proposed privatization process. This application was ultimately closed out in January 2002 for failure to proceed.

Question. Does the public sponsor need to disclose their plan for spending any upfront payments received in a sale or lease of an airport?

Answer. Yes, typically this occurs when the sponsor responds to the preliminary application question related to a summary narrative of the objectives of the privatization initiative—what the public sponsor wants to accomplish by the solicitation. The application procedures require the sponsor to disclose the amounts and timing of payments, and the amounts of payments to sponsor to be used, respectively, for airport purposes (including recoupment of public sponsor investments not previously recovered) and other purposes.

QUESTIONS SUBMITTED BY SENATOR MARK PRYOR

Question. How do small communities benefit from the Essential Air Service (EAS) program?

Answer. The Department of Transportation's (DOT) EAS program was established in the 1978 Airline Deregulation Act (ADA) as a safety net for smaller and more isolated communities to have access to the national air transportation system. Under the program, small communities are assured a basic level of air service, linking them to the national air transportation system—generally with two departures per day, 6 days per week.

As of July 1, 2011, EAS-subsidized service was provided at 153 communities across the country—44 in Alaska and 109 in the rest of the country and Puerto Rico. Funding is now provided via an annual $50 million payment from the Federal Aviation Administration (FAA), which derives the funds from air traffic control fees for international overflights, and an additional amount through annual appropriations. Program budget amounts have increased from $22.6 million in fiscal year 1992 to $200 million in fiscal year 2010.

The EAS program has largely retained its basic eligibility criteria since the ADA was enacted; it specified that those communities then receiving scheduled airline service were ensured of receiving at least a basic level of service thereafter, with subsidy if necessary. The guarantee was originally scheduled to expire after 10 years, but it has been extended indefinitely. The most notable change in eligibility dates from 1990, when Federal statute excluded from subsidy eligibility those communities in the 48 contiguous States that were located fewer than 70 highway miles from the nearest large- or medium-hub airport, or that require a rate of subsidy per passenger in excess of $200, unless the point is more than 210 miles from the nearest large- or medium-hub airport. Public Law 106–69, title III, section 332. DOT is precluded by statute from making any determinations that would exclude communities from subsidy eligibility on any other basis. 49 U.S.C. 41731(b).

*Question.*What effect will the EAS provisions that have been added to the Senate version of the FAA bill with regard to the 100-mile rule have on small communities? How many airports will be affected by the 100-mile rule?

Answer. Senator Coburn's 100-mile amendment was subsequently modified, such that what was adopted by the Senate would define an eligible place for EAS as a place in the United States (but excluding Alaska) that "is located not less than 90 miles from the nearest medium or large hub." *See* S. 223, section 420, as passed the Senate on February 17, 2011. A 90-mile limitation, by DOT calculation, would affect 10 communities and produce an annual savings potential of approximately $12.5 million. (Increasing the limitation to 100 miles would affect three additional communities, at a potential additional savings of $4.2 million.)

FEDERAL CONTRACT TOWERS

Question. Contract tower cost share programs are important to my State as well as several others. An amendment I introduced to FAA bill would set a local cost share cap on the cost-share airports participating in the contract tower program and provide relief for airports recovering from the recession. What steps are you taking to assist cost share contract tower communities currently struggling due to the economic downturn?

Answer. The FAA is keenly aware of the challenges faced by airports that are recovering from the economic downturn and has taken steps to lessen the financial impact of the cost share program on local communities. Historically, FAA updated its benefit cost (B/C) ratios on a biennial cycle; however, given the drastic decline in general aviation (GA) traffic in the past few years, FAA had delayed its B/C update until recently to avoid unnecessarily penalizing communities. However, the agency now believes the lower growth rate in GA traffic is going to persist for the foreseeable future and is in the process of revising its B/C ratios. We are taking steps to make sure the methodology and data involved in updating our B/C results as well as how that information is communicated and potentially appealed by communities is open and transparent.

While the hourly wages of the air traffic controllers are determined by the Department of Labor, FAA continuously evaluates and verifies the staffing for each facility. This is done to ensure the facilities are adequately staffed to provide safe, efficient operations and not overstaffed, to keep the price of each facility as low as possible. This successful program provides highly trained, experienced controllers at a reduced cost to the taxpayers.

Capping the local cost share for airports will have budget impacts on the FAA and opportunity costs for other programs as it will lead to a need to increase the funds made available to the current and future Cost Share program. It will also limit FAA's ability to allow new towers and communities into the program. There may also be lower-cost alternatives over time with the capacity of Next Generation Air Transportation System (NextGen) to deploy "virtual towers" with automatic dependent surveillance-broadcast capability.

AIR TRAFFIC CONTROL MODERNIZATION

Question. The budget request includes an estimated $1.2 billion to support the ongoing NextGen program that will modernize the Air Traffic Control system. This is about a $350 million increase more than the fiscal year 2010 enacted level. What is the rationale for the increase?

Answer. The fiscal year 2012 President's budget request for NextGen totals $1.237 billion, an increase of $369 million, or 43 percent more than the fiscal year 2010 enacted level of $868 million. While this is a significant funding increase, it:

—includes a one-time $200 million mandatory spending request in support of the President's $50 billion infrastructure initiative;

—is consistent with the FAA's Capital Investment Plan and NextGen Implementation Plan; and

—underscores the declaration by this administration that NextGen is a top national transportation and infrastructure priority.

The NextGen Implementation Plan lays out FAA's plan for delivering significant benefits by the 2018 timeframe. Specifically, our most recent estimates show that by 2018, NextGen air traffic management improvements will reduce total delays (in flight and on the ground) by about 35 percent compared with what would happen if we did nothing. This delay reduction will provide $23 billion in cumulative benefits from 2010 through 2018 to the traveling public, aircraft operators, and the FAA. We will save about 1.4 billion gallons of aviation fuel during this period, and cut carbon dioxide emissions by 14 million tons.

Aviation is critical to our Nation's economy. As recently as 2009, civil aviation contributed to $1.3 trillion annually to the national economy, and constituted 5.2 percent of the gross domestic product. It generated more than 10 million jobs, with earnings of $397 billion.

Question. One of my goals is to ensure that all taxpayer dollars are spent wisely and effectively, particularly given the fiscal situation we are in right now. Can you give me some specific examples of how taxpayers will benefit from this spending (i.e., what is the return on investment for taxpayers)?

Answer. The advantages of NextGen will benefit almost all taxpayers, whether they are frequent flyers or never fly at all. Those who do fly will enjoy fewer delays, the highest level of safety, and more predictable trips. Those living in neighborhoods near airports will experience less aircraft noise and fewer emissions. Communities will make better use of their airports and strengthen their local economy, as well as our national economy.

Specifically, our most recent estimates show that by 2018, NextGen air traffic management improvements will reduce total delays (in flight and on the ground) by about 35 percent compared with what would happen if we did nothing. This delay reduction will provide $23 billion in cumulative benefits from 2010 through 2018 to the traveling public, aircraft operators, and the FAA. We will save about 1.4 billion gallons of aviation fuel during this period, and cut carbon dioxide emissions by 14 million tons.

NextGen mid-term improvements made during this time will continue to accrue benefits beyond 2018. Total cumulative benefits through 2030 are estimated to be worth $123 billion, including a total savings of 6.7 billion gallons of fuel and 64 million tons of carbon dioxide. This represents a net present value to the taxpayers of $33 billion.[1]

QUESTION SUBMITTED BY SENATOR DANIEL COATS

AIRPORT SLOT ALLOCATIONS AT REAGAN NATIONAL AIRPORT

Question. I am concerned about the fairness of the criteria used for counting slots at Washington, DC's Ronald Reagan Washington National Airport (DCA). It appears the current regulation has led the agency to double-count the number of "holds" an airline possesses for purposes of qualifying as a "limited incumbent" (See 14 CFR 93.213). For example, Republic Airways Holdings, an Indiana-based company, maintains control over fewer than 20 slots at DCA. But the company cannot qualify as a limited incumbent due to its minority interests in and financial transactions with other airlines. Under the current method of counting, these investment interests result in Republic holding more than 100 slots at DCA. But airlines other than Republic retain complete control over the use of those slots—and the slots count against the controlling airlines as well as against Republic. Thus, numerous slots are being double-counted for purposes of qualifying as a limited incumbent. Why has the agency adopted a policy that results in such dramatic double-counting of slots? Is there a way to end double-counting and promote accuracy and fairness when counting slots for purposes of qualifying as a limited incumbent at DCA?

Answer. Pursuant to 14 CFR 93.213, a "limited incumbent" at high-density airports is defined as a carrier that "holds or operates" fewer than 20 slots, including slot exemptions. The limit was increased from 12 to 20 in the AIR–21 legislation, Public Law 106–181, an action we interpret as indicating congressional recognition and support for the "hold or operate" approach.

In this case, Republic Airways Holdings, Inc. clearly holds 113 slots at DCA, Republic Airlines (a subsidiary of Republic Airways Holdings), holds 16 slots and Frontier Airlines, another subsidiary of Republic Airways Holdings, holds 6 slots. We understand Republic Airways Holdings' claims that under their agreement US Airways effectively has control over use of the slots, but there appears to be no dispute either that Republic Airways Holdings is in fact the holder of the 113 slots or that it derives financial benefit as a result of such holdings.

Notwithstanding this point, in the latest "slot counting" issue at DCA—in which Delta Air Lines is proposing to swap certain slots at DCA for slots held by US Airways at LaGuardia Airport—the Department has demonstrated some flexibility in its approach by proposing to allow Frontier Airlines to be eligible to compete for certain slots to be divested, despite the fact that it is wholly owned by Republic Airways Holdings. While the issue remains open for comment, the Department of Transportation tentatively found that Frontier Airlines maintained a discretely different low-cost carrier business plan than its parent and that Frontier Airline's presence as an eligible bidder would help to stimulate and maintain competition at these airports.

SUBCOMMITTEE RECESS

Senator MURRAY. I appreciate both of your testimonies today and look forward to working with you.

With that, this hearing is recessed.

[Whereupon, at 10:52 a.m., Thursday, May 12, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

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[1] Net present value equals discounted benefits, minus discounted costs.

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2012

TUESDAY, MAY 17, 2011

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

The subcommittee met at 10:18 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Lautenberg, and Collins.

DEPARTMENT OF TRANSPORTATION

FEDERAL RAILROAD ADMINISTRATION

STATEMENT OF HON. JOSEPH C. SZABO, ADMINISTRATOR

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. This subcommittee will come to order.

This morning we are holding a hearing on the President's budget request for the Federal Railroad Administration (FRA) and the budget request for the National Passenger Railroad Corporation (Amtrak).

I want to welcome the Administrator of the Federal Railroad Administration, Mr. Joseph Szabo, and Amtrak's President and CEO, Mr. Joe Boardman. Thank you both for being here this morning, and we look forward to your testimony.

We are now at a pivotal moment for our Nation's transportation policy. Over the last several years, we have made important investments in our rail infrastructure. But the recent focus in the Congress on budget cuts has created a race to the bottom that will make it difficult to continue those investments.

Rail offers an environmentally sound and efficient alternative to move people and goods. It creates jobs, reduces the price of goods being shipped, and helps commuters across the country get to work.

Our population is projected to reach 420 million by mid-century, almost 140 million more than in 2000. If you think travel on our roads and at our airports are crowded today, just wait. Building more and wider roads will not be enough. We have to look to other alternatives such as passenger rail for the future.

But we need to be smart about building intercity passenger rail in a way that works with our systems of road and aviation. We need to make targeted investments where it makes economic sense to improve mobility options in and between America's congested cities.

I know communities around the country value their rail service. I know families in my home State of Washington deeply value our Amtrak service, the Cascade Line, which just set record ridership for the second year in a row. Which is why I am so disappointed that the new Republican majority in the House of Representatives has targeted rail transportation for their budget cuts.

A year ago, we sat together in this room at our last hearing on rail and discussed the financial constraints of the fiscal year 2011 annual appropriations. A year later, we have instituted the largest 1-year reduction in discretionary spending in our Nation's history. These budget cuts have had a severe impact on our rail transportation programs. Capital grants to Amtrak were cut by $78 million and new funding for intercity and high-speed rail was eliminated for fiscal year 2011.

But many Republicans in the House say these cuts are not enough, and they are clamoring for more. The House version of the 2011 bill would have cut Amtrak by $151 million, resulting in furloughs for up to 1,600 employees. It also would have taken back more than $2.5 billion of high-speed and intercity rail grants.

I agree that leaders here in Washington, DC need to tighten our belts and work together to get our Nation's debt under control. But we cannot be reckless about this. We cannot put together a Federal budget that will put our fragile economy and millions of jobs at risk. And we must continue making investments we know will make our country more competitive in the long term.

As we develop the budget for fiscal year 2012, the bar has never been higher for concrete results to justify Federal investment. The administration used its budget request to show its vision of rail placed on par with other modes of transportation. But in today's environment, a big vision just will not cut it. We need to see realistic alternatives to the kind of slash and burn politics that have taken over our budget debates. I am disappointed that the budget request does not offer that.

You have significant competition for very limited resources in the Department of Transportation (DOT). Transit systems are suffering across the country, shutting down services, and unable to make operating costs under constrained State budgets. The Next Generation Air Transportation System (NextGen) air traffic control system is costly and fundamentally necessary for the future of air transportation as well.

That is why I need more from you, Mr. Szabo. I recognize the hard work that you and the staff at FRA have done to protect the agency's role as a rail safety organization and to build its capacity to oversee multi-billion dollar investment choices. It was no small task, and I commend you for your efforts.

But I need you to improve transparency in FRA's work. We need detailed and compelling answers to basic questions about the awards that FRA is making to States, like what markets make the most sense to target rail investment and why. What will it cost to build? What are the benefits to investment? And what will it cost to operate?

A March 2011 Government Accountability Office (GAO) report on the program found the criteria and evaluation of the grants to be sound. GAO's only recommendation was that FRA provide more detailed information of its record of decisions. And I could not agree more. As this program matures, transparency about the analysis and consideration of projects can only aid in resolving the criticisms about the integrity of the program. We also need to dispel some of the myths that seem to plague the intercity and high-speed rail program.

There should be no question about interest from States. In the most recent $2.4 billion grant competition, FRA received more than 90 applications from 24 States, the District of Columbia, and Amtrak for projects along the Northeast corridor, with preliminary requests totaling nearly $10 billion. This includes the State of Wisconsin's application for $230 million. That was a State that previously returned an American Recovery and Reinvestment Act (ARRA) award.

I support investment in intercity and high-speed rail, but it is now time to address the program's critics head on, and it is time for the program to produce and communicate tangible results that the Congress and American taxpayers clearly understand.

I am sure Mr. Boardman can sympathize with the difficult position you are in, Mr. Szabo. I remember a point not too long ago when there were discussions about the end of Amtrak. This subcommittee saw a series of budget requests coming out of the previous administration that would have bankrupted the railroad. I worked hard for adequate funding for Amtrak and to see reforms of its financial management. The Passenger Rail Investment and Improvement Act of 2008 (PRIIA) helped put Amtrak on the right track for success, and a new management team has done so much to improve the way Amtrak does its work.

Amtrak has a new level of cooperation between its board and management teams. They have worked diligently to complete a new strategic plan, developed a system to prioritize capital projects, built a plan for fleet modernization, improved the transparency of the annual budget, and developed a comprehensive business plan.

As the leadership at FRA and Amtrak face significant challenges in the years ahead, I cannot emphasize enough the importance that you administer your programs and manage their funding effectively and responsibly.

PREPARED STATEMENT

Finally, I look forward today to discussing with you the security challenges that you face and what steps you are taking to safeguard our Nation's rail passengers. As you well know, there is no higher priority, and with details of terrorist plots against rail targets emerging from the raid on bin Laden's compound, I want to make sure you have the resources you need to protect our railways and the passengers.

Thank you very much, and I now yield to Senator Collins for her opening statement.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATTY MURRAY

This morning we will be holding a hearing on the President's budget request for the Federal Railroad Administration (FRA) and the budget request of the National Passenger Railroad Corporation (Amtrak).

I would like to welcome the Administrator of FRA, Mr. Joseph Szabo, and Amtrak's president and CEO, Mr. Joe Boardman.

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But we need to be smart about building intercity passenger rail in a way that works with our system of roads and aviation. We need to make targeted investments where it makes economic sense to improve mobility options in and between America's congested cities.

I know communities around the country value their rail service. I know families in my home state of Washington deeply value our Amtrak service—the Cascade Line which just set record ridership for the second year in a row. Which is why I am so disappointed that the new Republican majority in the House of Representatives has targeted rail transportation for their budget cuts.

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These budget cuts have had a severe impact on our rail transportation programs. Capital grants to Amtrak were cut by $78 million, and new funding for intercity and high speed rail was eliminated for fiscal year 2011.

But many Republicans in the House say these cuts are not enough, and they are clamoring for more. The House version of the 2011 bill would have cut Amtrak by $151 million resulting in furloughs for up to 1,600 employees. It also would have taken back over $2.5 billion of high speed and intercity rail grants.

I agree that leaders in Washington, DC need to tighten our belts and work together to get our Nation's debt under control. But we cannot be reckless about this. We cannot put together a Federal budget that will put our fragile economy, and millions of jobs at risk.

And we must continue making investments we know will make our country more competitive long-term.

As we develop the budget for fiscal year 2012, the bar has never been higher for concrete results to justify Federal investment.

The administration used its budget request to show its vision of rail placed on par with other modes of transportation. But in today's environment, a big vision just won't cut it.

We need to see realistic alternatives to the kind of slash and burn politics that have taken over our budget debates. I am disappointed that the budget request does not offer that.

You have significant competition for very limited resources in the Department of Transportation. Transit systems are suffering across the country shutting down services and unable to make operating costs under constrained state budgets. The Next Generation Air Transportation System air traffic control system is costly and fundamentally necessary for the future of air transportation as well.

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I recognize the hard work you and the staff at FRA have done to protect the agency's role as a rail safety organization, and to build its capacity to oversee multi-billion dollar investment choices. This was no small task and I commend you for your efforts. But I need you to improve transparency in FRA's work.

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I support investment in intercity and high speed rail, but it is now time to address the programs critics head on. And it is time for the program to produce and communicate tangible results that the Congress and the American taxpayer clearly understand.

I am sure Mr. Boardman can sympathize with the difficult position you are in Mr. Szabo. I remember a point not too long ago when there were discussions about the end of Amtrak. This subcommittee saw a series of budget requests coming out of the previous administration that would have bankrupted the railroad.

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As the leadership at FRA and Amtrak face significant challenges in the year ahead, I cannot emphasize the importance that you administer your programs and manage their funding effectively and responsibly.

I also look forward to discussing with you today the security challenges that you face and what steps you are taking to safeguard our Nation's rail passengers. As you well know, there is no higher priority, and with details of terrorist plots against rail targets emerging from the raid on bin Laden's compound I want to make sure you have the resources you need to protect our railways. Thank you.

OPENING STATEMENT OF SENATOR SUSAN COLLINS

Senator COLLINS. Thank you. Good morning.

First, let me join the chairman in welcoming Mr. Szabo and Mr. Boardman to this important hearing.

I want to begin by thanking the Administrator for working with me, State, and county officials to preserve critical rail freight service in northern Maine. The 233 miles of rail line serving this area of my State had been proposed for abandonment, and that would have endangered some 1,700 jobs. Now, thanks to a cooperative effort, we can begin the important work of upgrading the tracks to preserve and actually improve this important freight rail service. So thank you, Mr. Szabo, for coming to Maine and for all that you did to make that possible.

Over the past few years, FRA has begun to transform itself from essentially a safety oversight agency to one with the added responsibility of allocating and overseeing billions of dollars in high-speed rail and intercity passenger rail projects. I agree with the chairman that we need to have a better understanding of how money is being allocated under this program.

Many, however, have questioned the basic economic efficiency of building a high-speed rail network in our country. Several States have already rejected funding for which their States had been awarded. With looming budget shortfalls in many States, the cost of building and maintaining high-speed rail lines is proving to be daunting. FRA has an ambitious national rail plan in place. However, the agency has yet to provide cost estimates on what it would take to build and maintain a new network of this magnitude.

In March, Secretary LaHood approved the latest designated high-speed rail corridor, the Northeast corridor. This designation now allows Amtrak to apply directly for high-speed rail funding. Amtrak has projected that the planning and construction of the high-speed rail lines for the Northeast corridor could cost upward of $117 billion over the next 30 years. I can only imagine the cost to complete a national system when the other 10 corridors are included.

The administration's budget also calls for a significant change in the manner in which Amtrak is funded. Under this proposal, the direct appropriation to Amtrak would be eliminated, and it appears to force Amtrak to compete for funding through FRA. I am interested, as a longtime Amtrak supporter, in better understanding how that would work.

With more than 28 million passengers in the last year, Amtrak ridership has increased, I believe, by 5.5 percent, with more than 137,000 passengers from March 2010 to March 2011. I suspect that escalating gasoline prices will push ridership levels even higher.

Amtrak's Downeaster service between Portland, Maine and Boston has become very successful, and last August we celebrated the arrival of the first shipment of rail for the Downeaster expansion project which will expand the line from Portland to Freeport to Brunswick. And I appreciate the Administrator's participation in that celebration. This infrastructure project is particularly welcome in the Brunswick area, given the recent closure of the Brunswick Naval Air Station.

Federal investment plays an important role for Amtrak, but in this time of budget constraints, it must be done in a fiscally responsible manner. I do commend Amtrak for cutting its debt level substantially from $4 billion in 2002 to $1.8 billion today. But there still is a net operating loss, which for fiscal year 2012 is some $616 million, which is nearly $200 million more than the fiscal year 2010 operating loss. This stems largely from the unprofitable long-distance routes that continue to prove unsuccessful from a dollars and cents standpoint.

Finally, let me just add to what Chairman Murray said. Only a few days after our operation in Pakistan removed Osama bin Laden as a threat to our country, the Department of Homeland Security (DHS) and the Federal Bureau of Investigation (FBI) released an alert about rail security. This was a result of the intelligence that was gathered from bin Laden's compound. I was pleased to see the quick turnaround that intelligence gathered from halfway around the world was analyzed so quickly and an alert issued.

Although this intelligence was not connected to any particular city or rail line and was dated from early last year, it demonstrates that mass transit remains a tempting target for terrorists. And of course we all know that, based on terrorist attacks on trains and subways in Madrid, in London, in Mumbai, and in Moscow. We are all thankful that there has not yet been a similar attack here in our country, but we cannot become complacent as al Qaeda or even homegrown terrorists could launch attacks, particularly given the warning that we have received from the intelligence from bin Laden's compound.

With an eye toward ensuring that taxpayer dollars are used as efficiently as possible, we must be certain that adequate security measures and technology deployment are implemented throughout the passenger rail sector, and although that is primarily the responsibility of the Transportation Security Administration (TSA), I look forward to getting the thoughts of our witnesses on this issue today.

PREPARED STATEMENT

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

PREPARED STATEMENT OF SENATOR SUSAN COLLINS

Good morning, and thank you Chairman Murray for holding this important hearing. I welcome the Federal Railroad Administrator (FRA) and the National Passenger Railroad Corporation's (Amtrak) CEO to this hearing.

Let me begin by thanking Administrator Szabo for his working with me, State, and county officials to preserve critical rail freight service in northern Maine. I worked closely with the Department of Transportation to secure $10.5 million in Federal funds on a crucial rail line project in my home State. The 233 miles of rail line serving northern Maine had been proposed for abandonment, which would have endangered nearly 1,700 jobs. Now we can begin the important work of upgrading the tracks to preserve and improve this rail service.

Over the past few years, FRA has begun to transform itself from essentially a safety oversight organization to one with the added responsibility of allocating and overseeing billions of dollars in high-speed rail and intercity passenger rail projects.

Many question the economic efficiency of building a high-speed rail network in the United States. Several States have already rejected funding for which their States have been awarded. With looming budget shortfalls in many States, the cost of building and maintaining high-speed rail lines is daunting.

FRA has an ambitious national rail plan in place; however, the agency has yet to provide cost estimates on what it will take to build and maintain a new network of this magnitude.

In March of this year, Secretary LaHood approved the latest designated high-speed rail corridor, the Northeast corridor. This designation now allows Amtrak to apply directly for high-speed rail funding. Amtrak has projected that the planning and construction of the high-speed rail lines for the Northeast corridor to cost upward of $117 billion over the next 30 years. I can only imagine the cost to complete a national system when the other 10 corridors are included. I am hopeful the FRA will be able to provide a cost estimate to the subcommittee soon.

The administration's budget also calls for a significant change in how Amtrak is funded. Under the proposal, the direct appropriation to Amtrak would be eliminated, forcing Amtrak to compete for funding through FRA. I am interested in hearing the details regarding the potential outcomes of such a change.

Amtrak has been operating intercity passenger train service since 1971. With more than 28 million passengers in fiscal year 2010, ridership has increased over the previous years, with a 5.5-percent increase, more than 137,000 passengers, from March 2010 to March 2011. I suspect the escalating gasoline prices will push ridership levels even higher.

Amtrak's Downeaster service between Portland, Maine, and Boston has become a success. Last August, we celebrated the arrival of the first shipment of rail for the Downeaster Expansion Project, which will expand the line from Portland to Brunswick. I appreciate Administrator Szabo's participation in that event. This infrastructure project is especially welcome in the Brunswick area, which is coping with the closure of the Brunswick Naval Air Station.

Federal investment plays an important role for Amtrak, but must be done in a fiscally responsible manner. Amtrak has cut its debt level from $4 billion in 2002 to $1.8 billion today. While progress has been made in reducing the debt level, more needs to be done. Amtrak's net operating loss for fiscal year 2012 is $616 million, which is nearly $200 million more than fiscal year 2010's net operating loss. This stems from the unprofitable long distance routes that continue to prove unsuccessful from a business standpoint.

Only a few days after our U.S. Navy SEALs removed Osama bin Laden as a threat to America, the Department of Homeland Security and the Federal Bureau of Investigation released an alert about rail security. I was pleased with the quick turnaround that intelligence gathered from halfway around the world was analyzed and an alert was issued.

Though this intelligence was not connected to any particular city or rail line and was dated from early last year, it demonstrated that mass transit remains a tempting target for terrorists.

We all remember watching in horror as the television relayed the devastating aftermath of the terrorist attacks on trains in Madrid in 2004, London in 2005, Mumbai in 2006, and Moscow in 2010.

We are thankful that there have not yet been similar attacks here in America, but we cannot become complacent as al Qaeda or even homegrown terrorists could launch attacks, particularly given the intelligence from bin Laden's compound.

With an eye towards ensuring taxpayer dollars are used as efficiently as possible, we must make certain that adequate security measures and technology deployment are implemented throughout the passenger rail sector.

I am looking forward to working with you Chairman Murray as well as Administrator Szabo and Mr. Boardman as we consider the fiscal year 2012 budget requests.

Senator MURRAY. Thank you very much.

Senator Lautenberg.

STATEMENT OF SENATOR FRANK R. LAUTENBERG

Senator LAUTENBERG. Thank you, Madam Chairman. It is good to be sitting with colleagues who understand the urgent need to get on with investing in rail systems, and Amtrak particularly, and improving the opportunity to get cars off the road and improve air quality and save money on fuel.

Trains have helped move America's economy forward since the 19th century when the transcontinental railroad was built—an engineering marvel that captured imaginations across the world. Almost 150 years later, railroads are still an engine of economic success, but the United States is no longer leading the way.

I recently returned from China, which spends heavily on high-speed rail, investing about 9 percent of its GDP on infrastructure, more than three times the amount we invest here in the United States. China's investments are paying off. When I was there, I road on a train that moved faster than 200 miles an hour—also, I might add, without, Mr. Boardman, the rattle, shake, and move, hard to write as it is now on Amtrak. And I use it twice a week. So I do not want people to think my handwriting is a product of age, but rather a rough ride.

By comparison, our fastest trains travel 150 miles an hour and that is under optimal conditions over very short distances.

And to remain competitive globally, America must strengthen its high-speed rail network and give more people access to faster trains. It is going to help spark job creation as businesses flock to communities served by new train stations. And we see that. We have seen it abundantly in New Jersey, where we added a couple of new rail sections, and within a very short period, businesses will move to places convenient to train travel. It is better for their employees and their customers and their staff alike. So we found also that it boosted property values in the areas that were served by good rail service.

Now, in our State, I am working with Amtrak to help build the Gateway Tunnel with an innovative project that will expand high-speed rail in the Northeast corridor. Each week, this corridor takes 30,000 cars off our highways and 243 flights out of the skies. I cannot help but repeat something that everybody can understand, and that is Penn Station in New York handles more passengers in a day than all three major airports that service our area. It is quite a fantastic thing. And more would come if there was room and high speed and comfort.

I commend Amtrak on its success in the Northeast corridor. It demonstrates that when Americans have access to trains, they will gladly take them. I came down last night and the train was pretty much filled, and I have seen that more often than not.

President Obama recognizes this, and the administration has made a $1 billion investment in improving high-speed rail in our region.

Now, the President's bold vision to build a world-class high-speed rail network will carry America into the future. Faster trains give Americans a better alternative to spending their time stuck in traffic on our congested highways, absorbing the air pollution that accompanies it, and waiting in endless lines at the airport.

Now, unfortunately, some say we cannot afford an investment in high-speed rail right now, and they are determined to slam the brakes on our progress. But I say we cannot afford the cuts proposed in the House budget without imperiling a return to a more robust economy. It is part of the plan and we must do it. This short-sighted view ignores great transportation achievements of the past, like the George Washington Bridge built during the Great Depression. It created jobs, but also created a travel opportunity between New York and New Jersey and principal highways going north and south.

So, Madam Chairman, I look forward to hearing from today's witnesses about how we can reclaim our role as the world's leader in rail and get our economy back on track. Thank you.

Senator MURRAY. Thank you very much.

We will now turn to our witnesses for their opening statement. Mr. Szabo, we will begin with you.

SUMMARY STATEMENT OF HON. JOSEPH C. SZABO

Mr. SZABO. Thank you, Chairwoman Murray, Ranking Member Collins, Senator Lautenberg, and members of the subcommittee. I am honored to appear before you today on behalf of President Obama and Secretary LaHood to discuss the President's proposed fiscal year 2012 budget for the Federal Railroad Administration.

By 2050, the U.S. Census Bureau projects a population increase of an additional 100 million people. To put that in context, that is like adding the population of another New York, California, Florida, and Texas combined.

To plan for the future, this budget proposal details how strategic investments will build an innovative, national rail network to move people and goods safely with speed and flexibility.

Railroad safety remains a top priority, and I am pleased to report that the industry's safety record for 2010 achieved all-time lows in the number of accidents per million train miles traveled. And this is a direct result of FRA's multifaceted approach to bringing about change, taking one of the most dangerous industries and making it now one of the safest.

To continue this progress, the fiscal year 2012 budget proposes $223 million for Safety and Operations. With more freight and passengers moving as the economy improves, this funding enables FRA to remain squarely focused on new and comprehensive safety strategies while building a national rail network.

And while we remain squarely focused on safety, the momentum and groundwork for the high-speed intercity passenger rail program continues. Over the past year, FRA has obligated more than $5.8 billion from ARRA and annual appropriations, bringing dollars to States and real projects across the country and putting Americans to work.

With the help of FRA, States have entered into groundbreaking agreements with freight rail partners on four major corridors that assure that Federal investments will produce quantifiable performance outcomes for passenger rail while preserving and improving a world class freight rail system.

The demand is stronger than ever by States competing to get into the rail business. Just last week, we announced $2 billion in high-speed rail awards for 15 States and Amtrak. The competition was tough. Twenty-four States submitted more than 90 applications requesting nearly $10 billion. And for our fiscal year 2010 funding request, FRA received 132 applications from 32 States. And since the award selections in October, we have been busy obligating these projects. Response to the program has been overwhelming.

And it is no wonder that States are clamoring to be a part of the rail movement. Gas prices are on the rise, and future population growth figures are skyrocketing. We know that our existing air and roadway systems are among the best in the world, but congestion and traffic threaten to stymie the American economy and our productivity. We have to provide Americans with new and enhanced mobility options.

The President's budget strategically invests $8.2 billion in fiscal year 2012 for the continued development of high-speed intercity passenger rail, as part of the bold, $53 billion, 6-year transportation proposal. And $8.2 billion will lay the foundation for the passenger railways of the future, consolidating passenger rail into two accounts through the Transportation Trust Fund: Network Development and System Preservation. The budget proposal places passenger rail on equal footing with other surface transportation programs. Funding for Amtrak and new passenger rail corridors keep us on track, providing 80 percent of Americans access to a high-speed rail network within the next 25 years.

Our goal is to create a balanced transportation system, with highways, transit, and aviation enhanced with high-speed intercity passenger rail. Developing a passenger rail network requires a long-term commitment at both the Federal and State levels to keep the American people moving and communities connected.

The strategic investments in rail that were made in 2009 and 2010 are paying off. We are enhancing the global economic competitiveness of America, boosting domestic manufacturing, reducing reliance on imported oil, and creating a new base of highly skilled, well-paying jobs. And we are establishing a pipeline of rail projects for future corridor development.

PREPARED STATEMENT

For decades, investments in transportation have connected cities and States from coast to coast and served as a foundation for economic growth and our prosperity. By providing a long-term commitment for high-speed intercity passenger rail today, we are taking a bold and definitive approach to addressing the Nation's near- and long-term passenger and freight mobility demands, and ensuring that future generations will have access to the high quality, safe, and efficient rail transportation for decades to come.

I look forward to your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. JOSEPH C. SZABO

Chairman Murray, Ranking Member Collins, and members of the subcommittee, I am honored to appear before you today on behalf of President Obama and Secretary LaHood to discuss the administration's fiscal year 2012 budget proposal for the Federal Railroad Administration (FRA).

The President is requesting a bold new 6-year, $53 billion rail plan that will bring high-speed rail in line with our other surface modes in order to meet the Nation's transportation needs today and into the future. In fiscal year 2012, $8.2 billion sets the framework for building networks and infrastructure to realize the President's vision of providing 80 percent of Americans with access to an intercity passenger rail network featuring high-speed service within 25 years while continuing to make the necessary investments in FRA's highest priority—assuring the safety of all aspects of our rail industry—freight, commuter, traditional intercity passenger service as well as high-speed rail.

While safety is our highest priority, the President's budget proposal will provide critical new travel options for Americans. But it must also be the right level of investment for the market needs which will serve to underwrite the future of true American high-speed rail.

INVESTING IN TOMORROW

The President, in his State of the Union Address said:

"The future is ours to win. But to get there, we can't just stand still . . . Sustaining the American Dream has never been about standing pat. It has required each generation to sacrifice, and struggle, and meet the demands of a new age. Now it is our turn."

The administration didn't come up with our high-speed rail initiative overnight. National, State, and local high-speed rail interest and planning has permeated throughout U.S. transportation history. Capitalizing on the timing and decades of work, this administration leveraged the American Recovery and Reinvestment Act of 2009 (ARRA) funding as a way to provide a beginning—a "down-payment" on a new and needed transportation alternative while also putting people to work.

MOBILITY CHOICES

Our existing air and roadway systems are among the best in the world, but congestion and highway traffic are threatening to stymie the American economy and our productivity. High-speed rail will help complement today's systems and keep goods and people moving. Americans experience an average delay of 36 hours every year while idling in highway traffic and this number rises to 51 hours in the largest metropolitan areas.[1] Aviation congestion, meanwhile, has also risen in recent years, with an estimated annual economic impact of $10 billion according to the Air Transport Association.[2]

[1] Texas Transportation Institute, "2009 Annual Urban Mobility Report".
[2] Air Transport Association, "Annual and Per-Minute Cost of Delays to U.S. Airlines".

The Nation expects a nearly 25-percent increase in the population (to 390 million) [3] by 2035. The U.S. Census Bureau projects growth will be concentrated in a small number of growing and merging areas of urbanization known as mega-regions. All of this new growth, and the ensuing economic output, will need development of new and enhanced mobility options. A more comprehensive and balanced transportation system of highways, transit, and aviation assets would be strengthened by high-speed intercity passenger rail, which can be effective in meeting the intercity travel demands in such regions.

Investments in rail will ease demand for Federal and State highway and aviation funding and create balanced public funding options. By providing an alternative to regional flights that clog runways and airspace, high-speed rail investment will permit the aviation industry to focus on the market segment of higher yielding long-haul flights.

INVESTMENT PROFILE

Developing a comprehensive intercity passenger rail network will require a long-term commitment by Federal, State, and local as well as private partners. ARRA's down-payment on high-speed intercity passenger rail, followed by fiscal year 2010 appropriations, emphasized strategic investments that will yield tangible benefits to rail infrastructure. We're starting to see a "pipeline" of projects for future corridor development and the beginnings of a domestic market for world-class rail engineering, equipment, and technology development. Since the jump-start of ARRA funding, FRA has ramped up its high-speed rail team, hammered out service agreements with freight railroads and forged partnerships with State and local stakeholders. To date, we have entered into 49 cooperative agreements obligating nearly $5.8 billion.

To further enhance this progress, the fiscal year 2012 budget proposes $53 billion over 6 years to continue construction of a high-speed rail network. It places passenger rail on equal footing with other surface transportation programs and includes funding for long-deferred capital investments in Amtrak's aging equipment and infrastructure, state of good repair, and systems performance reliability. It envisions the construction of new "core express", "regional", and "emerging" corridors which will be backed by careful cost-benefit analysis. The proposal offers high-speed rail where it makes sense, cost-justified, and at the right level of investment for the market needs. It will underwrite the future of true American high-speed rail.

To effectively accomplish this going forward, the right organizational and administrative construct is required. The fiscal year 2012 President's budget consolidates passenger rail programs into two accounts to ensure comprehensive and effective management of high-speed rail. Through the proposed rail account of the new Transportation Trust Fund, Network Development and System Preservation focus on two main business lines: building high-speed rail and operating/maintaining existing and new assets and infrastructure. Included in the request is $5.5 billion from the President's "up-front" $50 billion call for transportation investment, which will begin corridor development and address existing long-standing backlog such as Amtrak's aging assets and rail stations inaccessible to those with disabilities.

Just recently, we received more than 90 applications from 24 States, the District of Columbia, and Amtrak totaling nearly $10 billion for competition for $2 billion available for high-speed rail projects. The demand to participate transcended political lines because communities will grow, manufacturing activity will expand, and mobility will improve. Not unlike the bold step under President Eisenhower, the development of our interstate highway system needed significant spending even during the recessionary period of the late 1950s. Our leaders recognized this spending was simply needed and worth it, not only for the many transportation benefits but also for the creation of industries, communities and jobs of the future.

CREATING JOBS TODAY

While the President's vision describes a goal for tomorrow, it's also about creating jobs today. We're seeing real results from existing high-speed and intercity passenger rail projects. For example, through ARRA investments, State and freight rail working together, the Union Pacific Railroad's modern Track Renewal Train is pulling up antiquated wooden crossties and replacing them with modern concrete crossties, all in one step. This will permit increased passenger train operations to 110 miles-per-hour; and lay the groundwork for frequent service with competitive trip times in the Chicago to St. Louis corridor. The Union Pacific estimates that it will have 700 employees working on the project this year. In addition, during fiscal year

[3] Table 1.—Projections of the Population and Components of Change for the United States: 2010 to 2050, Population Division, U.S. Census Bureau, Release Date: August 14, 2008.

2011, we will see construction activity from Amtrak's Northeast corridor to the Pacific Northwest, which will create hundreds of rail-related jobs.

Similar to the Interstate System plan in the 1950s, we haven't finalized all the lines on the map or precisely calculated the costs, but we know a major undertaking like this will have a ripple effect on job creation across the Nation. The impact extends beyond the regional transportation and economic development benefits. The rail being laid today is coming from places like Pueblo, Colorado; Columbia City, Indiana; and Steelton, Pennsylvania. The crossties are coming from places like Tucson, Arizona; Durham, Connecticut; and Sciotoville, Ohio. Specialized track work such as turnouts and crossovers are coming from places like Birmingham, Alabama; Newport, Arizona; Newton, Kansas; Knoxville, Tennessee; Sherman, Texas; and Vancouver, Washington. Ballast is coming from places like Sprague, Washington; Westbrook, Maine; Gad's Hill, and Iron Mountain, Missouri. Most of these places are not likely to see high-speed passenger rail service in the near future. However, they are seeing the positive employment impacts of high-speed rail development today.

ECONOMIC BENEFITS

While mobility is essential to our current and future economic well being, high-speed rail offers the potential for further long-term economic benefits. Throughout our history, transportation has served as a catalyst in developing the new industries and businesses that make our economy the envy of the world. The 19th century railroad investments were a catalyst for the creation of a steel industry. The development of improved highways served as a catalyst for the development of the automotive industry. The development of airports and aids to navigation has served as a catalyst for advancements in the civilian aircraft industry.

High-speed intercity passenger rail offers an opportunity for equipment, component, and supporting manufacturers to build a robust and sustainable passenger rail system. Once "Made in America" meant the standard for the world in passenger rail transportation. The President, Secretary LaHood, and I are committed to re-invigorating that standard through implementation of a strong "Buy America" policy that will ensure that whenever possible, American companies will provide the materials and equipment we need to keep our rail lines up and running.

Companies from across the Nation—from New York to California—are starting up, expanding or leveraging work already begun to compete in terms of quality, price, and U.S. content. U.S. companies are applauding that our program makes domestic production a competitive advantage. The manufacturer of Amtrak's new single-level long-distance coaches committed to exceeding minimum U.S. content requirements and moved functions in-house that were previously performed offshore. The Canadian manufacturer of Amtrak's Acela rail cars in the 1990s opened a factory in New York State that can do work once done beyond our borders. But the key to building a sustainable domestic industry, an industry where companies strategically plan, develop new products, and create stable, long-term employment with good salaries and benefits, is a sufficiently large and reliable domestic market demand. Our proposal provides the stability needed to grow the industry and will provide U.S. companies manufacturing opportunities.

Rail investments also influence our communities and invite new development and economic activity. Washington's Union Station was once in a depressed part of town and the station was in ruins. With determination and vision, our predecessors restored the rail station as an intermodal hub linking high-speed rail service on the Northeast corridor to Washington's regional and local transportation. Union Station attracts over 32 million visitors per year and its intermodal connections attracted new companies like Sirius XM, Kaiser Permanente, and CNN who were eager for good workers. Creating an opportunity for corporate development and investment goes beyond the rail platform and station to include surrounding localities.

High-speed rail not only benefits larger cities but also small, rural communities. The Northern New England Rail Passenger Authority (NNEPRA) has been tracking the influence of intercity passenger rail service on the communities served by Amtrak's Downeaster. The service began 10 years ago and NNEPRA estimates that more than $350 million in public/private development projects have been completed or are underway in Maine, creating jobs, revitalizing downtowns, and generating new revenues for the surrounding areas. Within weeks of DOT's announcement that it was allocating funds for the expansion of the service, private developers began to invest near rail stations in Freeport and Brunswick. Many cities and towns contact us every week looking to compete and bring high-speed rail and those benefits to their area.

ENERGY AND ENVIRONMENT BENEFITS

High-speed intercity passenger rail uses less energy, often from cleaner sources than other transportation alternatives. The U.S. transportation sector consumes 13.8 million barrels of oil every day and consumption per capita is nearly twice that of the European Union.[4] Imported oil accounts for two-thirds of U.S. demand and has substantial implications for our economy and national security—each day, the United States spends $1 billion from foreign countries.[5] More efficient than airplanes and vehicles, high-speed rail offers the opportunity to power intercity transportation with domestically generated electricity. Instead of travelers spending more money for higher cost imported fuel, we can keep the money here and help strengthen our economy.

Fuel savings will result in a healthier environment by reducing emissions. The United States emitted 14 percent more greenhouse gases in 2008 than it did in 1990 with nearly one-third of emissions from the transportation sector. There's a concern growing about climate change and other air pollutants. Our vehicles, aircraft, and rail will need to reduce emissions in the years ahead. Rail can help our economy and our environment, with its greater efficiency and the opportunity it affords to use domestically produced, renewable, or low-emissions electricity.

AMTRAK

For the last several years, Amtrak's Northeast corridor service has been a real world demonstration of the potential for high-speed rail in the United States. Amtrak increased ridership on its high-speed service—Acela—from 2.5 million trips in 2005 to 3.2 million in 2010. The Northeast corridor carried more than 10.3 million passenger trips in 2010. The Northeast regional economy wouldn't be the engine it is today without passenger rail. Just last month, Amtrak posted its 18th consecutive month of year-over-year increased ridership and it is on target for another record year. In the first half of the fiscal year, Amtrak's ridership is up 5.9 percent, while its yields are up 5.5 percent—more than twice the rate of inflation.

Amtrak and its new management have made many positive changes to maintain an effective and reliable train system. However, years of underinvestment and cyclical Federal support have challenged Amtrak's ability to provide service levels the public expects. This is evident in antiquated bridges (some old as 100 years) and main power systems (going on 80 years of service) on the Northeast corridor. Rail stations need improvement and accessibility to comply with ADA requirements, and Amtrak's aging fleet is due for major replacement.

The fiscal year 2012 budget proposes stable and sufficient resources to operate and maintain a safe and reliable rail system for the American public. First, we recognize that Amtrak provides important national connectivity and backbone systems such as ticket reservations upon which intercity passenger rail depends. The proposal provides dedicated funds to Amtrak for the near-term to continue foundational systems as well as develop integrated and improved high-speed and intercity passenger rail service.

Further, Amtrak's vital special services such as custodians of the intercity passenger rail equipment fleet and other publicly controlled assets and infrastructure require directed funds in the short-term. However, as ownership of rail equipment for Regional Express and Emerging High-Speed Rail Corridors mature and develop, that approach will be revisited and other service providers will compete for funds. In the area of new corridor development, Amtrak would be the lone recipient or partner with States. The key for Amtrak is that the competition be based upon a "level playing field" and that the corporation continues its progress in improving efficiency and responsiveness which will be essential in a competitive environment.

The fiscal year 2012 proposal builds on the paradigm of Federal rail investment created by PRIIA. Historically Federal investment in intercity passenger rail was a bilateral arrangement—FRA grants to Amtrak. Going forward, many different arrangements would be available to develop and operate intercity passenger rail. There will also be an important role for private capital investment as well. The transition has begun with the funding provided in ARRA and in fiscal year 2010. I am confident that Amtrak will continue to play an important and growing role in America's emerging high-speed intercity passenger rail program.

[4] CIA World Factbook.

[5] "Remarks by the President to the Nation on the BP Oil Spill." 15 June 2010.

SAFETY

FRA's backbone mission is safety. Together with the rail industry, FRA has made significant progress in changing what was once one of the most dangerous sectors to one of the safest. An independent study conducted as part of the fiscal year 2009 Annual Enforcement Report states that "the safety program as a whole, including the effects of civil penalties, is highly effective." However, when rail accidents do occur, they carry a high probability of risk to lives and communities. The budget proposes safety funding and programs that build upon existing approaches to prevent accidents and reduce potential injuries.

The most significant element of our new strategies is the risk reduction program (RRP). We are supplementing our existing regulatory and inspection system with a new focus on the precursors of accidents and incidents. FRA's RRP is an FRA-led industry wide initiative which builds strong safety cultures by addressing systemic contributive factors using "upstream" predictive data. This system is most effective with a range of programs such as confidential close call reporting system, peer-to-peer coaching, management development systems and collision hazard analysis currently in place on some commuter railroads.

FRA's Office of Safety and Office of Research and Development have been collaborating on the development of new metrics, such as the Track Quality Index, that address trends in safety-sensitive infrastructure and equipment and identifies those precursors needing monitoring. Those offices are also developing technologies such as the autonomous track geometry system, the joint bar inspection system, and guided wave rail flaw detection that will permit FRA and the rail industry to more closely monitor infrastructure and equipment to prevent accidents before they occur.

MOVING FORWARD

The new strategies that FRA is pursuing require not just more resources but different skills and abilities to build upon our traditional safety program. Our staffing request focuses on additional safety and safety-related research and development personnel. Specifically, it includes an increase of 83 full-time equivalents including 24 for the high-speed rail program. The proposal also gives FRA the authority to use program funds for FRA's costs related project implementation and oversight. Ultimately, FRA's assistance programs will closely mirror familiar Federal Highway and Federal Transit Administration programs. These resources are essential for FRA to continue successful implementation of our new mission.

Despite the challenges FRA has faced, I am proud of the job FRA has done. The Government Accountability Office's (GAO) recent report: Intercity Passenger Rail: Recording Clearer Reasons for Award Decisions Would Improve Otherwise Good Grantmaking Practices praised FRA's merit-based practices in identifying projects and awarding grants and particularly called FRA a top agency for communicating critical information on the competitive high-speed intercity passenger rail program. Conversely, GAO's suggestions for improvement will be incorporated into the grant making process. Coming from an independent source such as GAO, I still see this as validation of the efforts of a small agency that just 5 years ago had only $30 million in discretionary grants.

WHERE WE'RE HEADED—WINNING THE FUTURE

The President's fiscal year 2012 budget and bold vision to invest in high-speed rail is important not only for folks hoping for another option, but for our children and their children who will need one. One of the projects funded by ARRA is the replacement of a nearly 100-year-old bridge over the Pattagansett River near East Lyme, Connecticut. It has been a vital link for Amtrak and travelers through seven wars, 19 Presidents, and numerous cycles of our economy. That bridge was an investment by our great grandparents' generation and helped America develop the greatest economy and transportation system in the world.

The challenge today is for us to recognize—as our forefathers did—that even in uncertain times, we must invest in our infrastructure to ensure we meet the transportation needs of the future. A long-term commitment to developing high-speed intercity passenger rail will pay significant dividends for our children and grandchildren. We must be willing to make this investment to win the future.

Senator MURRAY. Thank you very much.

Mr. Boardman.

NATIONAL RAILROAD PASSENGER CORPORATION (AMTRAK)

STATEMENT OF HON. JOSEPH H. BOARDMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

ACCOMPANIED BY JOHN O'CONNOR, VICE PRESIDENT AND CHIEF OF POLICE, AMTRAK POLICE DEPARTMENT

Mr. BOARDMAN. Thank you. Good morning, Senator Murray, Senator Collins, and Senator Lautenberg.

Before I get into the 2012 funding need, I would like to take just a second to discuss some of the revelations that have come in the wake of Osama bin Laden's demise.

We have worked closely with both domestic security organizations and foreign rail organizations. The European network of Railway Police Forces (RAILPOL), for example, has been created, and I have our Vice President and Chief of Police John O'Connor with us today, who has taken an active role in making sure that we are keeping an eye on what is happening not only in this country, but in Europe, in terms of the way that this is being investigated.

We are most concerned with the possibility of an external attack on a train at a vulnerable point, whether that be a bridge or a tunnel, and we are seeking as best we can, in cooperation with DHS and TSA, additional support to find warning and detection systems that would help us in the event of such an attack.

The Administrator talked a little bit about his program, and there is a large part of his program that involves development. And if you look at some of the technology that is available today, adopting that, extending it, and using it for the future, we think, has real possibilities for us.

I think it is important to really think about what we are really threatened with, rather than some of the other ideas that have been expressed. And what we are really looking at today is ridership that has increased month-over-month for the last 18 months in Amtrak. We see people flocking back to using rail. And as Senator Lautenberg talked about, there is standing room only in many, many of our trains today. Our ridership has grown 36 percent since 2000, and last week the DOT awarded us a $450 million grant to improve speeds on our Northeast corridor, a line through New Jersey. And the Senator already asked me this morning when that was going to be done, and I do not have that schedule yet, Senator. That improvement will be one of the steps in recognizing for the future our vision for a greatly improved Northeast corridor service that was talked about this morning.

For fiscal year 2012, Amtrak has asked for a total of $2.22 billion, divided into $616 million to support our operations, $1.285 billion for capital programs, and $271 million for debt service, as we are working hard on debt, as you have already recognized. With the exception of about $50 million in funding we requested for the

Northeast corridor Gateway Project in New York, and the additional debt service money to buy out leases, these are levels that are authorized by the Passenger Rail Investment and Improvement Act of 2008.

We have detailed many of our major programs in the written portion of our testimony, and we have just updated the fleet plan. We placed orders for new electric locomotives and single-level long-distance cars. We need to add capacity to the Acela services; we expect to be able to add 40 cars to the existing 20 Acela passenger service vehicles. This investment will generate for us about $100 million of additional revenue once we deploy it. We plan to begin that procurement with these cars in fiscal year 2012.

Amtrak has focused heavily on controlling its costs. We have cut our debt level from $4 billion to $1.8 billion, as has already been mentioned. We are the most cost-efficient passenger railroad in America, covering 85 percent of our total operating costs from revenue, of which 76 percent is generated through ticket sales.

We are improving how we are doing our work with point-of-sale solutions on our trains, with e-ticketing, with Wi-Fi on the Acela trains, which in and of itself increased an incremental 1.5 percent improvement in our ridership, translating into 47,000 riders and $6.5 million of incremental revenues in 2011.

PREPARED STATEMENT

I understand, as Amtrak understands, there will be difficult fiscal choices for you to make. As you know, continued capital funding will allow us to reduce or eliminate problems that translate into increased operating expenses. Over the long term, an effective capital investment program can translate into permanent reductions in expenses. I also look forward to questions.

[The statement follows:]

PREPARED STATEMENT OF HON. JOSEPH H. BOARDMAN

Good morning, Chairman Murray, Ranking Member Collins, and members of the subcommittee. On behalf of the Amtrak Board of Directors and the men and women of Amtrak, I'm pleased to have the opportunity to come before the subcommittee today to discuss our fiscal year 2012 funding request. To start with, I have some very good news to report: Amtrak has just finished 18 straight months of year-over-year ridership growth. This was our best April ever, and we're on track to set another annual ridership record. This is part of a long-term trend we've seen since 2000 of growth in demand for our services, and many of our individual services are likewise setting records and seeing similar trends of growth—the Downeaster service in Maine, for example, just finished its best April ever in terms of ridership and revenue.

Systemwide, our ridership has grown more than 36 percent since 2000, and I expect that trend to continue—and if gas prices continue to rise, to accelerate; our only restriction will be the available capacity. Last year, we carried more than 28.7 million people. Of those, about 10.4 million rode Northeast corridor (NEC) trains, and 13.8 million rode other short-distance corridor, many of them in California, whose three corridor services carried about 5.2 million riders. Our 15 long-distance trains, which carried more than 4.5 million riders, are the only Amtrak service in 23 States and at 223 of the 516 stations we serve. They provide an important service to passengers with disabilities who travel on long-distance trains at a proportionally higher rate than the other services; 42 percent of the passengers with disabilities who took an Amtrak train in 2010 traveled on one of those 15 trains.

Amtrak plays an important role as a provider of rural transportation services, which has become increasingly important as bus and air services to rural areas contract. The Bureau of Transportation Statistics estimates that almost 16 percent of Americans enjoy access to only 1 of 3 intercity transportation modes (train, bus, or airplane), and bus routes today serve 12 percent fewer rural residents than they did in 2005. About 152 of Amtrak's stations serve rural communities, many of which have no intercity bus service.

To sustain this system, Amtrak has asked for a total of $2.22 billion in fiscal year 2012, divided into $616 million to support our operations, $1.285 billion for capital programs, and $271 million for debt service. With the exception of the $50 million in funding we've requested for our NEC Gateway project in New York, and some additional debt service money to buy out leases, these levels are those authorized by the Passenger Rail Investment and Improvement Act of 2008. The administration has proposed a considerably higher number, totaling more than $53 billion over a 6-year period. As Secretary LaHood recently testified, this money would both preserve the existing system and continue construction on a national high-speed rail network. Their plan will level the playing field, funding high-speed rail in a manner similar to the way other modes such as aviation and highways have been funded for decades. The administration's proposal will simultaneously help to fund Amtrak's state-of-good-repair needs, and it will go a long way toward advancing the goal of making passenger rail more accessible to more Americans.

These are major needs, and Amtrak strongly supports this effort to invest in transportation modes that provide Americans alternatives to congested highways and airports. We detailed some of the major programs in our grant request, which we submitted in February. Foremost among the needs we have identified are rolling stock replacement and capacity development. We have just published an update to our fleet plan, which identifies some of our major equipment needs, and we have placed orders for new electric locomotives and single level, long-distance cars to replace the aging Heritage Fleet that we inherited from predecessor railroads.

As an interim measure, we have used American Recovery and Reinvestment Act of 2009 funding wisely to return stored cars and diesel locomotives to service. A total of about 60 Amfleet cars (enough for 11 NEC trains) and 15 locomotives, as well as 21 Superliner cars, were put back to work after rebuilding at our shops in Bear, Delaware and Beech Grove, Indiana. This equipment has eased the strain on a fleet that's aging and hard-run and has helped us to expand capacity on our heavily patronized Northeast Regional trains. We would like to expand capacity on our Acela Express trains, but to do so will require the addition of 40 cars to the fleet. We plan to begin the procurement of these cars in fiscal year 2012.

Amtrak is also working to realize our vision for high-speed rail in the Northeast. We recently unveiled our vision for "next-generation" high-speed rail in the NEC, and we announced our plans for the "NEC Gateway" into New York in January. Our grant request included a specific request for $50 million in funding to begin this project, and we are also actively pursuing High-Speed Intercity Passenger Rail Program (HSIPR) grant funding from the Federal Railroad Administration for components of the project. We are working closely with States to pursue projects that will improve existing services. The States of Washington and Oregon have received about $590 million in HSIPR grant funding to improve the Cascades route, lay the groundwork for faster service, and make immediate improvements in service reliability, route capacity, on-time performance, and trip times. Maine has received a $35 million grant to restore 30 miles of track and extend the Downeaster service to Brunswick and Freeport. In addition to these ongoing projects, Amtrak has partnered with Maine, Oregon, and Washington, among others, to seek additional grant funding under the HSIPR program. Last month, we supported applications for $62 million to add double track on portions of the Downeaster route. We also supported a series of applications for more than $105 million in funding to replace aging bridges, eliminate bottlenecks, and add equipment to the Cascades service.

Amtrak is focusing heavily on cost-effectiveness, and projects like these will sustain the system, reduce operating costs, and generate additional revenues. We've made significant progress in paying down our debt, cutting our debt level in half, from $4 billion in 2002 to $1.8 billion today. Amtrak reduced its debt by $850 million in fiscal year 2010 alone, and we have addressed recent audit findings to improve our financial controls and accountability. We're in the process of launching a new financial accounting system, and I expect that this will help us greatly in our ongoing efforts to improve accountability and management procedures.

Amtrak is already the most cost-efficient passenger railroad in America, generating 76 percent of its operating need out of the farebox and covering more than 85 percent of its total operating costs from revenues. We are working constantly to find solutions that will generate more revenue from each person-hour worked. For example, we are developing electronic "point-of-sale" solutions for our on-board environment that will replace the time-consuming and costly process of manually tracking stock in every café and dining car on every trip with a system that will automatically track sales and allow our workforce to focus instead on selling food. Similarly, we are in the process of implementing an e-ticketing system that will deliver a real-time manifest and ultimately replace the traditional conductor's ticket punch with a handheld "smart phone" device to lift tickets electronically. The first phase of this system went into operation on the Auto-Train, where we use gate check-in, in February, and it is already providing us with improved customer service and manifest information. We expect to extend testing with the conductor handheld to the Downeaster service this month, followed by the Capitol Corridor in California. The program, which should be complete by the end of fiscal year 2012, will greatly improve our manifest system, make ticketing easier, and allow better customer service and reduced costs.

Wi-Fi on our Acela trains, which we introduced in fiscal year 2010, is another such success. Conservatively we estimate Wi-Fi has delivered an incremental 1.5 percent improvement in Acela ridership, which translates into 47,000 riders and $6.5 million in incremental revenues in fiscal year 2011. In fiscal year 2012, we expect incremental ridership and revenue from Acela Wi-Fi to grow to 63,000 and $8.6 million, respectively. Given this proven success, and working with our State partners, Amtrak is now in the process of extending Wi-Fi to our eastern and western corridor services this year. In fiscal year 2012, these new offerings are expected to generate an additional $13.7 million in ticket revenue while simultaneously adding more than 250,000 additional riders (the exact number is 280,400).

Solutions like these are dependent on capital funding, but have proven themselves capable of raising revenues and improving our cost recovery rate. Similarly, the process of replacing outdated infrastructure can reduce maintenance and operating expenses, and for that reason, we're seeking every penny we can get so that we can continue to develop a more cost-efficient and effective operation.

I understand that there will be some difficult choices this year and in the coming years with regard to Federal spending and the budget deficit. Amtrak recognizes the funding challenges and will continue to provide financial transparency for all of our programs so that the Congress and our stakeholders have the information they need regarding the way in which we are expending federally appropriated funds. As you can appreciate, continued capital funding will allow us to reduce or eliminate problems that translate in turn into higher levels of operating expense. Over the long term, an effective investment in capital can translate into a permanent reduction in expenses, and I hope the subcommittee members will consider this carefully as they discuss our proposed funding levels in coming months.

Thank you and I welcome the opportunity to answer your questions.

Senator MURRAY. Thank you very much.

RAIL SECURITY AND TERRORIST THREATS

As has been mentioned a number of times now, we have discovered credible and specific documentation about al Qaeda's interest in launching an attack against our national rail network from information that was gathered at Osama bin Laden's compound. That information strongly suggests the administration become more diligent in recognizing rail transportation as a potential target, and we have got to take some active steps to secure our passengers and hazardous materials in particular.

Mr. Boardman, can you please comment on the steps you are taking to protect your passengers, your partnership with DHS, and what financial support they provide to assist the corporation with its homeland security mission?

Mr. BOARDMAN. Yes, ma'am. We have a very strong partnership with DHS and TSA. My vice president for security and chief of police has almost a daily conversation with TSA staff in terms of what we can work together to do.

Security grants since 2005 total almost $200 million, and we have used those for infrastructure protection—for bridges, for example—and also to expand our K–9 program. Our K–9 program has grown from about 23 animals and handlers to 47 today, and we believe that we are probably the best in the United States with both vapor wake dogs and with determining or detecting improvised explosive device (IED) explosives. Even in one of our recent competitions, our dogs and team handlers came in first, third, and fourth across the country in terms of our ability. We have the ability to train—and we do—every single day to stay at a high level of readiness with those animals and with their handlers.

OFFICE OF INSPECTOR GENERAL

We have increased our patrols. We have had a public outreach program and worked diligently with DHS and the Secretary on "See Something, Say Something." We have a Regional Alliance Including Local, State, and Federal Efforts (RAILSAFE) program, which really is a multistate and multi-agency effort to immediately mobilize and provide assistance from all of the community resources that are available for security and enforcement. We have been able to demonstrate our ability to set that up in a very short period of time, as a matter of fact.

We were able to help Alabama with our own mobile command post, and our employees in Hackleburg, Alabama, by providing them with assistance during the recent tornado, and we have an entire team of Amtrak police and security folks that provided that assistance.

We work with the TSA on regular screenings on an irregular basis, and we are proposing today and looking at an inspector right-of-way patrol, some of the visible intermodal prevention and response (VIPR) operations, maybe even some air support on things that we are trying to provide across the country.

The no-ride list issue is a very difficult one for everybody to deal with, especially in railroads. Railroad security is very different than aviation security in the sense of the access there is, even on the Northeast corridor. So often we talk about Amtrak ridership nationally being 28 million, but every day we handle in the neighborhood of 600,000 to 700,000 commuters on the Northeast corridor, using most of the facilities that we operate, handle, manage, and control. So we are well into the millions of ridership that depend on Amtrak's ability to do that job.

Senator MURRAY. What about additional security checks?

Mr. BOARDMAN. Pardon me?

Senator MURRAY. What about additional security checks?

Mr. BOARDMAN. Additional security checks?

Senator MURRAY. Yes.

Mr. BOARDMAN. We have worked with especially the New York City police agencies to make those additional checks at Penn Station, and also up and down the corridor—we have many of our VIPR teams providing that.

COLLABORATION WITH OTHER SECURITY FORCES

Senator MURRAY. Mr. Szabo, do you want to comment on FRA's collaboration with Homeland Security?

Mr. SZABO. Well, I think that President Boardman did a great job articulating it from an Amtrak perspective.

From an FRA perspective, we talk at least weekly with TSA, who has primary jurisdiction here—more often if necessary. We meet with them at least quarterly, more often if necessary, to ensure that we have the proper level of coordination. We are deeply involved in the inspection and implementation of programs to protect hazardous material shipments and work very closely with TSA on that.

I think one of the most important things we can do for the future is to ensure that we have appropriate funding for research and development (R&D). There is quite a bit that we can do through enhanced technology to make sure that there is no interference with the railroad right-of-way, to make sure that both passenger trains, as well as freight trains, are properly protected. We have got some R&D underway that I think would be helpful on this as far as rail detection in real time. But ensuring that programs like that, technologies like that move forward would be very important.

We do require and regularly inspect both the rail carriers' and the shippers' plans for their personnel security, what guarantees they have to prevent unauthorized access to the property and their en route security plans.

Senator MURRAY. Well, I appreciate the comments from both of you. I want to reiterate that rail security going forward is going to be very important. As both of you know, and we all know, long before potential plots were uncovered in Osama bin Laden's compound, security officials have been warning the United States that our railways were potential terrorist targets. They did that, in part, because we had seen attacks abroad, but also because there were failed attacks on our surface transportation systems here at home.

The Congress passed the 9/11 Commission Implementation Act which required TSA to address a variety of surface transportation security issues, including passenger rail and mass transit. But unfortunately, there are many unfilled requirements of the act that are of concern. TSA developed several risk assessments to address rail and other public transportation at high risk of attack, but they have not done a comprehensive risk assessment of all modes of transportation. And I am concerned that TSA's security strategy for freight rail focuses almost exclusively on rail shipments of toxic inhalation hazards, despite other assessments that have identified potential security targets, such as tunnels and bridges.

So despite nearly doubling TSA's surface transportation security budget, these issues do remain unaddressed and unanswered. In fact, a Wall Street Journal article recently pointed out the fact that for every $50 TSA spends on aviation security, the agency budgets $1 to protect surface transportation.

Now, I realize that these issues are not solely under the jurisdiction of our witnesses today, but I do feel that they are very critical issues moving forward, and I want to work with my friend and colleague, Sue Collins—she and I wrote the Port Security Act—and move forward on that. And I think that is very important, that we really focus on this as we move forward, and I look forward to working with anyone who will work with us again to do that.

Thank you very much. And I will turn it over to Senator Collins.

Senator COLLINS. Thank you.

AMTRAK RESPONSE TO AL QAEDA TERROR THREAT

Mr. Boardman, let me just follow up on the chairman's questions. You mentioned—and you are exactly right—that it is far more challenging to deal with train security than air security. Air security—you can vet every passenger. The plane is presumably out of danger during the transit if there has been appropriate screening of passengers and baggage and other freight. But trains can be vulnerable every step of the journey.

So my question to you, without asking you to disclose classified information, is: When you received the joint intelligence bulletin about the data that was confiscated in bin Laden's compound, what specific additional steps did you take to improve rail security for Amtrak? You talked about inspections and K–9 use, but those have been around for some time. What additional measures did you put in place in response to this intelligence?

Mr. BOARDMAN. I think the answer to that is that we needed to think about how this may happen and where it might happen, for example. And you have already pointed out that it could happen anywhere. It could happen anywhere across the country.

So one of the things I looked at, being the former FRA Administrator, was to look at what does FRA and what does the industry have on its plate, and looking at development of the detection devices that we might be able to employ, using work already done by the FRA and industry. FRA, as was pointed out earlier, has been primarily a safety organization, and works on rail flaw detection to see where there might be a potential for a derailment based on some flaw in the rails that exist.

But the technology began to come forward with ultrasonic testing and laser-based projection of that technology to see ahead of a train, to see how far ahead we could investigate whether a rail had the ability to sustain the train, and maybe even if you are looking ahead and looking at the gauge of the track, whether there was any widening of the gauge or narrowing of the gauge in some fashion. So the first real step was to think about what it was that we could do for the future to detect it through technology. And there is some potential.

Right now, the way they are looking at it, though, is at speeds of 40 miles an hour. That is okay for freight, but it is not okay for passenger, especially for our very high-speed rail. There needs to be an improvement in that. There is not funding there to do that, and whether the capability is there or not, investigation funding needs to happen to see us improve that technology.

The second thing was that we needed more right-of-way patrols that we could look at and find whether there was any difficulty at vulnerable locations. There have been studies in the past done to identify vulnerable infrastructure, at least in many places early on. After 9/11, we began to look and catalog what those vulnerable locations are so that there would be an increase in the number of patrols. Some of that has occurred. More of it needs to happen. We are working with TSA and DHS to find a better way to do that as well.

PARTNERING WITH STATE AND LOCAL LAW ENFORCEMENT

Senator COLLINS. One of the lessons that we have learned in the Homeland Security Committee is the importance of the partnership among all levels of government, and it occurs to me that given the challenge you face, in addition to looking to technology, maybe we should look at some sort of program like Operation Stonegarden, which DHS has, where the Border Patrol works with State, county, and local law enforcement to do patrols along the border. Because Federal officials, Federal law enforcement, Homeland Security, Amtrak officials, cannot be everywhere. It is simply impossible. But if in fact you tap into State, local and county law enforcement, it really is a force multiplier, and the Operation Stonegarden program has worked very well in that regard.

So I would be interested in your taking a look at whether we should create some sort of similar program for training security where you can work in partnership with State, local, and county officials to do some of those patrols along your railways. I think that would be a way to expand coverage in an economical way. The partnership is absolutely essential if we are going to increase the security of our country, no matter the mode of transportation.

Mr. BOARDMAN. May I respond?

Senator COLLINS. Yes, please.

Mr. BOARDMAN. I absolutely agree with you and I think a few years ago, Amtrak had lost its way in terms of what it was going to do for security. We now have a direction of a very strong relationship in community policing that begins or helps with the kind of thing that you are talking about, and we do that with RAILSAFE.

The one caveat—and I am sure you already recognize this—is we have to be careful with having untrained people in any kind of right-of-way along the railroad because of the danger that is involved. Even our own folks have lost their lives because of how quick a train is upon somebody.

So, yes, I agree with what you are saying. Yes, I think we can do better and do something different, and I will talk to our staff about doing that. But it needs to be people that are knowledgeable about the environment they are in.

Senator COLLINS. Thank you.

Senator MURRAY. Senator Lautenberg.

Senator LAUTENBERG. Thank you each for the work that you do and the leadership that you provide in your respective departments. We see really good progress being made.

FUNDING FOR RAIL SECURITY

However, it is not enough. This is not a discredit to you. It is the fact that we are not devoting enough energy, enough funding, and enough attention to what the circumstances are with rail. Last year, we saw 700 million airline passenger trips on airlines, 10 billion on transit and rail trips, and yet we spend 98 percent of our money on aviation security and 2 percent on rail security. And we know the risks are real. I mean, if we look at the experience of Madrid, London, Moscow, and Mumbai, we know that these are soft points for terrorists, and that is confirmed, obviously, by the information obtained as a result of the Osama bin Laden information that has come out.

So we have got a job to do, and it is frustrating, and I am sure you feel it as we do here. Why is this subject overwhelming and not a place that we have to battle to get basic funding for these projects? The George Washington Bridge was built during the Depression. Jobs, and improvement in the future—and that is what we are looking about.

Now, when we talk about the population growth that might come in 30 or 40 years, when I get there, I want to feel that we can travel with ease. So I would like that word of cooperation from you. Say: Frank, 40 years from now, when that population growth includes you, you will be able to move around.

HIGH-SPEED RAIL INVESTMENTS IN THE NORTHEAST CORRIDOR

But apart from that attempt at humor, I commend the administration for recognizing the importance of the Northeast corridor by awarding Amtrak nearly $500 million in high-speed rail funds to upgrade the corridor in New Jersey. And I ask specifically, Mr. Szabo, how will these funds, like the Gateway Tunnel, help advance the President's national high-speed rail plan?

Mr. SZABO. It is about making those improvements that really do three things: reduce trip times, improve reliability, and provide for additional capacity. The improvements that were announced last week, particularly those investments in the power supply in the catenary, do all three. They have been a source of reliability problems historically. So we will help fix that problem. The new catenary is going to allow for top-end speeds up to 160 miles per hour. And so with that, it is reducing trip times. And the ability to expand utilization of the Northeast corridor has historically been hindered because of the power supply. So it provides that additional power that will allow for future enhancements.

I think it has to be viewed as, these are only first steps, but they are very, very important steps that do those three things: improve reliability, reduce trip times, and provide for additional capacity.

Senator LAUTENBERG. Mr. Boardman, Amtrak included $50 million for the Gateway Tunnel project in its budget request for next year. What will be the impairment of these ideas to the ability to develop a more reliable, higher-speed system? What will be the impairment if we do not build that Gateway Tunnel?

Mr. BOARDMAN. I think we are out of capacity in the Northeast corridor. We cannot add, especially in Penn Station. So we have tunnels. We have signals and approaches. We have power. We have nowhere to put the New Jersey Transit trains, for example, that come into Penn Station. Whereas the Long Island Railroad trains come in and go to the west side yard and get out of the way, we do not have an ability to find a place to put the New Jersey Transit trains. So capacity is really beginning to constrain the ability to add service, and then the fluidity of high-speed service. If we are really going to have high-speed service that works so we have 3 hours between Boston and Washington, DC, we need not to have New York be any more of a bottleneck than it already is.

Senator LAUTENBERG. So that is a key item in the development of the high-speed system.

Mr. BOARDMAN. Absolutely critical.

Senator LAUTENBERG. Without question, a tunnel is essential.

Mr. BOARDMAN. Yes.

Senator LAUTENBERG. You know, we have had a few attempts at other designs and so forth, but this one, in this early stage, looks like it really fills the bill, will permit more Amtrak trains to get through on an hourly basis and improve the transit business, the transit opportunities as well.

Mr. BOARDMAN. We all work together.

Senator LAUTENBERG. Thank you, Madam Chairman. I assume that we will have an opportunity to submit questions for the record.

Senator MURRAY. Yes, you will have an opportunity to submit questions. Any member will. Thank you very much.

HIGH-SPEED RAIL GRANT SELECTION CRITERIA

I know that FRA has done extensive work to develop a commercial feasibility study for high-speed rail development, a strategic plan, and a progress report on the national rail plan. And as GAO reported recently, you have done a good job of developing clear application criteria and a merit-based review process for high-speed rail grants.

At this point, the Congress is looking for more detailed information about the designated corridors, regional services, and emerging routes you have identified. For example, we want to know, where does it make sense to focus investment in the short and long term? What it will cost in terms of initial capital and operations and maintenance? And what are the tangible benefits that we achieve with these investments.

Mr. Szabo, when will you have answers for this subcommittee on questions like that?

Mr. SZABO. First off, let me say this. We were very pleased with the GAO report backing up to that. It was the first time in more than a decade that the term "good" has been used in a title of a GAO report. It happens once for every 12,000 reports that they issue. So we appreciate the fact that the vast majority of that report was complimentary in our selection process.

You made a statement in your opening address which is imperative, and that is that we show that these corridors make economic sense. We absolutely have to provide the business case that shows we are not simply building high-speed rail just to build high-speed rail, but in fact that we are selecting corridors that make sense from both an economic standpoint, public benefit standpoint, as well as a transportation standpoint.

We are in the process now of putting together both what I would call a broader business case that will analyze and quantify the broad benefits of high-speed rail for the Nation, and then as a second component of that, building the business case on the individual high-speed rail projects for the corridors. We intend to have information out to you in the next couple of months.

Senator MURRAY. In the next couple months. The budget is not going to get any better, and we need to be able to show exactly what we are doing and why. So if we can get that sooner rather than later and have a clear idea of how you evaluate the public benefit for us and what those investments need to be, we will need this as we put this budget together.

STATE SUPPORT FOR HIGH-SPEED RAIL INVESTMENTS

The high-speed and intercity rail grants that have been awarded so far have largely supported capital projects. Obviously, there are costs associated with operating new rail services. One of the reasons that Florida and Ohio pulled out of the program was due to concerns by the newly elected Governors about the life-cycle costs for operations and maintenance and services.

Can you tell us how FRA is ensuring that States will be capable of sustaining services from those investments?

Mr. SZABO. Yes. First off, I think it is important to note, while there is a lot of chatter about the fact that three States chose to pull out, one of them chose to get back in and apply again, No. 1. And more important than that, 32 States and the District of Columbia and Amtrak continue to move forward with projects. So the vast majority of States in this Nation are choosing to move forward.

To your question, first off, there is an old saying that the more you capitalize, the less you have to subsidize relative to operations. By having modern infrastructure, modern equipment, and a good on-time performance and frequency of service, you can actually drive down the operating subsidy to the point where in many cases, if you choose the right markets, you can eliminate it entirely. I think the Northeast corridor is a great example there, that there is the appropriate level of service, frequency, and reliability that allows them to actually generate a net operating profit.

If you take a look at the President's fiscal year 2012 proposal, our budget proposal, we do propose in there transitional assistance for the States with the understanding that as some of these corridors go through their initial startup period, it does take a period of time to grow the ridership. And so we are, in fact, proposing in the 2012 budget this transitionary help for the States, to be phased out over a period of time at the point that either they become self-sustainable or at least the State knowingly went in to a position that they would have to cover operating support because of other public benefits that they are receiving.

But that is a part of the application that we review from the States, their business plan, and they understand their commitment to have to cover the cost of operations should there be a deficit.

OVERTIME PAYMENTS TO AMTRAK EMPLOYEES

Senator MURRAY. Mr. Boardman, I wanted to ask you about some recent criticism about Amtrak for excessive overtime payments to some of its employees. As we try to put together a bill in this very tough environment, we need to know that every expense is justified. So I wanted to ask you today if you can explain why the corporation faces those expenses, or whether or not it is more cost-effective than increasing the workforce and what steps you are taking to manage those costs.

Mr. BOARDMAN. Thank you. Yes, ma'am.

The particular area of overtime costs is really on maintenance-of-way and the capital work that we are sustaining. It is not a new problem for Amtrak. It has been a series of problems over the years on being able to control that cost. It is very difficult to control initially because it requires 24 to 30 months of training for the people that are involved to do the work that is expected to be done.

It is difficult to do that planning—and I think it is part of what the Administrator was talking about on their proposal of having a different way of giving Amtrak money for the future—on a 12-month timetable that we operate on for our capital program. For example, when we got the additional ARRA funds, one of the things that increased the overtime cost was the demand to get so much of that work done as quickly as it needed to get done.

But in terms of whether you hire more staff or not and take that couple of years to train them, the overtime is actually at a lower cost burden. In other words, there is about a 54 percent or so benefit package that goes along with full-time employees and then the overtime. That comes down to about 18 percent. And even though the numbers of overtime dollars look high—and they are—there actually would have been an overall higher cost if we would have been able to get people on board, train them, and get them working at that point in time. And then when the ARRA funding went away, we would have had to lay them off and we would not have gotten it done in the same period of time.

All that being said, we were not doing as good a job managing the overtime as we could have with the work rules that were available, even though those work rules in some cases are not very flexible for us and so the percentage of the amount of overtime paid as opposed to the percentage of straight-time paid was escalating beyond where it should be.

That has backed down now already with a focus on that. The Chief Financial Officer and the Chief Engineer have made great strides in making that happen. I know that has happened because the number of grievances has gone up among the workforce because of their concerns about having some of that overtime down.

Senator MURRAY. Thank you very much. I appreciate it.

Senator Collins.

Senator COLLINS. Thank you.

AMTRAK OPERATING LOSSES

Mr. Boardman, let me ask you a fundamental question. In your testimony, you noted that Amtrak has enjoyed 18 straight months of year-over-year ridership increases. Yet, as I noted in my opening statement, your projected deficit, your operating loss, for this year is actually projected to be worse than last year.

So reconcile this for me. I do not understand how you can be serving more passengers than ever before—and it is not just a quick blip. It is every month for the last 18 months. So that presumably means you are getting more revenue and fuller trains by everyone's experience. So how come you are losing more money?

Mr. BOARDMAN. It is a difficult thing to understand, but I think I can explain it pretty well. It is the long-distance trains, and it is almost entirely the long-distance trains. There are several reasons. Wages have gone up. The fuel costs have gone up. The expenses for us to operate those services have increased. While there has been an increase in both revenue and ridership on the long-distance trains, it is nowhere near what the increase in revenue and ridership has been on the Northeast corridor.

What makes it look even worse is we were able to, in the past, use some of the money that we received over and above the Northeast corridor revenues to offset and reduce the demand or need for long-distance train subsidy. Now it is more difficult because we are actually executing a fleet plan and we are using the potential of the revenue that is coming from the Northeast corridor to go to pay for the debt costs on the 70 electric locomotives that we purchased, which means that there is a greater need again on the long-distance trains.

If the business model for long-distance trains does not work—and the pro-rail folks always shudder and worry and get very concerned when I talk like this. And that is part of what is necessary for this transparency, to understand that you are not going to cut costs far enough on the long-distance trains to make the long-distance trains profitable. We can cut costs. Food and beverage costs are continuing to be something we are focusing on to bring down.

There is a fairly significant cost today, about $60 million, that we pay the freight railroads for on-time performance. That needs to be adjusted. The program does not work in every fashion and form the way we would like it to do.

So it becomes more a question of policy in the United States about whether we are going to have a border-to-border, coast-to-coast surface transportation connectivity in the United States. Forty-two percent of the disabled people that ride Amtrak ride the long-distance trains. The rural isolated are particularly dependent on the long-distance trains. And it is not just the long-distance trains. About $180 million worth of subsidy is needed for the State-supported trains because we have not gotten back from the States yet the amount that was expected in the PRIIA legislation. So, on the corridors that they operate, some of them are part of the long-distance network and some of them operate independently. But it is that area where there is a low density that it is difficult to recover those kinds of costs.

Senator COLLINS. Would you consider recommending the termination of some of those long-distance routes that are unprofitable year after year?

Mr. BOARDMAN. They are all unprofitable. They are all unprofitable.

Senator COLLINS. Some are more unprofitable than others.

Mr. BOARDMAN. And as soon as we eliminate those, there will then be some that are more unprofitable than the remaining ones. It is kind of like the old story about if you live in a red house and people are coming to take away the people in the red house, the people in the yellow house do not care until they come for the people in the yellow house.

The fact is that my recommendation is we either run them or do not run them. But if you do not run them, the first-year cost—and this is a business decision—is a little more than $1 billion because of the protections that are there for labor, but also putting away the equipment and protecting it and so on and so forth.

We bring a huge benefit economically to the rural portions of the United States by having a place that people can actually get on a surface transportation mode of service.

The FAA itself, the whole FAA is 50,000 people in the DOT out of 60,000. Fifty thousand people are paid for for the FAA for aviation, and about 33 percent of their salaries are covered back from the aviation industry. But because of the way that we are financed or subsidized compared to other modes, it does not stick out like that where we have that kind of cost.

Senator COLLINS. I assume, therefore, that you are not a fan of former Pennsylvania Governor Ed Rendell's proposal to spin off the Northeast corridor into a separate public/private corporation because that would reduce the subsidy that you have available for those other lines. Is that an accurate——

Mr. BOARDMAN. I am not. British Rail, when they spun off, they went from about, let us say, $1 billion a year to about $7 billion a year in public subsidy by the time they were done. And I believe that you need a connected intercity passenger rail service in the United States.

Senator COLLINS. Thank you. I was not endorsing it. I was just soliciting the views of the witness.

Madam Chairman, I am participating in the Holocaust Remembrance Ceremony in the Capitol which begins very shortly, so I am going to excuse myself. Thank you for holding this hearing.

Senator MURRAY. You can submit all of your further questions for the record.

Senator COLLINS. Thank you.

Senator MURRAY. I just have a few more.

FUNDING FOR AMTRAK'S CAPITAL INVESTMENTS

Mr. Boardman, I really appreciate that Amtrak's new leadership has focused on strategic long-term capital planning. The fleet strategy is evidence of that. It describes how Amtrak will replace its railcars and locomotives, and I understand that Amtrak applied for a $563 million loan from DOT to pay for those 70 electric locomotives back in October 2009. However, FRA and Amtrak have yet to finalize the loan agreement.

So, Mr. Szabo, can you explain why this process is taking so long, and when do we expect to have this agreement finalized?

Mr. SZABO. We are prohibited about talking about pending applications, but I will say this. We are incredibly close to having that closed.

Senator MURRAY. Incredibly close, okay.

Amtrak is requesting $79 million to fund its fleet plan in fiscal year 2012, and of this, $16 million is for the first four installments to purchase new Acela cars along the Northeast corridor. I understand this investment would result in sufficient revenue to repay the cost of procurement by 2018.

Mr. Boardman, why have you asked for a direct appropriation rather than a DOT loan for those Acela cars?

Mr. BOARDMAN. I do not remember. Hold on a minute.

It is a backup plan. If we do not receive the loan, then we need to get the money, but we need to move forward.

Senator MURRAY. Okay. So you are hoping that that is what happens at this point?

Mr. BOARDMAN. The application for the loan is not in yet, but we intend to.

THE FEDERAL ROLE IN THE NATION'S RAIL SYSTEM

Senator MURRAY. Mr. Szabo, at our hearing last year, you indicated one reason for the delay in the development of a national rail plan was that the Congress shaped this program as a State-driven process, and the FRA's 2012 budget request argues that there should be a stronger Federal role in the development of rail infrastructure than the current statutory framework allows.

Can you define for us what an enhanced Federal authority means and how it would change FRA's relationship with the States?

Mr. SZABO. Think interstate system. Frankly, this is based on the feedback that we received from the States and from our partners over the past year—the past 18 months in implementing this brand new program. It will always continue to be a strong Federal-State partnership. It is going to have to continue to be a strong partnership.

But we believe, particularly when you start talking about the core express service—the top tier where you are talking 150 to 220 miles per hour, because this is going to be multiple States, more regionally based in most every case—there needs to be a stronger hand in the development of those segments of the high-speed rail network.

In addition, our experience in the past 18 months has shown us that States continue to need a much higher level of support from us than I think we first anticipated. A great example would be dealing with the freight rail industries who are the hosts, in many cases, for the emerging rail lines. They are national in scope, and so the States have been coming to us looking for a much stronger hand from FRA.

You know, we have got basically 70–80 years of experience with the U.S. DOT and State DOTs in building highways. We have now got about 24 months of experience in building high-speed rail corridors, and clearly there is a need for a stronger Federal hand.

POSITIVE TRAIN CONTROL

Senator MURRAY. I wanted to ask you about positive train control. The Rail Safety Improvement Act mandated it, and as we know, the GAO has been saying that delay risks completing the remaining steps necessary. Can you tell us where we are? Are we going to meet the 2015 deadline on positive train control?

Mr. SZABO. It is a statutory deadline, and FRA is absolutely committed to ensuring that that deadline is met. And we do believe that it is achievable. The implementation plans are in from all of the carriers. Particularly for the class 1s, they are very, very strong. There is no question it is an aggressive timeline and that everything must fall into place——

Senator MURRAY. You are not proposing any changes to——

Mr. SZABO. We are not. We are not. Now, there is a more significant challenge for the commuters than there is for the class 1s. But, no, we believe the deadline can and should be met.

AMTRAK COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT

Senator MURRAY. Mr. Boardman, I wanted to ask you about American with Disabilities Act (ADA) compliance. Can you explain to us what challenges you have been encountering and how those will affect Amtrak's ability to meet the ADA compliance targets?

Mr. BOARDMAN. I think the challenge, Senator, was first to understand what needed to be done, who owned the station, whether we could get agreement from either the local community or the freight railroad or both to get whatever it was that was necessary for that particular station done. All that was a bigger challenge than we ever really expected across the country, with the number of stations that we were dealing with, well into the hundreds—400-some-odd stations.

But we are now making real progress, we believe, in terms of making that happen. And yes, because of that progress, we are going to meet, at least in the spirit of what needs to be done, our responsibilities for ADA.

Senator MURRAY. Okay, thank you very much.

ADDITIONAL COMMITTEE QUESTIONS

I do have additional questions I will submit for the record.

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

QUESTIONS SUBMITTED TO HON. JOSEPH C. SZABO

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

ROLLING STOCK

Question. How can this funding help bring railcar and manufacturing jobs to Illinois? What actions is the Federal Railroad Administration (FRA) taking to help bring manufacturing jobs to the United States to build new passenger rail rolling stock?

Answer. The Department of Transportation (DOT) is committed to expanding economic activity and the jobs across the country including Illinois. This is a core part of our High-Speed Intercity Passenger Rail Program. In fact, the track work that was undertaken this summer between Chicago and St. Louis created a significant number of jobs in Illinois. While construction jobs are the most visible, new jobs are also created at manufacturers through supply orders; for example, track components for the project were made at the Nor-Trak plant in Decatur, Illinois. To date the Congress has committed more than $10 billion to developing high-speed rail. That Federal investment means many new orders and jobs at suppliers across the country, even in areas that will not see new service immediately. On the Illinois project alone, supplies have been produced in Arizona, Colorado, Nebraska, Nevada, Texas, Arkansas, and Missouri.

With respect to passenger cars and locomotives, DOT and FRA are actively supporting the Administration's goal to rebuild domestic passenger equipment manufacturing under three initiatives:

—Development of standard designs for the equipment so that it can be used in emerging high-speed corridors nationwide. This will reduce unit costs, improve maintenance and provide a significant degree of flexibility to the States and Amtrak;

—Creation of a large enough order of a single-equipment design that it will attract the interest of manufacturers and create the critical mass necessary to stand-up the necessary domestic manufacturing facilities; and

—Establishment of a strong Buy America program that will assure the equipment and its components are manufactured in the United States, not just assembled here. We will be working with the Department of Commerce's Manufacturing Extension Program to identify U.S. companies that can make components and subcomponents for the trains of the future. Not only does this provide jobs in the short-term, it helps provide U.S.-based manufacturers with the incentive to build upon prior equipment designs that can then result in equipment that meet both domestic and international market needs.

Year to date tangible achievements include:

—The Section 305 Committee, which is comprised of Amtrak, the States, and FRA, has already developed standard designs for passenger equipment.

—FRA grants to California and Illinois are expected to result in the largest order of new intercity passenger rail equipment in a generation.
—The solicitation of proposals and contract awards for this equipment will incorporate FRA's aggressive new Buy America standards.

AIR QUALITY—UNION STATION AND DIESEL EMISSIONS

Question. What are your thoughts about creating a way for Amtrak some other entity to make a pool of trainsets and then allowing States to lease the equipment rather than have to purchase and maintain the equipment themselves?

Answer. FRA is very interested in this concept and is exploring it within the context of the Next Generation Corridor Train Equipment Pool Committee established by Section 305 of the Passenger Rail Investment and Improvement Act of 2008 (PRIIA). FRA also awarded over $200 million in High-Speed Intercity Passenger Rail Program grants to Illinois to purchase rail cars and locomotives for a Midwest equipment pool. FRA requires a final equipment ownership, management, and maintenance plan to be developed by August 2012 that will address issues related to a multi-State equipment pool, in addition to many other issues. This plan will be developed by California, Illinois, Michigan, Missouri, and Washington, in collaboration with the PRIIA Section 305 Committee, and submitted to the FRA for prior review and approval.

Question. Administrator Szabo, what can FRA do to help improve the diesel emissions of passenger trains?

Answer. The Environmental Protection Agency regulates the emissions from diesel locomotives, with progressively more stringent standards applying to locomotives newly manufactured or remanufactured after 2004 (tier 2), 2011 (tier 3), and 2014 (tier 4). FRA oversees and manages rail financial assistance programs available to States and passenger rail operators for investing in new technologies and systems such as modern and more environmentally sound locomotives.

In addition, FRA's Research and Development Program is actively funding research to develop technologies to reduce diesel fuel emissions. Among those initiatives are:

—Development of battery-powered locomotives;
—Addressing improvements in clean energy storage such as advanced battery and super capacitor designs; and
—Use of biodiesel that reduces certain types of emission.

Finally, FRA's Office of Safety is involved with Metra's working groups that are working to identify and address means of reducing the worker and public exposures to diesel exhaust in the Chicago union station environment.

QUESTIONS SUBMITTED TO HON. JOSEPH H. BOARDMAN

QUESTION SUBMITTED BY SENATOR PATTY MURRAY

Question. As you know, the fiscal year 2010 conference agreement provided $3 million for Amtrak to deploy and study the use of human emulation technology on the Amtrak Web site. The subcommittee and the Congress agreed this technology had the potential to reduce Amtrak's operating costs, improve customer service over the telephone and online, and to provide consumers with better feedback through voice, text and page navigation support, as has been the case with deployment of such technology on private sector, transportation booking Web sites, among others. Furthermore, Amtrak was directed to provide a comprehensive report to the House and Senate Committees on Appropriations an evaluation of the impact of the utilization of such technology in achieving cost savings, and improving customer service and overall utilization. The deadline for this report is December 16, 2011. The subcommittee is aware that Amtrak has initiated a request for information (RFI), thus, beginning this process, however, I am concerned that Amtrak is in danger of missing the deadline set for this report. Therefore, I want to take this opportunity to reiterate the subcommittee's interest in this subject and request that Amtrak provide me with a specific timeline for consideration of such technology improvements to the Amtrak Web site.

Answer. Human emulation technology (HET) allows users to query an automated system to answer questions and/or provide issue resolution. It engages users through natural language dialog and has intelligence to understand a question and determine the correct answer with a high degree of accuracy. The system can deliver this cost savings by answering questions through automated systems and reducing call volume.

Amtrak's exposure to this technology dates back to November 2007. Though still an emerging technology, HET suppliers suggested it could deliver a more satisfactory experience for the online customer than the current Web site search engine. However, internal research conducted at that time surfaced limitations including prohibitive costs, unknown benefits and an immature, untested technology. As a result, Amtrak initially deferred exploration of HET.

In August 2010, Amtrak found that the technology had matured and undertook a 5-month pilot program with an external vendor. As this trial found mixed results, Amtrak subsequently issued an RFI to gain more industry insights, including into functionality it was not able to explore during the pilot. The resulting 3-month review allowed Amtrak to evaluate four potential solutions. The two highest-scoring vendors presented in-depth presentations of their technology. It was concluded from the RFI that this technology continued to improve and had the potential to be a worthwhile investment for Amtrak both in terms of customer service and cost savings. The team subsequently began developing a request for proposals (RFP).

Presently, the RFP has been finalized and is scheduled to be issued in late August. Assuming bids can meet RFP goals within a reasonable cost, Amtrak anticipates awarding the contract in October or November and is targeting completing full implementation in late summer 2012.

The following timeline outlines in more detail the history and actions Amtrak has taken in regard to HET.

TIMELINE

November 2007

Amtrak was introduced to HET technology, and though it appeared promising, the cost of the solution was priced as a function of usage, exposing Amtrak to unknown costs. As the technology was new, the value to our customers and contribution to the bottom line were unclear.

June 2010

Amtrak issued a request to implement a proof-of-concept trial recognizing that this technology was still emerging and questions remained about its efficacy with customers. One vendor offered a unique product and was willing to test the solution with us. Conditionally, if the trial proved promising and Amtrak wished to pursue this further, the solution would be put out for competitive bidding.

June 29, 2010

Amtrak representatives met with Senator Murray's staff to discuss HET. The group agreed that Amtrak would:

—Explore the technology further to more accurately assess the value, including through results from the pilot program; and

—Assuming the pilot proved that the technology was worthwhile, solicit an expanded program through a competitive bid process (per Amtrak's internal procurement policy).

The amount of money required to support this program was not yet known, but was expected to be within $3 million.

August 2010 to January 2011

In August 2010, Amtrak began a pilot program to test the value of HET. The pilot program ended with generally favorable results, though results were limited to qualitative findings and it was not possible to quantitatively demonstrate changes in customer handling costs. Based on these findings, Amtrak began the procurement process through development of an RFI. An RFI was then issued at the beginning of January 2011. The goal of the RFI was to learn more and to improve the team's confidence in the application's potential benefits.

February to March 2011

RFI responses were received in February. The RFI evaluation committee reviewed and scored the four submissions, and then asked for demonstrations from the top two vendors. Both vendors showed strong expertise in a key factor for evaluation: enterprise-wide (multi-channel) support.

April 2011

Vendor presentations concluded and the team determined that this technology had the potential to be a worthwhile investment for Amtrak both in terms of customer service and cost savings. Beyond customer handling savings, the team came to understand that there could also be efficiencies in reducing content management costs. As the HET interface would allow companies to manage/modify their enterprise-wide content from a single source, for example, it mitigates the expense of placing all relevant content in one place.

May 2011

An interdepartmental Amtrak team agreed to move forward and issue an RFP; Amtrak's Finance Department agreed funding would be available through fiscal year 2012 (until the project's completion).

July 2011–Forward

The RFP was finalized. Procurement is expected to issue the RFP in August and to award the contract in October/November. Work is expected to be completed by late summer 2012.

QUESTIONS SUBMITTED BY SENATOR RICHARD J. DURBIN

ROLLING STOCK

Question. President Boardman, States across the country are expanding passenger rail service. For example, in Illinois we are adding new routes from Chicago to the Quad Cities and Rockford. However, the trains running in the Midwest now are very old and seem to breakdown more frequently.

Does Amtrak currently have enough equipment to serve these new routes? Are there other areas across the country where there is an equipment shortage?

Answer. Amtrak's existing fleet of aged equipment is experiencing very high levels of utilization across the country, and we currently have very little spare equipment that can be used on new routes.

Recently announced Federal grants will support the procurement of new equipment to be used throughout the Midwest States and California. This equipment will replace some of the older, less reliable equipment Amtrak operates, as well as provide capacity for planned new and expanded services. The State of Washington has also received Federal funds to procure equipment necessary for additional service once infrastructure improvements are completed.

Amtrak continues to experience unprecedented ridership growth that is expected to continue into the future. Without new equipment, capacity issues will likely be experienced on many routes throughout the country. Additionally, managing growth with the aging profile of our current fleet will be more difficult that it would otherwise be with modern equipment. In order to meet the increasing demands for new services and to increase the efficiency and reliability of existing services, obsolete and costly to maintain equipment must be systematically replaced, as outlined in Amtrak's Fleet Strategy Plan. To execute this plan, additional investment in equipment beyond the scope of the recent Federal grants will be necessary.

AIR QUALITY—UNION STATION AND DIESEL EMISSIONS

Question. Last fall, the Chicago Tribune conducted an investigative report showing Metra commuters and workers may be exposed to excessively high levels of diesel soot. The Tribune found dangerous levels of particulates in both the train cabins and in Union Station in Chicago. The Tribune's studies show the increased levels of air pollution are the result of Metra and Amtrak's aging locomotives.

Mr. Boardman, what can Amtrak do to help clean up the air quality in and around Union Station?

Answer. Results from Amtrak industrial hygiene surveys indicate that the operating areas of Chicago Union Station are below Occupational Safety and Health Administration standards for air contaminant exposure, including particulate concentrations. However, further reducing exposure is important to Amtrak passengers and employees, and there are a number of measures that could improve the current situation.

For one, upgrading Amtrak's diesel locomotive fleet could certainly improve air quality in and around Union Station. Amtrak's current diesel locomotive fleet meets Environmental Protection Agency tier 0 emissions standards. Tier 4 emissions standards, which will have to be met by 2015, are expected to reduce particulate matter emissions by 95 percent.

The Next Generation Corridor Equipment Pool Committee developed a specification for a new high-speed diesel locomotive that will be compliant with tier 4 requirements. Additionally, Amtrak's Fleet Strategy Plan contemplates a large number of diesel locomotives being delivered in 2015. Combining Amtrak's diesel locomotive requirements with those of the States would make for a substantially larger and more cost-effective procurement of lower-emission, tier 4-compliant locomotives.

In addition to procuring new locomotives, plugging locomotives waiting at the station into 480-volt ground power sources would reduce idling and associated diesel emissions.

Further, for the holders of air rights above Chicago Union Station, there is semiannual testing of their station-area fan equipment. The results of these tests are used as a tool to monitor compliance with the building owner's responsibility for maintaining their exhaust equipment. This testing is performed in the spring and fall. A system to check that the ventilation systems are operating continuously would be helpful as a monitoring tool.

Amtrak is also undertaking a study for concept-level design of an improved ventilation system at the station. We expect this study to begin shortly and be completed during fiscal year 2012 or fiscal year 2013, subject to available funding.

CONCLUSION OF HEARINGS

Senator MURRAY. I appreciate both of your testimonies today, and I just want to reiterate that safety is a concern to everyone, as we all know, and I look forward to working with you as a number of proposals come forward on the safety and security of our national railway systems. Thank you very much.

[Whereupon, at 11:30 a.m., Tuesday, May 17, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2012

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

NONDEPARTMENTAL WITNESSES

[The following testimonies were received by the Subcommittee on Transportation and Housing and Urban Development, and Related Agencies for inclusion in the record. The submitted materials relate to the fiscal year 2012 budget request for programs within the subcommittee's jurisdiction.]

PREPARED STATEMENT OF THE AMERICAN PUBLIC TRANSPORTATION ASSOCIATION

INTRODUCTION

Mr. Chairman and members of the subcommittee, on behalf of the American Public Transportation Association (APTA), I thank you for this opportunity to submit written testimony on the fiscal year 2012 Transportation and Housing and Urban Development, and Related Agencies appropriations bill as it relates to Federal investment in public transportation and high-speed and intercity passenger rail (HSIPR).

APTA's highest priority is the enactment of a well-funded, 6-year, multimodal surface transportation authorization bill, as it is one of the most important actions the Congress can take to improve mobility for our citizens and put our Nation's economic engine into high gear. We recognize the challenge that the absence of an authorization bill places on the Appropriations Committee, yet we must stress the tremendous needs that persist for public transportation agencies throughout the country. A strong commitment to investment in our transportation infrastructure remains essential to the Nation's economic prosperity and fiscal health. Failure to invest will force private sector businesses in the transit industry and other industries to lay off employees and to invest overseas. For the Nation's tens of millions of transit riders, it will mean less service, fewer travel options, higher costs, and longer commutes.

OVERVIEW OF FISCAL YEAR 2012 FUNDING REQUESTS

The fiscal year 2012 Obama administration budget requests $22.4 billion for public transportation programs, and $8.3 billion for HSIPR. This includes a one-time, upfront investment of $11.5 billion for the Federal Transit Administration (FTA) programs and the first installment of the administration's $53 billion 6-year proposal for high-speed and intercity rail investment.

APTA strongly supports the President's proposed public transportation budget request. APTA's authorization recommendations, which had assumed enactment of authorizing legislation 2 years ago, proposed a Federal transit investment of $17.9 billion in fiscal year 2012. APTA urges the Congress to resist efforts to make further cuts to general fund components of the Federal transit program, such as Capital Investment Grants and research, as these are important elements of Federal surface transportation investment. We are most disappointed with the severity of cuts in the Full-Year Continuing Appropriations Act for fiscal year 2011, as the need for these investments is only growing, and the costs associated with these investments will be greater in future years.

Our funding request continues to be instructed by APTA's recommendations for surface transportation authorization and the estimated Federal funding growth required to meet at least 50 percent of the $59.2 billion in annual capital needs by the end of the authorization period. These levels are intended to support a projected doubling of transit ridership over the next 20 years. The American Association of State Highway and Transportation Officials agrees with APTA's estimate, stating in its "Bottom Line Report for Transportation—2009" that "if transit ridership grows yearly by 3.5 percent, investment would have to increase to $59 billion annually." It is important that steady and growing investment continue despite economic or fiscal situations, as demand and long-term planning requirements for transportation investment continue as well.

APTA strongly opposes the elimination of prior-year HSIPR funding. These funds are needed to ensure that the 32 States and the District of Columbia which are forging ahead with planning and implementing HSIPR improvements can continue their efforts to modernize and expand our Nation's passenger rail services.

Finally, we encourage the Congress to fund the Rail Safety Technology Grants program (section 105) of the Rail Safety Improvement Act (RSIA) at a level significantly higher than the $50 million annual authorization, to assist with the implementation of congressionally mandated positive train control (PTC) systems. The federally imposed deadline for implementation of PTC systems is rapidly approaching, and neither the Congress nor the administration is proposing to put the necessary funding behind this safety priority.

THE NEED FOR FEDERAL TRANSIT INVESTMENT

In previous testimony to this subcommittee, I have presented the case for increasing Federal investment in public transportation. APTA has recommended $123 billion of transit investment over 6 years, and President Obama has proposed $119 billion in the same period. In either scenario, new Federal investment would produce much-needed progress toward bringing our Nation's public transportation infrastructure up to a state of good repair, improving safety, and building the capacity for millions of new riders who will want quality transit service in the coming years. The Department of Transportation (DOT) estimates that a one-time investment of more than $78 billion is needed to bring transit infrastructure up to a state of good repair, and this does not include annual costs to maintain and preserve the existing system. Research on transit needs shows that capital investment from all sources—Federal, State, and local—should be doubled if we are to prepare for future ridership demands.

I want to stress that the demand for public transportation and the need for Federal leadership will not diminish in the months and years ahead. As gasoline prices continue to increase, Americans are turning to public transportation in record numbers, just as they did in 2008 when gas reached an average price of $4.11 per gallon. APTA recently completed an analysis that reveals if regular gas prices reach $4 a gallon across the Nation, as many experts have forecast, an additional 670 million passenger trips could be expected, resulting in more than 10.8 billion trips per year, roughly a 6-percent increase. If pump prices jump to $5 a gallon, the report predicts an additional 1.5 billion passenger trips can be expected, resulting in more than 11.6 billion trips per year. And if prices were to soar to $6 a gallon, expectations go as high as an additional 2.7 billion passenger trips, resulting in more than 12.9 billion trips per year. The volatility of the price at the pump is another wake up call for our Nation to address the increasing demand for public transportation services.

FEDERAL TRANSIT ADMINISTRATION PROGRAMS

Capital Investment Grants (New Starts).—The New Starts program is the primary source of Federal investment in the construction or expansion of bus rapid transit projects, heavy and light rail transit systems, and commuter rail systems. Unlike most other FTA programs, the New Starts program is funded from the General Fund, not the Mass Transit Account of the Federal Highway Trust Fund. Funding for New Starts was previously included in funding guarantees for highway and transit programs, and the success of these major, multi-year capital projects requires predictable support by the Congress and FTA. The Congress established Full Funding Grant Agreements to ensure this predictability. A continued commitment to Federal investment will also influence the willingness of private financial markets to fund public transportation projects and it will guarantee that the bond ratings will remain high and interest rates will remain low. Going forward, whether the

New Starts program is funded out of the general fund or from a trust fund, APTA believes that the program should grow at the same rate as the rest of the transit program. New Starts is essential to enhancing our Nation's mobility, accessibility, and economic prosperity while promoting energy conservation and environmental quality.

Formula and Bus and Bus Facilities.—Like other elements of the program, we urge the Congress to grow funding for existing formula programs, including urban and rural formula, small transit intensive cities, fixed guideway modernization, and others at a rate consistent with overall FTA funding. These formula programs address core needs of our public transportation systems, and deserve the continued support of the Congress. In our authorization recommendations, APTA recommends modifying the current Bus and Bus Facilities program to create two separate categories of funding, with 50 percent distributed under bus formula factors, and the remaining 50 percent available under a discretionary program distributed either through congressional direction or a competitive grants process administered by FTA. This is particularly relevant to the consideration of appropriations legislation as we recognize that the Congress will attempt to address the issue of earmarks and discretionary spending accounts. It is important to recognize that certain transit needs like facilities projects, are often larger than an agency's typical formula allotment, and as such, will require discretionary decisionmaking on either the part of the Congress, or the administration, in order to effectively fund such projects.

FEDERAL RAILROAD ADMINISTRATION PROGRAMS

Positive Train Control.—A high priority for APTA within the programs of the Federal Railroad Administration (FRA) is the adequate funding of the Railroad Safety Technology Grants Program, section 105 of RSIA of 2008. APTA is very discouraged that the Congress has rescinded fiscal year 2010 appropriations for this program in addition to the possibility of leaving it unfunded in fiscal year 2011. RSIA requires commuter rail operators implement PTC systems by December 31, 2015, and APTA is urging the Congress to increase the authorized levels for implementation of PTC systems required under RSIA. The cost of implementing PTC on public commuter railroads alone is estimated to exceed $2 billion, not including costs associated with acquiring the necessary radio spectrum or the subsequent software and operating expenses. Our Nation's commuter rail systems are committed to complying with the PTC mandate and implementing critical safety upgrades. However, both the costs associated with implementing PTC, as well as the challenges associated with a technology that is still under development, are quite substantial. Full funding will help ensure that these important safety improvements can be implemented within the required timeframe.

High-Speed and Intercity Passenger Rail Investment.—Ridership in the overall passenger rail market in the United States has been steadily growing, with commuter rail being one of the most frequently used methods of public transportation for those traveling from outlying suburban areas to commercial centers of metropolitan areas, often to and from places of employment, education, commerce and medical care. The most recently published APTA public transportation ridership report, which provides data on transit passenger ridership for U.S. transit agencies, shows a continued strong demand for public transportation despite the economic downturn, with nearly 10.2 billion trips taken on public transportation nationally in 2010. The demand for commuter rail service has also remained strong, with 13 of 26 commuter rail systems in operation for all of 2010 reporting ridership increase. Similarly, despite the Nation's slow economy, Amtrak experienced record ridership in the last fiscal year, reporting a ridership increase of 4.6 percent for an overall ridership of more than 28.7 million passengers. As the current political unrest in many oil producing nations continues, more and more commuters are turning to public transportation to escape rising gas prices, and many transit operators are reporting double digit ridership increases this year.

In addition to commuter rail, it is critical that intercity passenger rail become a more useful transportation option for travelers looking for alternatives to high gas prices and congested road and air travel in many corridors. While much attention has been lavished on three Governors who rejected Federal rail funding for their States, 32 other States plus the District of Columbia are forging ahead in planning and implementing rail improvements. Funding from the three States which opted to cancel their HSIPR programs is being redirected by DOT to other HSIPR projects across the country.

CONCLUSION

I thank the subcommittee for allowing me to share APTA's views on fiscal year 2012 public transportation and high-speed and intercity rail appropriations issues. We look forward to working with the subcommittee to make the necessary investments to grow the public transportation program. We urge the subcommittee to invest in making commuter, intercity, and high-speed rail safer by fully appropriating the funds authorized in the RSIA. Finally, we support the efforts of the Congress thus far to invest in a high-speed rail system and encourage your subcommittee to continue support for this effort. This is a critical time for our Nation to continue to invest in transit infrastructure that promotes economic growth, energy independence, and a better way of life for all Americans.

ABOUT APTA

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

PREPARED STATEMENT OF THE MANUFACTURED HOUSING ASSOCIATION FOR REGULATORY REFORM

The Manufactured Housing Association for Regulatory Reform (MHARR) is a national trade association representing the views and interests of producers of manufactured housing. Manufactured housing has historically been the Nation's leading source of affordable, nonsubsidized home ownership. But, the manufactured housing industry is in danger of disappearing, with devastating consequences for affordable housing, employment, and job creation. Over the past decade, manufactured home production has declined by more than 86 percent (from 373,143 units in 1998 to 50,046 in 2010), nearly 75 percent of the industry's production facilities have closed (from 430 to fewer than 110), together with more than 7,500 retail centers, resulting in the loss of more than 200,000 jobs.

The decline of the manufactured housing industry began long before the decline of the broader housing market, and has been much more severe. This disparity is principally a result of two factors. The first is a costly and unjustified expansion of Department of Housing and Urban Development (HUD) regulation, in the face of rapidly diminishing production. Second, this regulatory expansion, imposed by circumventing or undermining key program reforms mandated by the Congress in the Manufactured Housing Improvement Act of 2000, has ensured the continuing status of manufactured homes as "trailers," fueling discrimination against manufactured homes and manufactured home purchasers.

The HUD program has been able to engage in this unwarranted regulatory expansion because of an artificially inflated budget which has not had adequate oversight either within HUD or by the Congress in recent years. The HUD manufactured housing program was originally conceived as a self-funding program. In fiscal year 2009, HUD, for the first time, sought and received a direct appropriation of $5.4 million in general revenue funds, supposedly as a one-time request, to implement the new Federal installation and alternate dispute resolution (ADR) programs mandated by the 2000 law. In fiscal year 2010, however, HUD requested an additional $9 million direct appropriation. This infusion of millions of dollars in tax funds, though, has not been used to implement the new programs of the 2000 law. Instead, these funds have been used to impose a needless "make-work" regulatory expansion and, with it, an increase in the size of HUD program staff and the duties and functions of its entrenched inspection "monitoring" contractor, all at a time of dramatically reduced production levels, while revenue allocated to the States for consumer protection has been significantly reduced.

Now, in its fiscal year 2012 budget request, despite continued weakness in the manufactured housing market, HUD is seeking $14 million in total program budget authority. This involves yet another $7 million direct appropriation of general revenue funds and an announced label fee increase from $39 to $60 per home section. HUD claims that it needs $3.8 million for an "installation inspect and enforcement" contract and $1.4 million for a "dispute resolution enforcement" contract. These are the same contracts, however, for which HUD requested tax revenues in 2009 and

2010, but did not award, while it used the additional funds provided by the Congress to needlessly expand regulation and program staff, and increase funding for its inspection "monitoring" contractor. In fact, though, there is no legitimate basis for a budget of this size or further infusions of taxpayer dollars when industry production continues to decline and the Federal Government faces a large deficit. Accordingly, the Congress should carefully scrutinize HUD's fiscal year 2012 budget request, as detailed below, based on section 620 of the 2000 law, pertaining to program funding and expenditures.

IMPROPER EXPANSION OF PRODUCTION REGULATION

Section 620(a)(1)(A) of the 2000 law provides for the use of the authorized fee paid by manufacturers to conduct "inspections and monitoring." Section 620(c), however, as amended by the 2000 law, prohibits HUD from using "any fee collected under this section" for "any purpose or activity not specifically authorized by this title."

Section 604(b) of the law specifically requires HUD to bring proposed regulations or amendments to the Manufactured Housing Consensus Committee (MHCC) for consensus review and input, followed by notice and comment rulemaking. Section 604(b)(6) of the 2000 law further requires HUD to bring any change to "policies practices, or procedures relating to . . . inspections, monitoring, or other enforcement activities" to the MHCC for consensus review and input, followed by notice and comment rulemaking. The section further provides that "any change adopted in violation" of its requirements "is void."

Starting in 2008, HUD has systematically imposed on manufacturers a costly de facto expansion of in-plant regulation without complying with the requirements of either section 604(b) generally or section 604(b)(6) specifically. Indeed, HUD, through a February 5, 2010, "interpretive rule," issued with no opportunity for public comment, has effectively read section 604(b)(6) out of the law completely. Absent compliance with section 604(b) and section 604(b)(6), the imposition of this program of de facto expanded regulation and enforcement is not an activity "specifically authorized" by applicable law. As a result, its costs—including additional amounts paid to contractors for inspections, oversight, or enforcement—should not be funded.

INADEQUATE STATE FUNDING

State administrative agencies (SAAs) are the first line of protection for home buyers living in a growing number of both new and existing manufactured homes. The law envisions a Federal-State partnership for the enforcement of the Federal standards. To ensure State participation in this partnership, section 620(a)(1)(B) of the law requires HUD to "provid[e] funding to the States. . . ." The proposed HUD fiscal year 2012 budget, however, as with the last three HUD budgets, keeps funding for the States flat (at approximately one-half the fiscal year 2005 funding level—$3.7 million in 2012, as contrasted with $6.6 million in 2005), while artificially and unnecessarily increasing contractor funding (and program staff), even though the responsibilities of SAAs are more extensive than the monitoring contractor. Thus, at the same time that HUD has artificially inflated the functions performed by its monitoring contractor, HUD is failing to properly fund State participation in the Federal program.

NONCAREER PROGRAM ADMINISTRATOR

HUD has refused to appoint a noncareer administrator for the Federal program, maintaining that such an appointment is discretionary under section 620(a)(1). This interpretation of the 2000 law, however, is incorrect. The law, as amended in 2000, grants the Secretary of HUD permissive authority under section 620(a)(1) to establish a "reasonable fee" to fund specific program functions if the Secretary wishes. If such a fee is established, however, as it has been (i.e., the HUD label fee), the use of that fund, to offset expenses in connection with statutory HUD "responsibilities" listed in subsections (620)(a)(1)(A)–(G), is nondiscretionary. Despite this nondiscretionary "responsibility," the HUD manufactured housing program has not had a noncareer administrator since 2004.

UNWARRANTED EXPANSION OF PROGRAM STAFF

Section 620(a)(1)(D) provides for the use of the authorized fee paid by manufacturers to provide "the funding for salaries and expenses of employees of the Department to administer the manufactured housing program." This provision was designed to encourage HUD to use its own employees to carry out most program functions, rather than relying on revenue-driven contractors. Due to HUD's make-work expansion of in-plant regulation, however, HUD has not only increased program staff to 14 employees, its highest level ever, but has also systematically increased the functions of—and payments to—its monitoring contractor, even though manufactured housing production has declined by a factor of more than 86 percent.

MANUFACTURED HOUSING CONSENSUS COMMITTEE

Section 620(a)(1)(E) provides for the use of the authorized fee paid by manufacturers to administer the Manufactured Housing Consensus Committee (MHCC) established by the 2000 law. But the independence, role, and authority of the MHCC are being emasculated by HUD regulators.

Among other things, HUD career regulators:

—have refused to trigger the MHCC consensus process for regulations as required by section 604(b) of the 2000 law;

—have read the "catch-all" provision (section 604(b)(6)) requiring MHCC consideration of all new policies and practices affecting enforcement out of the 2000 law through an "interpretive rule" issued without public comment;

—have improperly taken control of the MHCC's agenda, focus, and procedures;

—have undermined the balance of the MHCC required by law through politicized appointments, by unilaterally selecting the current chairman, by gerrymandering the composition of MHCC subcommittees, and by excluding collective industry representation while appointing four board members and executives of the same consumer group and two former HUD employees/contractors to the committee; and

—have attempted to improperly suppress stakeholder and public participation in MHCC deliberations.

HUD maintains that these restrictions are required by the Federal Advisory Committee Act (FACA), but that statute does not mandate such restrictions, as is demonstrated by a review of the bylaws of other FACA committees. Moreover, FACA, by its express terms, is superseded by contrary provisions in the authorizing legislation for specific advisory committees. In this case, section 604 of the 2000 law specifically describes the role, authority, functions and operation of the MHCC. To the extent that those provisions conflict with FACA, they are controlling.

FAILURE TO ENSURE PARITY OF MANUFACTURED HOUSING

Section 620(a)(1)(F) provides for the use of the fee paid by manufacturers to facilitate "the acceptance of the quality, durability, safety and affordability of manufactured housing within the Department." This provision reflects the over-riding purpose of the 2000 law—to complete the transition of manufactured housing from the "trailers" of the cold war era to legitimate "housing." HUD regulators, however, have not made any effort—known to MHARR—to advance manufactured housing as an equal participant in all HUD housing programs and, by failing to fully and properly implement the 2000 law, continue to treat manufactured homes as "trailers," thus fueling and intensifying discrimination that is crippling the industry.

FAILURE TO PROPERLY IMPLEMENT 2000 LAW PROGRAMS

Section 620(a)(1)(G) provides for the use of the fee paid by manufacturers for "the administration and enforcement" of the Federal installation standards and the Federal dispute resolution system in "default" States that do not adopt their own programs under State law. Under section 605(c)(2)(B) and section 623(c)(12) of the 2000 law, both of these programs were to have been operational by December 2005. Yet, according to the latest information available from HUD, neither has been fully implemented and, to date, no significant implementation contracts have been awarded, even though HUD has included funding for contractors for both programs in its budget requests since at least 2008.

ANNOUNCED LABEL FEE INCREASE—SECTIONS 620(D)–(E)

Section 620(d) of the 2000 law provides that "the amount of any fee collected under this section may only be modified as specifically approved in advance in an annual appropriations Act". Section 620(e)(2) further provides that "amounts from any fee collected under this section shall be available for expenditure only to the extent approved in advance in an annual appropriations Act".

HUD's proposed fiscal year 2012 program budget includes a label fee increase of more than 50 percent—from $39 per section to $60 per section—in addition to an appropriation of general revenue funds in the amount of $7 million. HUD provides no specific justification for a label fee increase of this magnitude, or a $7 million direct appropriation, other than its unsupported assertion that its responsibilities remain unchanged notwithstanding a 48-percent decline in industry production—

and corresponding drop in label fee revenues—just since 2007. The facts, however, do not support this claim. HUD's assertion that its responsibilities remain "unchanged" despite a sharp decline in industry production is unsupportable. In 2007, the industry produced 95,752 HUD Code homes. In 2010, the industry produced 50,046 HUD Code homes. Accordingly, the program's raw oversight burden today is nearly one-half what it was in 2007. This decline should have meant lower program expenditures between 2007 and proposed fiscal year 2012. Instead, the fiscal year 2007 appropriation of $6.510 million grew to $16 million in 2009 and 2010, and now a requested $14 million for fiscal year 2012.

CONCLUSION

For all the above reasons, the Congress should:

—require HUD to appoint a noncareer program administrator;

—require HUD to choose between either a direct appropriation or a label fee increase, but not both; and

—direct HUD to divert funding from expanded staff and contractor functions to provide adequate funding for State participation in the manufactured housing program.

PREPARED STATEMENT OF THE NATIONAL AIDS HOUSING COALITION

The National AIDS Housing Coalition (NAHC) requests $362 million for the Housing Opportunities for Persons With AIDS (HOPWA) program for fiscal year 2012. NAHC is a national nonprofit membership housing organization founded in 1994 that works to end the HIV/AIDS epidemic by ensuring that persons living with HIV/AIDS have quality, affordable, and appropriate housing. NAHC's members are people living with HIV/AIDS (PLWHA), service providers, developers, researchers, public health and housing departments, and advocates.

Research findings presented through NAHC's Research Summit Series overwhelmingly confirm that housing is a strategic point of intervention to address HIV/AIDS, homelessness, and the concomitant effects of race and gender, poverty, mental illness, chronic drug use, incarceration, and exposure to trauma and violence. HIV housing interventions are a cost-effective means to prevent new HIV infections, improve HIV health outcomes, reduce mortality, and reduce reliance on other public systems such as expensive emergency and inpatient medical services.

The HOPWA program is relied upon by HIV/AIDS service organizations nationwide to assure that stable, affordable housing and the critical supportive services that help people remain housed is available to those coping with the debilitating and impoverishing effects of HIV/AIDS. HOPWA's hallmark is its flexibility to provide a continuum of housing and housing-related case management and supportive services for low-income individuals living with HIV/AIDS and their families. HOPWA dollars are used for short- and longer-term rents, facility-based assistance as well as limited rent, mortgage, or utility payments that play a critical role in homelessness prevention. HOPWA can also be used for new development and rehabilitation. In the face of shrinking resources, HOPWA's importance to community strategic planning efforts cannot be underestimated—facilitating better coordination of local and private resources and filling gaps in local systems of care to meet housing need among people with HIV/AIDS and their families.

AIDS HOUSING IS CENTRAL FOR HIV/AIDS HEALTH

A now substantial body of research shows that housing status has a direct, independent, and powerful impact on HIV incidence and the health of PLWHA, regardless of demographics, drug use, health and mental health status, or receipt of other services. Housing affects an individual's ability to avoid exposure to HIV; an HIV-positive individual's ability to avoid exposing others to HIV; and the ability to receive and benefit from HIV healthcare. Whatever else makes one vulnerable to HIV infection—homelessness magnifies the risk. Whatever other factors lead to disparities in care—for women; for youth; for sexual minorities; for people of color; for those who experience mental illness, addiction, violence, abuse, or incarceration—housing instability amplifies their vulnerability for poor health outcomes and early death. Research has consistently shown that people without stable housing are significantly more likely to become HIV-infected, they will have limited access to care once they are infected, and they will live less healthy and shorter lives—compared to people just like them who are fortunate enough to have a home.

Recent findings from the U.S. Centers for Disease Control and Prevention (CDC) show how that poverty and homelessness contribute to worsening HIV health disparities. CDC surveillance data reveal that at least 2.1 percent of heterosexuals living in high-poverty urban areas in the United States are HIV-positive—an HIV prevalence rate that is more than 20 times greater than the rate among all heterosexuals in the United States (0.1 percent), and that exceeds the 1-percent infection rate that defines a generalized HIV epidemic. Poverty—not race—is the most important demographic factor associated with HIV infection among inner-city heterosexuals. Men and women in low-income neighborhoods who live below the poverty line are twice as likely to have HIV infection as those living above it, and other social factors—including unemployment, low-education level, and housing status—are also independently associated with infection. Within the low-income communities examined, the rate of new HIV infections almost twice as high (1.8 times) for inner-city heterosexuals who had experienced homelessness in the past year, compared to low-income persons with housing.

AIDS HOUSING WORKS TO IMPROVE HEALTH AND REDUCE PUBLIC COSTS

Research also shows that receipt of housing assistance is independently associated over time with reduced HIV risk behaviors, better health outcomes, and sharp reductions in costly emergency and inpatient services. Recent findings from housing-based interventions provide new evidence that housing supports create stability and connection to care for people living with HIV—improving healthcare outcomes, changing the individual behaviors that put people at risk of acquiring HIV infection, and reducing overall public costs.

PLWHA who are unstably housed lack ongoing HIV care and rely more on expensive crisis services including shelters, jails, and avoidable emergency and hospital care. Housing assistance for people with HIV who are homeless improves their health outcomes and dramatically reduces emergency and inpatient health services, criminal justice involvement, and other crisis costs. A recent study funded by the CDC and HUD found that more stable housing for people with HIV reduced emergency medical visits by 35 percent and hospitalizations by 57 percent. Each new HIV infection prevented through more stable housing saves countless life years and more than $300,000 in lifetime medical costs. Indeed, housing assistance for homeless and unstably housed people living with HIV leads to savings in avoidable health services that can more than offset the costs of the housing intervention.

This consistent evidence base supports housing assistance as a cost-effective healthcare intervention for homeless and unstably housed persons with HIV. Action to meet HIV housing needs costs far less than inaction, making HOPWA and other low-income housing programs that serve people living with HIV a wise use of limited public resources.

HOUSING NEED AMONG PEOPLE WITH HIV/AIDS

More than 56,000 people became infected with HIV in the past year in the United States. Experts estimate that more than one-half of PLWHA will need some form of housing assistance during the course of their illness, while national research has shown that housing is the greatest unmet service need for people living with HIV disease. Data indicates that approximately 72 percent of PLWHA have incomes less than $30,000; the number in need is likely to increase proportionally with the weakened economy and sustained high unemployment levels.

In 2011, HOPWA will continue providing housing support for more than 60,000 households in 133 formula-eligible jurisdictions, providing assistance in all 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands. Under the current formula configuration, two to five new jurisdictions may become available, from cities diverse as Greenville, South Carolina to Syracuse, New York. In addition, 91 competitive grants are currently operating. The program is tied to positive client outcomes in the 60,699 households served in the current fiscal year, making it possible for assisted individuals to better attend to their health needs, function in their families and society. AIDS housing is a cost-effective way to end homelessness and achieve positive individual and community health outcomes. HUD reports that 94 percent of all HOPWA rental assistance households in a recent program year were able to achieve maximum stability, reducing risks of homelessness, and participating in healthcare.

NAHC recommends a funding level of $362 million, which would permit assistance to an additional 4,800 people with HIV/AIDS in need of housing.

EXAMPLES OF AIDS HOUSING NEED ACROSS THE COUNTRY

AIDS housing need has exploded in virtually every region of the country. Though waiting lists are no longer maintained in many jurisdictions, affordable housing need continues to grow. Below is a snapshot of the number of HOPWA-eligible households with unmet housing needs in cities and states across the country:

City and/or State	No. of HOPWA-eligible households with unmet housing needs
Alabama	3,621
California:	
Los Angeles	> 8,000
San Francisco	13,000
San Jose	279
District of Columbia	>700
Tampa, Florida	285
Honolulu, Hawaii	130
Chicago, Illinois	10,257
Iowa	115
Maine	110
Lowell, Massachusetts	624
Minnesota	309
New York:	
New York City	11,000
Syracuse	103
Columbus, Ohio	115
Oregon	202
Philadelphia, Pennsylvania	6,000
Texas:	
Dallas	617
El Paso	56
Seattle, Washington	425

OTHER LOW-INCOME HOUSING PROGRAMS REMAIN CRUCIAL

Of course, HOPWA will never fully meet the housing need for all those living with HIV/AIDS and their families. AIDS housing providers urge full and adequate funding for the range of low-income housing programs relied upon in the continuum of housing and services for people with HIV/AIDS, including Homeless Assistance Grants, Tenant-Based Rental Assistance, Public Housing, and Section 811 Housing for People with Disabilities, among others.

In conclusion, NAHC urges the subcommittee to fund the HOPWA program at the highest level possible for fiscal year 2011 to accommodate new formula jurisdictions expected to become eligible and to assist existing programs in moving closer to meeting the actual housing needs in their jurisdictions.

NAHC respectfully asks the subcommittee to approve funding of $362 million for the HOPWA program for fiscal year 2012.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF RAILROAD PASSENGERS

Thank you for the opportunity to submit this statement. Thank you also for the positive role that you and your subcommittee have played over the years in providing funding for intercity passenger trains.

Energy-efficient passenger trains are more important than ever as Amtrak ridership continues to rise, along with gasoline prices. Ridership growth is colliding with the realities of a fleet that is too small.

Thus, our key requests for intercity passenger trains for fiscal year 2012 are:

—Full funding of the Obama administration's requested $8 billion for intercity passenger trains, including approximately $4 billion each for network development (capital upgrades to tracks and stations and procurement of new or rebuilt equipment) and for system preservation and renewal. We support this as the baseline for the multi-year commitment as outlined in the administration's budget.

—The bare minimum should be $4.7 billion, comprised of Amtrak's request of $2.2 billion plus the 2010 level at which High Speed and Intercity Passenger Rail (HSIPR) program was funded, $2.5 billion.

We strongly support the Department of Transportation's (DOT) approach in HSIPR grants to the States. We applaud the agreements reached to date with BNSF (Washington State), Norfolk Southern (North Carolina) and Union Pacific (Illinois). We look forward to the early conclusion of agreements with CSX, especially for Virginia and New York.

Failure to meet, at minimum, the funding targets Amtrak identified in its fiscal year 2012 grant and legislative request puts the country close to a no-growth scenario, which would be extremely unfortunate given the likelihood that high gasoline prices are here to stay. "Smart growth" housing, intercity passenger trains, and rail transit have two things in common:

—Both help enable Americans to sustain the highest possible quality of life in a competitive world economy, and to mitigate what The Weekly Standard's Christopher Caldwell called "America's almost unbelievable demand for oil." Caldwell noted that this demand "has led [the United States] to diverge from the rest of the west on energy policy," a polite way of saying that we are headed for trouble if we don't make it possible for more people to burn less oil. (Quotes: Financial Times column, April 2.)

—Demand for both exceeds supply, indicating that the public is ahead of the policymakers and moving faster than the market place can react.

We continue to urge consideration of the use of tax credits and/or asset depreciation benefits to encourage private leasing companies to buy equipment and lease it to States and perhaps Amtrak. This could help reduce the high upfront costs that taxpayer-supported agencies face when procuring new equipment.

As gasoline prices continue their steady upward climb, airfares are at historic highs, and intercity bus service has been dramatically scaled back over the past 4 years, America's growing population is seeking better, more affordable mobility. Amtrak's historically high ridership—even though the railroad's fares are as high as the market can bear, especially on the Northeast corridor—is evidence of this.

The need to maintain mobility for our citizens, bolster our Nation's economic competitiveness and energy efficiency, provide good jobs for Americans, and reduce our transportation system's negative environmental impact all demand that we ramp up investment in modern passenger trains.

The following table, showing 2008 data, comes from the annual Transportation Energy Data Book (Edition 29, released in 2010), published by Oak Ridge National Laboratory under contract to the Department of Energy, at http://cta.ornl.gov/data/chapter2.shtml:

Mode	BTUs[1] per passenger-mile[2]
Amtrak	2,398
Commuter trains	2,656
Certificated air carriers (domestic)	2,995
Cars	3,437
Light trucks (2-axle, 4-tire)	3,641

[1] BTU = British thermal unit.
[2] Passenger-mile = one passenger traveling 1 mile.

The table indicates that Amtrak is 20 percent and 30 percent more energy efficient per passenger-mile, respectively, than airlines and autos. That is true even though Amtrak's fleet averages 37 years old while the airplane and automobile fleet is constantly turning over with energy efficiency generally improving. Thus, the Amtrak 2008 figures understate rail's true potential.

We are disappointed that negotiations between Amtrak and Union Pacific Railroad apparently remain stalled regarding Amtrak's initiative to provide daily service over the entire line between New Orleans and Los Angeles.

We fully support Amtrak's Gateway Tunnel project, which will create a long-overdue expansion in track capacity between New York City and New Jersey, and for the entire Northeast corridor.

We are concerned about the impact of Passenger Rail Investment and Improvement Act's section 209 which directs States to provide full-operating support for intercity trains whose routes total 750 miles or less. It is important that this not become an obstacle to service continuation. We continue to urge consideration, at least in emergency situations, of allowing Federal support for such routes' continued operation on a 50–50 matching basis, without making Amtrak swallow the difference.

Thank you for considering our views.

PREPARED STATEMENT OF THE UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH

On behalf of the University Corporation for Atmospheric Research (UCAR), a consortium of 76 research universities that manages the National Center for Atmospheric Research, I submit this written testimony regarding the fiscal year 2012 appropriation for the record of the Senate Committee on Appropriations, Subcommittee on Transportation, Housing and Urban Development, and Related Agencies. I urge the subcommittee to fully fund the fiscal year 2012 $110 million request for the Federal Highway Administration's (FHWA) Intelligent Transportation Systems (ITS) program including the ITS Wireless Innovation Initiative. Further, I ask that the subcommittee support $2.87 billion for the Federal Aviation Administration's (FAA) Facilities and Equipment (F&E) account and $190 million for its Research, Engineering and Development (RE&D) account.

The Department of Transportation (DOT) relies on its partnerships with State DOTs, local transportation agencies, the first responder community, freight community, and the academic community, to meet its mission of ensuring a fast, safe, efficient, accessible, and convenient transportation system that meets our vital national interests and enhances the quality of life of the American people. The academic and research community contributes directly to this mission with applied research and development (R&D) of cutting-edge technologies to move people and shipments safely and expeditiously. Research on the physics of microbursts, for example, has resulted in the development of wind shear detection technologies that, since full implementation, have reduced aircraft crashes caused by downbursts to zero. Applied research is now being conducted on road snow and ice control, aircraft icing, and turbulence, and other weather hazards, resulting in products that are saving industry and States tens of millions of dollars per year and making the traveling public far safer on the roads and in the skies. I urge you to support the requested levels for the following programs:

FEDERAL HIGHWAY ADMINISTRATION'S RESEARCH, TECHNOLOGY, AND EDUCATION PROGRAM

Understanding and addressing adverse weather conditions helps to mitigate the impacts of congestion and accidents, and is a high priority for the FHWA. The Research, Technology, and Education Program provides for a comprehensive, nationally coordinated program that will advance DOT organizational goals and accelerate innovation delivery and technology implementation. The request includes $257 million for the following Research and Innovative Technology Administration programs on which I would like to comment.

Intelligent Transportation Systems

Every year, thousands of people are injured or killed in accidents on our Nation's highways because of bad weather and poor road conditions. The consequences go beyond those human costs to include lost productivity to commercial motor vehicle operators and the expense to local governments responsible for clearing accidents and repairing damaged roadways, to say nothing of the inconvenience to motorists.

Because of R&D investments, innovative new wireless technologies will soon allow cars to share with vehicles behind them important safety data such as adverse weather and road conditions. Knowing about icy or foggy road conditions 2 miles ahead, for example, will save lives and keep traffic moving smoothly. DOT's IntelliDrive (recently renamed "Connected Research Vehicle") program is the centerpiece of the DOT ITS 2010–2014 Strategic Research Plan. Intellidrive partners government, industry, academia, and others to specify, develop, and produce the necessary technology to gather and broadcast a car's "heartbeat" continuously, including weather conditions. Road weather-connected vehicle applications are the next generation of applications and services that assess, forecast, and address the impacts of weather on roads, vehicles, and travelers. Such applications will build upon decision support tools currently undergoing development, testing, and deployment such as the Clarus Regional Demonstrations, the Maintenance Decision Support System and Vehicle Data Translator.

To meet its core research and technology transfer mission, I urge you to support the requested fiscal year 2012 amount of $110 million for the FHWA's ITS, including IntelliDrive and its V–V and V–I Communications for Safety program ($43.3 million) and Dynamic Mobility Applications ($14 million). However, I am concerned about the proposed consolidation of Road Weather Research with these larger programs. The risk is that this successful, small program could be seriously compromised. Road Weather Research has been highly leveraged by States and localities to save lives and millions of dollars. I urge you to ensure that at least $5 million for a distinct road weather research program is included as an important safety and mobility R&D topic in the previously mentioned programs. This funding is consistent with the Safe, Accountable, Flexible, Efficient Transportation Act: A Legacy for Users (SAFETEA–LU).

Intelligent Transportation Systems Wireless Initiative

DOT's ITS program is launching a new research initiative to improve transportation safety, relieve traffic congestion, and enhance productivity. The budget request includes funding for the ITS Wireless Initiative, which will be managed by RITA and funded out of the Miscellaneous Appropriations account. This new program will develop "living laboratories" where innovative wireless communications methods and applications can be developed for eventual deployment. To accomplish its goals, the DOT will leverage the knowledge, expertise, and experience of the research community. I urge you to support the fiscal year 2012 request of $100 million for FHWA's ITS Wireless Initiative.

FAA'S RESEARCH, ENGINEERING, AND DEVELOPMENT

The FAA's fiscal year 2012 budget request supports continued aviation safety and capacity R&D, focusing on critical areas such as turbulence, in-flight icing, storm prediction, oceanic weather, and restricted visibility. For more than two decades, the FAA has funded R&D efforts to improve forecasting of weather affecting aviation.

The fiscal year 2012 request continues important work in current research areas, including aviation weather. This budget supports enhanced Next Generation Air Transportation System (NextGen) R&D efforts in the areas of improved weather information for integration into decisionmaking, weather information for pilots, and environmental research for aircraft technologies and alternative fuels to improve aviation's environmental and energy performance. The following programs can be found within the RE&D section of the fiscal year 2012 FAA budget request:

Weather Program

The goal of the Weather Program is to increase safety and capacity, and to support NextGen. A number of aviation weather research projects are underway, in collaboration with industry representatives, focusing on in-flight icing, turbulence, winter weather, and deicing protocols, thunderstorms, ceiling, and visibility. One example of a system that translates a large amount of weather data into significant safety and delay improvements is the Consolidated Storm Prediction for Aviation (CoSPA). Thunderstorms and winter storms have long been recognized as significant safety hazards, as well as major causes of system delays. Using CoSPA, accurate forecasts of storms can be translated into probable impacts to the system. This allows for improved decisionmaking resulting in improved safety and reduced delays.

I am very concerned that the budget request of $16.4 million will not support the R&D needs of the Weather Program within RE&D. The request for this program is reduced more than 2 percent from the fiscal year 2010 level and is operating at one-half the level of funding appropriated 10 years ago. To address the pressing challenges and to meet the research needs of NextGen, the Weather Program must receive, at a minimum, $18 million for fiscal year 2012.

Weather Technology in the Cockpit

The 2009 crash of an Air France jet over the Atlantic Ocean, killing all 216 passengers and 12 crew members, is very likely an example of the limits of pilots' ability to cope with severe weather. Pilots currently have little weather information as they fly over remote stretches of the ocean where some of the worst turbulence encounters occur. Providing pilots with at least an approximate picture of developing storms could help guide them safely around areas of potentially severe turbulence.

The Weather Technology in the Cockpit Program leverages research activities with other agencies, academia, and the private sector by enabling the adoption of cockpit technologies that provide pilots with hazardous weather information and improve situational awareness.

I am very concerned that the fiscal year 2012 request for this small, but life-saving program within RE&D was reduced by almost 4 percent from fiscal year 2010 levels. I urge you to fund the Weather Technology in the Cockpit program at $10 million, at a minimum.

FAA'S FACILITIES AND EQUIPMENT

Delays in the National Airspace System (NAS) are primarily attributable to weather. According to the FAA, during the last 5 years more than 70 percent of delays of 15 minutes or more, on average, were caused by weather. Weather also impacts safety. Between 1994 and 2003, weather was determined to be a contributing factor in more than 20 percent of all accidents. Currently, most operational decision tools do not utilize weather information effectively or at all. Therefore, exploring, identifying, and employing better methods for data collection and communication will help facilitate the flow of operation-specific weather data and information to end users. Within F&E, I would like to call your attention to the following two very important programs:

NextGen Network Enabled Weather.—NextGen Network Enabled Weather (NNEW) is a transformational, multiagency project dedicated to using and developing technologies and standards for NextGen that will support effective dissemination of weather data. NNEW will develop the FAA's portion of the 4–D Weather Data Cube which will provide standardized information from multiple contributors and locations to a variety of end-users including air traffic managers and pilots.

The fiscal year 2012 request for NNEW is $27.35 million, a $7 million increase more than fiscal year 2010. To develop the NextGen weather dissemination system smoothly and efficiently, I urge you to support this request.

NextGen Reduce Weather Impact.—The goal of the NextGen Reduce Weather Impact program is to provide increased capacity in NAS while reducing congestion and meeting projected demand in an environmentally sound manner. The current weather observing network is inadequate to the needs of NextGen and improvements will be central to the work in the Reduce Weather Impact Program. Working with appropriate scientific, modeling, and user communities, current sensor information and dissemination shortfalls will be identified and evaluated. Investigating technologies for optimizing and improving automated aircraft weather reporting will also be conducted, to meet NextGen requirements.

The Reduce Weather Impact portfolio will leverage the NNEW transformational program that will interface with the National Oceanic and Atmospheric Administration's 4–D Weather Data Cube, for universal common access to weather information.

I urge you to increase the NextGen Reduce Weather Impact program funding to $43.2 million for fiscal year 2012, an increase of $7.6 million from fiscal year 2010.

On behalf of UCAR, I want to thank the subcommittee for its leadership in supporting research, development and technology transfer programs within the FHWA and FAA, and for your commitment to ensuring safer, more efficient air and road travel.

Prepared Statement of the YWCA USA

Thank you Chairman Murray, Ranking Member Collins, and members of the subcommittee for the opportunity to submit testimony. My name is Gloria Lau, and I am the chief executive officer of the YWCA USA. As the Congress works on priorities for the fiscal year 2012 Federal budget, I would like to highlight one vital program in particular under the jurisdiction of this subcommittee: the Community Development Block Grant (CDBG) which is administered by the Department of Housing and Urban Development (HUD).

The YWCA USA is a national, not-for-profit (501(c)(3)) membership organization committed to eliminating racism, empowering women, and promoting peace, justice, freedom, and dignity for all. We represent more than 2 million women and girls with nearly 300 local associations nationwide. We serve thousands of women, girls, and their families annually through a variety of programs including violence prevention and recovery programs, housing programs, job training, and employment programs, childcare and early education programs, and more. Our clients include women and girls who come from all walks of life, including those escaping violence, low-income women and children, women veterans, elderly women, disabled women, and homeless women and their families.

The YWCA is a major provider of social services to women, children, and families throughout the United States. Today, the YWCA is the largest provider of battered women's shelters in the Nation and one of the largest providers of childcare. As a major provider of social services, the YWCA is extremely supportive of the CDBG. Every day, in communities across this country, we witness the important role CDBG plays in helping communities meet the needs of their low-income women, children, and families. Today, CDBG is one of three main funding streams for YWCA programs and services nationwide. YWCAs use CDBG funding for a variety of programs, including programs that assist victims of domestic violence and sexual assault, children and youth, and homeless women and children. CDBG also provides flexible funding for YWCAs nationwide to make capital improvements to their buildings such as installing wheelchair ramps or security cameras.

Because of our strong support for the CDBG, the YWCA asks the subcommittee to concur at a minimum to fund the CDBG program in HUD at $4 billion. This call for support comes directly from local communities across the country, as local YWCA associations surveyed in December 2010 identified this vital block grant as one of their most critical funding sources for the services they provide.

As members of the subcommittee know, the CDBG, created in 1974, is a block grant program that provides funding to local communities across the United States. The CDBG provides annual grants on a formula basis to more than 1,200 units of local government and States, which then use the funds to pay for community development initiatives, affordable housing programs, and anti-poverty initiatives. CDBG helps communities provide social services to low-income women, children, and families who reside in their communities, but cannot afford the cost of services.

While CDBG is often perceived as a funding stream mainly for local governments, the impact of this program on nonprofit organizations, such as the YWCA, is substantial. Local governments that receive CDBG collaborate with community service providers, such as YWCAs, to provide social services. The local governments then pass through the CDBG funds to the service providers to help cover the cost of the services provided.

As a service provider working with women, children, and families with unique needs, the YWCA values the fact that CDBG is not a cookie-cutter/one-size-fits-all program; it is a block grant funding stream that provides local governments and States flexibility in developing programs and services most appropriate to meet the needs of its low-income residents. Thanks to the flexibility afforded under the block grant, YWCAs are able to use CDBG funding for a variety of programs and services that help countless women, children, and families annually. For example, YWCAs use CDBG funding to provide:

—short-term shelter and supportive services for homeless families;
—night and day shelter and services for chronically homeless women;
—economic assistance programs that help low-income working women pay for work uniforms, tools, transportation, background checks, and certification and licensing fees;
—housing programs such as emergency, transitional, and permanent housing for women and families;
—programs and services for vulnerable women and children including programs that help formerly incarcerated women returning to the community;
—after-school groups and youth recreation programs in at-risk neighborhoods for girls and boys; and
—programs for adult and child survivors of domestic violence and sexual assault.

In addition, though often not recognized as an important source of funding for addressing violence against women and children, CDBG plays a critical role in the ability of YWCAs to meet the needs of women and children who are crime victims. For example, YWCAs nationwide are allocated CDBG funds by their local governments to provide anti-violence services such as emergency shelters and services for victims of domestic violence; sexual assault crisis services including 24-hour hotlines, support group and crisis counseling; hospital, police department and court accompaniments; and prevention education.

Given the flexible nature of CDBG, it is not surprising that YWCAs cite CDBG as one of the most vital sources of Federal funds available to serve people in their communities. Stories abound of how YWCAs have been able to serve women and families in cities and towns across the United States because of CDBG funding. The following are just a few stories:[1]

The YWCA of Lancaster uses CDBG funding to run its Sexual Assault Prevention and Counseling Center, which serves 700 to 1,000 direct service clients annually. Specifically, the YWCA uses CDBG funding to hire counselors to work directly with the victims of sexual assault. A loss in CDBG funding for the YWCA of Lancaster would mean sexual assault victims would not be able to receive services and would be placed on a waiting list. Maureen Powers, the executive director of the YWCA of Lancaster, comments, "One-third of our direct service clients are children, and we really should not have a waiting list for child clients. It takes a lot for them to disclose sexual abuse to begin with." Though these are tight fiscal times for our Nation, I think many of us would agree that funding to help child victims of sexual assault is taxpayer money well spent.

Another story,[2] this time from the YWCA of Binghamton/Broome County in Binghamton, New York, further demonstrates how CDBG helps the most vulnerable in

[1] Ibid.

[2] As reported in "A Better Budget for All: Saving Our Economy and Helping Those in Need" published by Coalition on Human Needs for the "For the SAVE for All Campaign: Strengthening America's Values and Economy for All", on February 25, 2011, and downloaded from http://www.chn.org/pdf/2011/BetterBudget4AllReport.pdf.

our communities. The YWCA of Binghamton/Broome County uses CDBG funding to run its emergency shelter for women, which serves more than 300 women and children a year. Many of the women and children served by the shelter are victims of domestic violence. CDBG funds, which come to the program through the city of Binghamton annual Emergency Shelter Grant, are the shelter's primary funding source. A loss in CDBG funding would mean the women and children served by the shelter would not be able to receive housing and the shelter, the only facility of its kind in the community, would possibly have to close.

In today's anti-spending climate, people often believe Federal funding provides total operating funding for social service programs. That is not the case for local YWCAs that use Federal, State, and local funding as well as individual, foundation, and corporate donations. Even if CDBG does not provide total program funding for YWCA programs, CDBG provides funding for critical components of those programs. For YWCAs across this country, every dollar counts.

In addition to helping fund vital components of social services programs, CDBG helps nonprofit service providers leverage other sources of funding—whether from other government sources or private community support—to further assist women and children in need. For example, in 2010, the YWCA Seattle/King/Snohomish in Washington used more than $1.4 million in CDBG funding to leverage approximately $19 million in other funding to support some of its most critical programs such as those for homeless individuals and families and those with very low incomes. Though CDBG accounted for just a small percentage of this YWCA's government grants and operating income, the YWCA would have had to decrease services without CDBG funds.

In Lewiston, Maine, the YWCA has used support from community block grant funds to make an aging facility more safe, more energy efficient and more usable for the 10,000 people from a tri-county area who look to the YWCA for support and services. With just a modest amount of funding support, this Maine YWCA is working in close cooperation with its community to be more green, more accessible to disabled clients and more responsive to the women and their families who come to the YWCA for lifesaving support.

As you can see, this call for your support of CDBG comes directly from communities across the country. CDBG is an invaluable tool that assists local governments in addressing domestic violence, sexual assault, homelessness, and poverty. Severely cutting CDBG funding would cause budget gaps for local governments, lead to the discontinuation of many vital community services, and place in harm's way some of our Nation's most vulnerable women and children.

Though my testimony today is on behalf of the YWCA, the importance of CDBG is also recognized by the leaders of our Nation's cities and our U.S. Senators. These leaders recognize that cutting CDBG would be harmful because it promotes private sector growth.

For example, every $1 from the CDBG program brings in $1.62 in non-CDBG funds.[3] As noted by the National League of Cities, for nearly four decades, CDBG has served as a catalyst for financing housing, infrastructure, and economic development in America's cities and towns. The program has also been credited with retaining and creating employment opportunities. According to a letter written in March 2011 to the chairman and ranking member of the Appropriations Committee, signed by about one-third of the Senate, "Based on data that grantees have reported to the U.S. Department of Housing and Urban Development over the past 6 years, the CDBG program has . . . created or retained 259,346 jobs for low- and moderate-income persons through a variety of economic development activities." The letter also notes that CDBG has:

—Assisted 865,874 low- and moderate-income households through single-family and multifamily residential rehabilitation, home ownership assistance, energy efficient improvements and lead-based paint abatement;
—Benefited 22,998,047 low- and moderate-income households through such public improvements as the development of senior centers, childcare centers, and centers for the disabled; and
—Benefited 73,863,286 low- and moderate-income households through public services such as employment and training, youth services, meals and other assistance to the elderly, and services for abused and neglected children.

The contribution of the CDBG program to thousands of communities across the country and hundreds of thousands of people in the United States cannot be denied.

In closing, the YWCA recognizes these are unique times in our Nation's history and we agree that our Nation must address its deficit and debt. At the same time,

[3] National League of Cities CDBG Issue Brief, downloaded April 12, 2011, from http://www.nlc.org/ASSETS/4D74A625F6714A6688F93FC892AA0FAC/CDBG-Issue-Brief.pdf.

the YWCA believes strongly that investments in local communities and programs are wise uses of Federal funds that provide substantial returns to our Nation. On behalf of YWCAs nationwide, we look to you for continued commitment to the women, children, and families we serve through the CDBG and respectfully ask the subcommittee to support the President's fiscal year 2012 budget request for $4 billion dollars in funding for CDBG.

Thank you once again for the opportunity to provide testimony to your subcommittee. Your attention and assistance are greatly appreciated.

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