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Senate Hearings

Before the Committee on Appropriations

Departments of Transportation and Housing and Urban Development and Related Agencies Appropriations

Fiscal Year 2011

111*th* CONGRESS, SECOND SESSION

H.R. 5850/S. 3644

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
DEPARTMENT OF TRANSPORTATION
NATIONAL RAILROAD PASSENGER CORPORATION (AMTRAK)
NONDEPARTMENTAL WITNESSES
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

Departments of Transportation and Housing and Urban Development, and Related Agencies Appropriations, 2011 (H.R. 5850/S. 3644)

S. HRG. 111–983

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2011

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

ON

H.R. 5850/S. 3644

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENTS OF TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2011, AND FOR OTHER PURPOSES

Department of Housing and Urban Development
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Washington Metropolitan Area Transit Authority

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TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2011

THURSDAY, MARCH 4, 2010

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

The subcommittee met at 9:31 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Kohl, Specter, Bond, and Collins.

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE SECRETARY

STATEMENT OF HON. RAY LaHOOD, SECRETARY

ACCOMPANIED BY CHRIS BERTRAM, ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS AND CHIEF FINANCIAL OFFICER

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. Good morning, the subcommittee will come to order.

This morning, we're going to be holding our first hearing on the President's budget request for the Department of Transportation.

I want to welcome Secretary Ray LaHood. Thank you so much for being here today.

The transportation budget that we have before us today is important for families, commuters, communities across the country, and it's about more than just dollar amounts and more than just the sum of the programs and provisions; it really is a statement of values and a reflection of priorities. It's an issue that touches every American, every day. It affects the men and women who commute to work and need safe roads or new public transportation options, it affects the parents who strap their young kids into the back seat of the family car and need to be confident that their government has the resources to make sure that passenger vehicles used by American families are safe. It affects communities around the country that are facing immense fiscal challenges and depend on Federal resources to maintain and improve their transportation infrastructure.

The transportation budget has a real impact on real people, people who are struggling in these tough economic times. Last year, we passed a recovery package that is now working to create jobs and rebuild infrastructure and lay down a strong foundation for long-term economic growth. It was a good start, but we cannot stop working until our economy is steadily growing again and any American who wants a job can find one.

That's why we are building on the Recovery Act with new targeted jobs bills to help workers get back on the job and make investments that strengthen our competitiveness in the long term, including investments in transportation. And its why, as we examine this budget request, we need to make sure that it builds on those efforts and continues moving us forward, creating jobs, and investing in our communities, long term.

Today's hearing comes shortly after the Senate passed an extension of the surface transportation programs. But, unfortunately, as we know, this extension was not passed in time and almost 2,000 DOT employees were furloughed without pay for the first half of this week. The gap in funding didn't just hurt those Federal employees, it also left State governments wondering about the future of funding that they desperately need. In my home State of Washington, a reimbursement payment of $13.5 million for federally-sponsored projects, that was due on Tuesday, was left in limbo.

Seeing these programs shut off, even just for a short time, is especially troubling since Senator Bond and I have worked so hard to bring stability to the highway safety and transit programs authorized under SAFETEA–LU. Two years ago, we included a transfer of funds to prevent the Highway Trust Fund from going bankrupt. Last year, we provided an additional $650 million for the highway program, an increase of $400 million for transit, despite the absence of a new authorization law to provide for such increases.

And now, when our communities need jobs and Federal investments in infrastructure more than ever, they're facing shutdowns of the highway and transit programs and instability in their funding streams. The uncertainty of this brings—undermines essential planning by our States and local jurisdictions. That's why we need to move quickly toward a long-term authorization of the highway, safety, and transit programs, one that brings solvency to the Highway Trust Fund and stability to our States and communities, and I am committed to getting that done in the near future.

Before I get to the budget request, I want to take a few minutes to commend Secretary LaHood and the DOT on meeting some significant challenges this past year. Immediately after the Recovery Act was enacted, the Department began working to distribute highway and transit grants to State and local governments. The law set very aggressive deadlines for all of the programs it funded, and to its credit, the DOT has met each one and it has worked hard to help our State and local governments meet their deadlines, as well. That was absolutely critical as we worked to create jobs, invest in our infrastructure, and accelerate economic recovery. I was very happy with the DOT's work on two programs, in particular, the Inner-City and High-Speed Rail Grants, and TIGER, the program that I helped create, that supports significant projects across almost every mode of transportation. I fought to include those programs in the Recovery Act, because I know that getting commerce and commuters moving is an important part of our recovery efforts. I was proud that my home State of Washington received $590 million for high-speed rail upgrades along the Pacific Northwest Cascades Corridor. And I recently was out in the State and visited the North-South Freeway in Spokane, and the Mercer Street Corridor in Seattle; both projects had been awarded TIGER grants.

The project in Spokane will create about 100 jobs, and the Seattle grant is the final piece required to finish a project that will create thousands of jobs. These are projects that will help families and small businesses in their communities, get workers back on the job, and help lay the foundation for long-term economic growth. And I'm sure Secretary LaHood has seen plenty of great projects like that that are in the works, helping communities across the country.

This subcommittee included an additional $600 million in the fiscal year 2010 bill to continue provided Federal resources to support these types of regional transportation investments, and I look forward to working with the Department as it moves forward in the coming year to get to a new round of investments out of the door.

But, now, as we look toward this year's budget, it's clear that the DOT is going to have to find ways to do more with less, especially given the President's announcement of an overall cut in non-defense, domestic discretionary spending. But, even in this challenging environment, I'm encouraged by many of the items I do see in the budget request. The request includes increased funding for safety inspectors for aviation, rail, and pipelines, an investment of $1.1 billion for NextGen efforts at the Federal Aviation Administration, another $1 billion in grants for inter-city and high-speed rail, and continued investment infrastructure to support our airports, roads, bridges, highways, transit systems, and Amtrak.

I still have some questions about some of the decisions reflected in this budget request. I'm certain Senator Bond has some of his own, as well. For example, why is it necessary to create a new agency at the Department for awarding multimodal grants, especially when we have seen DOT agencies work together on the TIGER grants? And why did the administration choose not to request any funding for positive train control? PTC is an important technology for preventing rail collisions and derailments.

But, the biggest question on my mind, and on the mind of many families I hear from, is whether the Department has been doing enough to oversee the safety of our cars and our trucks. The American people deserve to have faith in the safety of the cars and trucks they drive to work, to school, to soccer practice with their kids every day. Questions have been raised about whether the National Highway Traffic Safety Administration has adequate expertise and resources to investigate safety defects among the 246 million passenger vehicles—246 million passenger vehicles—in the United States.

Given that NHTSA opened and closed four narrowly-focused investigations into sudden, unintended acceleration in Toyota vehicles between 2003 and 2006 without a significant finding of a defect trend, I question whether additional resources would have resolved consumer complaints of sudden, unintended acceleration. NHTSA must ensure the industry is honest in disclosing defects, and timely in alerting drivers, particularly when these defects can result in fatal accidents. To do this, they need to be more strategic about their workforce and use the expertise of their employees more effectively.

NHTSA finally does have strong leadership in place, with the recent confirmation of Mr. Strickland, as well as from you, Mr. Secretary. I am hopeful that you will reenergize the agency's vehicle safety mission to focus on enforcement and strengthen its electronic expertise. Families across America rely on the DOT to be a leader in improving transportation safety and to provide expertise on what safety issues need to be addressed.

I'm also glad to see a request for additional resources to allow the Federal Transit Administration to oversee transit safety. However, this activity is not yet authorized; and, importantly, the FTA's proposal to oversee transit safety came out only after severe deficiencies were found in the safety of the Washington Metro system, right here in our backyard.

I look forward to hearing from you, Mr. Secretary, on where the greatest risks exist in rail transit and what steps the Department can take to make transit safer for the millions of Americans who rely on it for their daily commutes. Unfortunately, too much of the Department's work is initiated in reaction, now, to a crisis situation. We've seen this before; most recently, the Federal Aviation Administration revisited its safety standards after the tragic crash of the Colgan Air flight, a year ago.

The DOT is doing good work in so many areas, but we can never ignore the core mission of this agency: to make sure the safety of our Nation's transportation system is there for all of our families. Over the course of this hearing this morning, we'll have an opportunity to discuss all of these issues in more—greater detail.

But, Mr. Secretary, thank you again for your participation today, and I look forward to your testimony.

With that, I'd like to turn it over to my partner, Senator Bond, ranking member, for his opening remarks, as well.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Madam Chair.

And welcome, Mr. Secretary. I'm pleased to join with the chair and Senator Collins in welcoming you to testify on the Department's 2011 budget.

There are plenty of people in Washington who don't think transportation spending is glamorous. They'd rather spend money on anything else other than roads, bridges, and infrastructure. But, in my way of thinking, ensuring America has an updated transportation infrastructure is a key responsibility of government. And I—it's no secret that I am a huge proponent of spending to improve our transportation spending and create jobs and get the infrastructure we need; but it has to be done well. It's an economic climate where we need to invest our scarce resources in areas, like infrastructure, that will not only build roads and bridges, but help rebuild our economy.

But, while investing in our transportation infrastructure is critical, we can't just wish it to be. With a $12 trillion and growing deficit, we cannot continue to throw Federal funds at projects, willy-nilly. We need a clear-cut, coherent, and detailed blueprint, detailing how taxpayer dollars will be spent to reach our transportation infrastructure goals.

Unfortunately, the administration proposal misses this mark, once again. In fact, there is little "print" in the administration's supposed "transportation blueprint." As I said earlier this year, this budget is making me feel a lot like Bill Murray in "Groundhog's Day." Instead of a serious plan to tackle our Nation's transportation policy challenges, the administration is repeating last year's mistake.

We're facing the same issues, Mr. Secretary, which we faced last year when you came before the subcommittee. I understand there are many difficult transportation challenges facing our Nation, but refusing to deal with them, or putting off the tough choices, is not a responsible way to go about it.

Once again, the budget assumes an extension of SAFETEA. We, once again, need to bail out the Highway Trust Fund with general revenue to get us through the fiscal year, much less get us through fiscal year 2011. And, once again, we have to bail out the mass transit account with general funds to get us through fiscal year 2011.

There are no broad reauthorization proposals or solutions to any of these challenges. Instead, this budget actually adds to our already daunting challenges by including various pet project initiatives that would wait, like everything else, for a full reauthorization to occur.

In addition to a lack of realistic decisionmaking, this budget adds to our challenges by failing to provide a national rail plan and a cost-to-complete estimate of what we are trying to accomplish with the $10.5 billion we've already appropriated, much less the additional billions, which I fear will be in the hundreds and hundreds of billions of dollars, this budget requests. Where are we going to spend all of that money? Where are we going to get all of that money? What's it going to do?

Finally, we have another $4 billion request for what, this year, is called the National Infrastructure Innovation and Finance Fund. Last year, it was called the National Infrastructure Bank. You might have changed the name of the program, but the details remain the same. By that, I mean there are no details, once again, no legislative language about the specifics of this $4 billion proposal.

I also must point out what is a general theme of this budget: a continuation of the American Recovery and Reinvestment Act and its broad—and I mean very broad—grantmaking authorities and requests. Your budget asks for Congress to write you a blank check, to the tune of $527 million in grants, under a new Office of Livability. Your budget also asks Congress to write you another blank check for $53 million in greenhouse gas and energy reduction grants. Your budget asks Congress to write you another $1 billion check for high-speed rail. Do you really want us to give you another bunch of pots of money from which to make earmarks, with no accountability? I want to know where is Congress' role in deciding how these tax dollars will be spent.

As you will recall, Mr. Secretary, Congress gives the—is given, by the Constitution, the responsibility to appropriate money. Why should all of the decisions about spending our scarce Federal resources be made by unelected and unaccountable bureaucrats with no involvement of the representatives of the people in Congress or a full disclosure to them?

Equally important, where is the transparency in the process? I thought I heard the clear, unambiguous promise that this administration would be the most transparent ever. I've continued to ask questions on exactly how the administration is making their earmark decisions, awarding these transportation grants, what criteria are being used. I continue to get no answer.

It's critical that the process be transparent so Congress, and the taxpayers we serve, knows how taxpayer dollars are being used. It's essential that we shine needed sunlight on the funding of transportation projects to date, and it hasn't happened.

Mr. Secretary, I believe that if this grantmaking process is continued in our bill, it needs to be done in a far more transparent and accountable way. Grants that are applied for by communities and States should be posted on the Internet for every taxpayer to see and evaluate, not just delivered by a lobbyist to the Department of Transportation, with no transparency. Cost shares, the leveraging of funds, should be readily available on the Internet so that we, and our constituents, have access to information about other sources of Federal, State, or private funds that may be used to augment these grant awards.

We have continued to demand that Congress be notified of award decisions 3 days prior to the Department of Transportation's announcement, with backup material and information on the methodology of award selections, including information on how the selected projects fit into our transportation goals. We have not been getting that, and it is very awkward to have to tell our constituents that you didn't even bother to tell us where the grants are going, why they are going there, and how they were selected.

Now, it's unclear to me the extent to which the Department is funding projects for which there are no traditional sources of funding, as you indicated was the priority for the TIGER funds when you testified before our subcommittee last year. Mr. Secretary, last year when I asked you what Congress' role in all of this, you indicated that, "Congress' role ended when the check was signed." I think the American taxpayer deserves more, deserves better. The administration has pledged to provide transparency, lobbying reform across all programs. This commitment must extend to the billions of taxpayer dollars spent on our transportation projects.

Our transportation infrastructure, like our highways, roads, and bridges, are the lifeblood of our economy and key to future economic growth and economic recovery. We cannot afford to pass the buck on difficult challenges; we cannot afford to spend billions of dollars, with no transparency, oversight, or accountability, if we are to create a modern transportation infrastructure, new jobs in our community, safer travel for our families, and economic development across the Nation.

For many of these challenges, there are no easy or popular solutions, but we cannot afford to keep putting the problems down the road, or there won't be a road to drive on.

Mr. Secretary, obviously I look forward to your testimony.

Senator MURRAY. Thank you, Senator Bond.

Senator Collins, do you have an opening statement?

STATEMENT OF SENATOR SUSAN COLLINS

Senator COLLINS. Thank you, Madam Chairman.

First, let me thank you and the ranking member for your strong leadership on this subcommittee, and your advocacy.

I do have an opening statement which I'm going to submit for the record, but I did just want to take a moment to talk about the TIGER grants that were authorized in the Recovery Act.

It's my understanding that the Department of Transportation received nearly 1,400 TIGER grant applications, totaling $56.9 billion. The Recovery Act included $1.5 billion for TIGER grants. I think this—the figures show what an overwhelming demand there is for infrastructure spending along the lines that both of you have outlined.

A project submitted in the State of Maine, alone, totaled $236.2 million. Obviously, due to the high volume of applications, the vast majority of these projects were not able to be funded. There were two in Maine that were of particular importance. One, I'm going to discuss when the questions come around; it has to do with more than 200 miles of track in northern Maine that the railway in question is seeking to abandon, which would be devastating for northern Maine.

The second is a very innovative program that New Hampshire and Maine have come together on, and that is to repair a major bridge that links the two States. And that, too, is an innovative project that I hope might be able to secure future funding.

But, again, it just is evidence of the overwhelming need for investment in infrastructure. And I look forward to working with you and the ranking member, both of whom are such effective advocates in this area, and as well as with the Secretary.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR SUSAN COLLINS

Our Nation continues to face serious economic challenges and the transportation sector is certainly not immune to these hardships. During consideration of the American Recovery and Reinvestment Act, I advocated for a strong investment in transportation funding. Unfortunately, our investment came up short. While we secured over $48 billion for all modes of transportation, this funding represented less than 7 percent of Recovery Act spending. I find that troubling as investments in transportation infrastructure are strongly needed in all States and a sure way to create good-paying jobs.

Maine was the first State in the Nation to obligate 100 percent of its Recovery Act highway funds. I applaud the quick action of my State to get Recovery Act funds out the door and create much needed jobs. I often hear from my constituents in the construction industry that the investments we made in transportation funding saved the industry from a dismal year and significant lay-offs.

As many of the Recovery Act funds are now spent, the transportation industry faces difficult times ahead if we do not act to make the necessary investments in our transportation infrastructure.

I am particularly pleased that the administration has taken steps to invest in projects of regional and national significance through the creation of a National Infrastructure Innovation and Finance Fund. The high number of applicants for the Transportation Investment Generating Economic Recovery (TIGER) Grant program funded by the Recovery Act shows the need for continued investments in this area.

The Department of Transportation received 1,381 TIGER grant applications totaling $56.9 billion. The Recovery Act included $1.5 billion for TIGER grants. The need for funding is great. Projects submitted in Maine alone totaled $236.2 million. Due to the high volume of requests, most of these projects were funded.

One project in particular that did not receive a TIGER grant is the Montreal, Maine and Atlantic (MMA) Railway in northern Maine. Because of the economic downturn, it is not financially viable for MMA to operate its full 745 miles of rail line, and the company, therefore, has filed to abandon 233 miles in Aroostook County. This will be devastating for Maine's economy. Once a rail line is abandoned, it is almost impossible to bring that line back into service. I look forward to working with the subcommittee and the Secretary to ensure that Maine has the resources we need to maintain our transportation infrastructure.

Senator MURRAY. Thank you very much, Senator Collins.

Mr. Secretary, again, welcome to this morning's hearing, and I will turn it over to you for your opening statement.

STATEMENT OF HON. RAY LAHOOD

Secretary LAHOOD. Thank you very much, Madam Chair, Ranking Member Bond, Senator Collins, for the opportunity to discuss the administration's fiscal year 2011 budget request for the U.S. Department of Transportation.

I've traveled to more than 32 States and 72 cities in the last year, and I've seen firsthand how much our citizens depend on a safe, modern, and reliable transportation system to access jobs, healthcare, and other essential services.

The President's request for next year totals $79 billion, a $2 billion increase over fiscal year 2010 levels. These resources will support the President's and DOT's top transportation priorities for safety on the roads, in the air, and also making communities livable and sustainable, and modernizing our infrastructure.

Safety is our highest priority at DOT. Our leadership campaign against the perils of distracted driving, which kills thousands of Americans every year, has been very effective. It's critical we continue to lead the charge on this; that's why we're seeking $50 million for the National Highway Traffic Safety Administration to develop an incentive-based grant program encouraging more States to pass laws prohibiting the unsafe use of cell phones and texting while driving. The President is also asking for 66 additional personnel assigned to highway and vehicle safety at NHTSA.

Turning to aviation, the President's plan includes $1 billion for next-generation technology, the program to modernize our air traffic control system. That's a $270 million, or 32-percent increase, over fiscal 2010 levels. These funds are essential for transitioning from a ground-based radar surveillance system to a more accurate satellite-based one. This system is already in use in the Gulf of Mexico, and we look forward to working on building on our success.

Our groundbreaking investments in high-speed passenger rail service, which have generated tremendous excitement around the country, will go a long way to enhance livability in many communities. Our budget seeks $1 billion to continue the 5-year, $5 billion pledge made in this year's budget. I want to thank Congress for its commitment and leadership on high-speed rail; the $2.5 billion provided to the Department for high-speed rail grants last year, combined with $8 billion we announced recently, brings us closer to ushering in a new era for passenger rail service in this country.

In the area of transit safety, we're seeking $30 million to establish a new rail transit safety oversight program within the Federal Transit Administration. This program will carry out a comprehensive safety oversight strategy by establishing common safety standards nationwide, as envisioned in the administration's transit safety bill. This is an important step forward for the rail transit industry, which has suffered recent accidents in Washington, DC, Boston, and San Francisco. This is unacceptable, and we must put strong remedies in place as soon as possible. I urge Congress to pass this legislation this year.

Going forward, we must find new ways to finance infrastructure. We're requesting $4 billion to establish a new Infrastructure Innovation and Finance Fund. These first-year funds would be used to invest in multimodal transportation projects of regional and national significance. Our crosscutting, outcomes-based approach to funding will enable us to move away from the silo mentality that has long hindered our ability to respond to local and regional needs.

On authorization, the President proposes to continue spending levels with $42.1 billion for highway and bridges, and $10.8 billion for transit. This request includes $150 million to enable the Washington Metropolitan Area Transit Authority to address much-needed safety-related infrastructure improvements. Transportation must not only be safe, but also contribute to livable, sustainable neighborhoods. The President's plan provides record-level investments to make our communities more livable.

Specifically, we're seeking $527 million for Livable Communities, which will help us build on the tremendous successes we have achieved through our sustainable partnership with HUD and the EPA. Together, we're helping State and local governments make smarter investments in their transportation, energy, and housing infrastructure, with better outcomes for our citizens.

Finally, we're seeking $30 million to make long-overdue infrastructure improvements at the Merchant Marine Academy, which our Nation depends on to educate and train a new generation of military and civilian maritime leaders. I've been to Kings Point a number of times, and I know these investments will have a lasting, positive effect on this institution.

I look forward to your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. RAY LAHOOD

INTRODUCTION

Chairman Murray, Ranking Member Bond and members of the subcommittee, thank you for the opportunity to appear before you today to discuss the administration's fiscal year 2011 budget request for the U.S. Department of Transportation.

The administration's fiscal year 2011 budget request for the U.S. Department of Transportation reflects the importance of strengthening our Nation's transportation system. In my first year as Transportation Secretary, I have travelled throughout the country and I know first-hand how important a safe and reliable transportation system is to all Americans. The President's request totals $79 billion, a nearly $2 billion increase over fiscal year 2010 levels. These resources will support the President's top transportation priorities: improving transportation safety, investing for the future, and promoting livable communities.

HIGHWAY SAFETY

Safety is and will continue to be our top priority, and reducing highway fatalities is one of the Department's High Priority Performance Goals. The budget contains a number of new initiatives to increase road, transit, and aviation safety. One of the most serious issues facing drivers today is distracted driving. We must end the dangerous practice of unsafe cell phone use or texting while driving. Too many lives have been lost already due to distracted driving. Working together, I believe that we can stop this dangerous practice—and save lives. The President's budget requests $50 million for the National Highway Traffic Safety Administration's (NHTSA) for a new incentive grant program to promote State laws to curtail unsafe cell phone use and eliminate texting while driving. Today, our children don't think twice when they "buckle up"—and our goal is that tomorrow, our future generations won't think twice about putting down their cell phone so that they can drive safely. This new program will work alongside NHTSA's other highway safety programs in making our highways safer for everyone. The President is also asking for funds to support 66 additional personnel for NHTSA to be assigned to highway and vehicle safety issues, and $7 million for the Federal Motor Carrier Safety Administration for 118 new truck safety personnel.

NEXTGEN

The future of aviation is in our hands. The President's fiscal year 2011 plan includes over $1 billion—an increase of $275 million over the fiscal year 2010 levels—for "NextGen"—the program to modernize the air traffic control system. Currently, the Federal Aviation Administration is undertaking a long-term effort to improve the efficiency, safety, and capacity of the aviation system. But while we are talking about the future of aviation, I'm pleased to report that it's happening now. The funds requested under the fiscal year 2011 budget request will support the transformation from a national ground-based radar surveillance system to a more accurate, satellite-based surveillance system. This system is already being used in the Gulf of Mexico, which is improving the safety and accuracy of air traffic services in the gulf. We will be building on the successes of our research and development, to improve capacity to the flying public. We will be developing more efficient routes through the airspaces, and improving aviation weather information. As always, as we launch these critical new applications, we will continue to keep our strong focus on safety. Under my budget request, our vision of a modernized air traffic control system is becoming a reality.

HIGH SPEED RAIL

The budget also continues President Obama's vision to better connect communities with a new, high-speed rail network. The budget includes an additional $1 billion for High Speed Rail. This request builds on the historic $8 billion down payment provided through the Recovery Act, and continues the 5 year, $5 billion pledge made in the fiscal year 2010 budget. The $2.5 billion provided to the Department for high speed rail grants last year along with our recent announcements of the first awards of the High Speed Rail Program will put us one step closer to making High Speed Rail a reality.

This is an exciting time for the Nation. Looking ahead, high-speed rail will one day provide the traveling public with a practical alternative to flying or driving, particularly in highly congested areas. With trains efficiently connecting city and business centers, travelers will enjoy a new level of convenience not available in many parts of the country today.

RAIL TRANSIT SAFETY

The President's request also includes resources to address rail transit safety. While rail transit is safe, we must take substantive steps now to make it even safer for the future. We are all well aware that rail transit has the potential for catastrophic accidents resulting in multiple injuries, considerable property damage, and heightened public concern. Following the recent tragic accidents in Washington, DC, Boston, and San Francisco, it is clear that we need to strengthen the safety oversight of transit rail operations. Our budget requests $30 million to establish a new transit safety oversight program within the Federal Transit Administration, which has never before been granted safety oversight authority. This program will implement a comprehensive safety oversight strategy, as proposed in the administration's transit safety bill, to establish common safety standards nationwide and to ensure the safety of our Nation's transit riders.

INVESTING IN TRANSPORTATION INFRASTRUCTURE

As we continue to focus on improving transportation safety, we must also rethink the way we invest in our future transportation infrastructure. That is why the President's plan includes $4 billion to establish the new National Infrastructure Innovation and Finance Fund (Infrastructure Fund). This is the first year of a 5-year plan to capitalize the fund with $25 billion. This fund will invest in projects of regional or national significance, and marks an important departure from the Federal Government's traditional way of spending on infrastructure through mode-specific grants.

Instead, the Infrastructure Fund will directly provide resources for projects through grants or loans, or a blend of both, enabling us to effectively leverage non-Federal resources, including private capital. The projects funded under the Infrastructure Fund will be based on demonstrable merit and analytical measures of performance. Only the most worthwhile projects from around the Nation will be selected. Projects eligible for funding from the Infrastructure Fund consist of multimodal projects that include highway, transit, rail, aviation, ports and maritime components. This marks a bold new way of thinking about investments in our transportation infrastructure and will become a key component of the administration's future surface transportation proposal.

The reauthorization of the Nation's surface transportation programs is complex and has critical long-range implications for the future. While the President and the Congress continue to work on a long-term strategy for surface transportation, the President's plan continues the current levels of spending: $42.1 billion is proposed for highways and bridges and $10.8 billion for transit. Within this funding, $1.8 billion is included for "New Starts" and "Small Starts", and $150 million to enable the Washington Metropolitan Area Transit Authority to focus on badly needed safety-related infrastructure improvements. Reauthorization is a challenging issue facing our Nation and I look forward to working with the Congress to design a new Federal surface transportation program that leads to higher performing investments, increases transportation options, and promotes a sustainable environment.

LIVABILITY

The President's plan also provides a record investment to make our communities more livable. Our budget request allocates over $500 million toward investments that support the President's multi-agency Partnership for Sustainable Communities. We have joined with the Department of Housing and Urban Development and the Environmental Protection Agency to stimulate comprehensive regional and community planning efforts that integrate transportation, housing, energy and other critical investments. Together, we will help State and local governments make smarter investments in their transportation infrastructure, to better leverage that investment and advance sustainable development.

RECOVERY ACT

February 17 marked the 1-year anniversary of the Recovery Act and I am pleased to report that much has been accomplished to improve transportation infrastructure throughout the Nation. Overall, the Recovery Act provided $48.1 billion for transportation programs to be used for improvements to our Nation's highways and bridges, transit systems, airports, railways, and shipyards. To date we have obligated $36 billion on more than 13,700 projects nationwide.

In addition, section 1512 of the legislation calls upon Recovery Act fund recipients to report on the number of jobs created on individual projects. We have now completed two rounds of recipient jobs reporting. Based on the recent October–December 2009 reporting period, we have created about 41,000 direct full time equivalent jobs for transportation programs nationwide. I want to emphasize that the jobs estimates included in this report are only those directly associated with the individual transportation projects and do not include the many other jobs created due to increased demand on supply chains and other supporting services. When these indirect jobs are also taken into account, it is clear that the Recovery Act resources have made a significant impact on jobs and we expect these numbers to hold steady as some of the larger transportation projects continue to come on-line.

CONCLUSION

Finally, I am proud of the proposed investments the President's budget makes in the U.S. Merchant Marine Academy—one of our Nation's five service academies. I have visited the young men and women at Kings Point, and I'm greatly concerned about the conditions of their facilities. They are old and badly in need of basic repair. The President's plan includes $26 million to make long overdue capital improvements that will help ensure midshipmen have a positive learning environment.

Thank you for the opportunity to appear before you to present the President's fiscal year 2011 budget proposal for the Department of Transportation and discuss some of the successes of the Recovery Act. This plan supports our Nation's key transportation priorities, and makes investments that will benefit all for years to come. I look forward to working with the Congress to ensure the success of our newest initiatives.

I will be happy to respond to your questions.

TOYOTA RECALLS

Senator MURRAY. Secretary, thank you very much.

Let me begin with the safety aspect that I talked about in my opening remarks, which is what Americans really count on to know what is happening. And I'm concerned that, despite the recall of 6 million vehicles here in the United States and 8½ million now worldwide, it's likely that engineers have not yet discovered the problem with the sudden, unintended acceleration in Toyotas. There is speculation that another problem may be in Toyota's electronics or software that manage the throttle operations. And I realize that Toyota and NHTSA are now investigating those possible causes, but I'm concerned because today I'm seeing another news articles that some Toyota owners say they're still having trouble with unintended acceleration after their recalled cars were repaired.

Now, I know this isn't an easy issue, but I want to be sure that we understand how you are making the American people aware of what the problems are, and which problems the recalls can actually resolve, and what issues still need to be resolved. And I wanted to ask you this morning, what advice do you have today for consumers?

Secretary LAHOOD. Well, first of all, they should look at our Web site, DOT.gov. We list all of the cars that have been recalled by Toyota, and every other manufacturer; and if their car is on that list, they should return it to the dealer and have the car repaired.

I don't think we would have had the kind of testimony before the Senate or the House if it hadn't been for our people holding Toyota's feet to the fire. I personally requested Mr. Toyoda come to America, talk to Members of Congress, talk to its customers. I had a personal meeting with him.

We have held Toyota's feet to the fire on these safety issues, and we will continue to do that. We're not going to rest until every Toyota is safe to drive. That's our pledge, because safety is our No. 1 priority.

Senator MURRAY. Well, if the new stories are accurate and the reports are accurate, that the fix is not working, Americans who went online, saw that their car was supposed to go back in, took it back in, and they're still out there driving it, and that didn't work. What are we doing now to fix the problem?

Secretary LAHOOD. We're suggesting to people, if your car is not working properly, take it to the dealer and have them address or fix——

Senator MURRAY. But, that's what they did. They took it in and had it fixed——

Secretary LAHOOD. They need to take it back. They need to take the car back if it's not running properly.

And on the electronics issue, Madam Chair, I want you to know that, we did look into that, and we've listened to Members of Congress and from testimony that was given, both in the House and Senate. We are doing a complete review, looking at every aspect of the electronics in Toyota.

Senator MURRAY. How long will that take?

Secretary LAHOOD. It'll take some time, because we want to look at some studies that were previously done. We want to get the best experts we can; we want to get the best electrical engineers. I don't want to put a time on it, because we want to do it right, we want to do it thoroughly, and we want to make sure that, when we produce answers, it's done with the best possible research and background and review that we can do.

Senator MURRAY. Well, I know it's not an easy problem, but it is very challenging to somebody who owns a car, did the right thing, took it in for a recall, and now they're hearing that perhaps that fix didn't work for them, and now they're sitting there with a car in a driveway and kids waiting to take to school. I mean, they're——

Secretary LAHOOD. Yes.

Senator MURRAY [continuing]. Concerned about it.

Secretary LAHOOD. Well, I want you to know that we're not sitting around on our hands; we're addressing this. There was a woman that testified, at a House hearing, about a Toyota that she owned. We have purchased that vehicle, because she believed the electronics were what caused her to accelerate to a very high speed. We have purchased that vehicle, and we're going to do everything we can to investigate, look into, and check out the electronics on that car.

NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION BUDGET REQUEST

Senator MURRAY. Okay. Well, the President's budget requested 46 positions for vehicle safety. How many of those positions will be used to hire software engineers?

Secretary LAHOOD. Well, the President is requesting 66 new positions, which will all come to NHTSA. I'll get back to you, for the record.

If the Congress passes our budget, we're going to see where these experts are needed. We know they are needed in our opportunity to really look at cars and complaints and really make sure we have the right staff and also the right professionals to handle the kind of complaints that we're receiving from people.

[The information follows:]

Of the 66 additional personnel requested in the President's fiscal year 2011 budget, 46 positions (46 full time positions-FTPs; 23 full time equivalents-FTEs) would support electrical vehicle safety, light vehicle and heavy duty truck fuel economy and labeling standards, and import surveillance of automotive equipment coming into the United States from foreign countries. NHTSA retains outside experts in electronics and other fields as necessary to supplement its permanent Federal workforce. NHTSA is still assessing the agency's needs to determine what additional staff with expertise in electronics, computer science, or other areas of specialization are needed.

Senator MURRAY. Okay. Also, are you going to be expanding your staff with expertise in electrical and computer engineering for both vehicle safety investigations and regulations?

Secretary LAHOOD. Yes.

Senator MURRAY. You are. Okay.

Secretary LAHOOD. Yes. We do have some electrical engineers on staff, but we feel, now that this issue of the electronics has been raised, more resources are needed. While you all are working on our budget, we may look for some outside help on this, for some electrical engineers who can really help us with this.

Senator MURRAY. Okay. The issue of sudden and unintentional acceleration in Toyotas has focused attention on the actions of Toyota and NHTSA officials, and the relationship between the two entities. Safety advocates have been complaining that NHTSA officials failed to push Toyota to find the root cause of this problem, and worked with vehicle manufacturers to inappropriately limit investigation. Now that you have new leadership at NHTSA, which I'm pleased to see, what actions are being taken now to ensure that there's a strong enforcement where culture exists and is encouraged?

Secretary LAHOOD. There are laws on the books that prohibit former employees of NHTSA working on matters where they were intimately involved at NHTSA. We've checked out the two individuals, and we've determined that they did not come back to us and were involved on issues that they worked on in the Department.

But, I've said at other hearings, Madam Chair, I think this law needs to be tightened up. I think the appearance of it causes great concern for people, and I'm willing to work with Congress to tighten that kind of exiting of employees. I'm willing to work on tightening that up.

But, I will tell you this, it was our people who went to Japan and met with Toyota, because we thought they were a little safety deaf in Japan. We knew their people here in North America were making recommendations, but apparently they weren't hearing it in Japan. That's the reason I got on the phone with Mr. Toyoda and talked to him. I met with him when he came here. I think they get it now, I think they understand they have serious issues.

The perception is that many of their cars, particularly the ones that are listed on the recall list are not safe. There've been some improvements in communication, thanks to the diligent effort of our people at NHTSA, to hold their feet to the fire.

Senator MURRAY. Yes. And, I do understand that NHTSA has widened its investigation and requested documents about how and when Toyota learned of the defects. When do you expect NHTSA to complete that inquiry?

Secretary LAHOOD. It'll be several months. I mean, we've asked for a voluminous amount of material to make sure that what they told us in 2004, 2005, 2006, and even prior to that, was everything they should have told us. The only way we can do that is to look at documents that they have. It's going to take us a while to pore through these documents.

Senator MURRAY. Do you think the Department's authority to level civil enforcement penalties is sufficient?

Secretary LAHOOD. I do.

CHILDREN IN AIR TRAFFIC CONTROL TOWER

Senator MURRAY. All right. Well, we'll be following that very closely. But, before my times up, I wanted to ask you another question on safety. And I, for one, was very disturbed about the report yesterday about a young child who was allowed to direct traffic at the Air Traffic Control Center at New York's Kennedy Airport, apparently speaking with pilots and clearing flights for takeoff. This subcommittee spent a lot of time talking with DOT, and you, and the Federal Aviation Administration about the FAA's culture of safety. How does this incident reflect on the FAA's culture of safety?

Secretary LAHOOD. Well, this is a stunning example of a lack of professionalism, not following the rules, not using common sense. The air traffic controller and his supervisor are on administrative leave, and we are doing a thorough and complete investigation. The idea that a young child would be directing planes in and out of an airport is totally unacceptable. It's an abuse of all of the rules that——

Senator MURRAY. Are there rules in place that children cannot be allowed in control towers?

Secretary LAHOOD. There are, today.

Senator MURRAY. Were there, yesterday? Just out of curiosity.

Secretary LAHOOD. Yes, but they weren't followed.

Senator MURRAY. Yes. Well, I think this is extremely disconcerting. I know during the Nisqually earthquake in Seattle, when air traffic controllers immediately had an emergency where they had to land every single airplane; after 9/11, when we had a serious——

Secretary LAHOOD. Right.

Senator MURRAY [continuing]. Emergency; or a plane goes down—I think every one of the flying public, and all of the public, wants to know that those air traffic controllers' minds are on their jobs. This is extremely demanding, challenging, important safety aspect of our FAA, and I'm hopeful that this will be followed up.

Secretary LAHOOD. Yes. I, too, want to congratulate NATCA. The head of NATCA, which is the union that represents air traffic controllers, spoke out very strongly on this being a violation of every rule and regulation that any controller has been taught.

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

NATIONAL INFRASTRUCTURE INNOVATION AND FINANCE FUND

Senator Bond.

Senator BOND. Mr. Secretary, I have a lot of questions about details, as I indicated. And let's start with the National Infrastructure Innovation Finance Fund Policy Board. Who's going to be appointed? What's the process? Who will be the selections? Will they come before the Senate for confirmation?

Secretary LAHOOD. You know what, Senator Bond? I don't know all the answers to that. I know that the idea of an infrastructure bank, as it was commonly referred to earlier on, has been kicked around Congress for a long time. The Department of Transportation is trying to find ways to do all the things that we all want to do.

Senator BOND. Right.

Secretary LAHOOD. And without raising the gasoline tax. We feel that the Infrastructure Fund is a way to do that. Specifically, I'll get back to you.

But, if this is enacted into law, and if this comes about, we will work with, obviously, members of this subcommittee and Congress on the way forward for the implementation of it.

[The information follows:]

The details of the National Infrastructure Innovation and Finance Fund's (I-Fund) policy and investment council are still being finalized. The Department will soon issue proposed statutory language for the I-Fund that will include details on the composition of this council.

Senator BOND. Well, I appreciate that, Mr. Secretary, but let me just say, I'm from the "Show Me" State. And before I can support this, I want to know: Who's going to be on it? Who's going to appoint them? What the criteria will be for selecting them? Will Congress have a role? Will they be available for comment on—the people on the board? What are the criteria on which these grants are going to be made?

And just to make it simple, so we don't get any confusion, I am not going to vote for it until I have that path laid out, because if we're going to try to fund that board with $4 billion, I think that—we have had real problems knowing how money is going out the door, and I am not excited about sending any money—more money out the door unless I know, in advance, how it's going to go.

I don't disagree with you. We need funding—infrastructure, bonding issues—there are a lot of—private-sector cooperation—there are a lot of good ideas, and we will work with you on those ideas. And we have seen where there are a lot of ways—toll roads are very controversial, but a lot of places are getting—they're getting badly needed highways built by toll roads. We want to see those ideas, and work with you on those. But, for my part, no blank checks until we see what you're going to do. And we'll be happy to work with you——

Secretary LAHOOD. Thank you.

Senator BOND [continuing]. But we need to know in advance.

And as I said—I've mentioned earlier—I think, when the administration prepares to make these grants, it would be appropriate for the administration to follow the same policy that Congress makes when we select some things. Posting—for example, posting all of the applications on the Internet, along with the cost shares, funds leveraged. What are the metrics and evaluation criteria on how the projects will be selected?

Congress has, rightly, reformed our earmarking process, and we've tried to make it as transparent as possible. Do you agree it's time for the administration to have the same kind of transparency?

Secretary LAHOOD. Well, Senator, I would say this. I've been around 30 years—I served in Congress for 14, and I was a staffer for 17; I served on the Transportation and Infrastructure Committee. I don't know of a more transparent administration than this one. If there's information you want, Senator, we'll be helpful in getting it to you.

HIGH SPEED RAIL

I will tell you this, Senator, when it comes to the "Show Me" State, high-speed rail did very well; TIGER grants did very well. I was in a room with over 200 people, in Kansas City, announcing a TIGER grant; I heard not one word of complaint about the 40— or about the $50 million that went to Kansas City for a project that everybody in that room, in that region of your State, was very much for. I heard no complaining about the high-speed rail money that's going to connect Chicago to St. Louis to Kansas City. High-speed rail is coming to Missouri, thanks to the Economic Recovery Plan, and thanks to, I think, a lot of good staffwork with people in Missouri who want this. I think we've been very transparent about this.

Senator BOND. Mr. Secretary, I've never had a problem being well received when I brought money. Only thing better is if you're bringing a free lunch and some beer. And they'll not object to you coming in when you bring the money. But, what I'm saying is that all of us need to know—and as far as I can tell, there's been—there has been an almost complete absence of transparency—how you're selecting them, where are you going? All right, great, it comes down like a gift from Santa Claus. And, sure, my State got some, every State gets some, but we have a right, these days, to know: What were the criteria? What were the applications? Whose were the ones who were disappointed? Who did not get it? How were they selected?

I mean, no question, when you throw money into infrastructure projects—everybody likes money in infrastructure projects. But, we need to see how the process works. And I'll be damned if I can figure out how that process worked. That's what I'm just saying. You know, we work very hard to find out what the priorities are, and when we come before our colleagues in Congress to present them, we lay out the—who has applied, we go on the floor and debate them. And I've had a lot of debates on why these are good projects—before they ever get the money. But, you know, you come in and—well, I'll get around to high-speed rail a little bit later on. But, before we put money into these things, we'd like to know that there is going to be advance information; there's going to be disclosure of—I mean, you don't let lobbyists in, but obviously they prepare the information, and they bring applications to you. When those applications come in, maybe there are some applications—if you're going to be making the earmarks, maybe we would like to comment, say, "Here, you've got 12 applications from my State, or 250 applications from our intelligence and investigation. Here are several that really meet the needs, and we can tell you why." We——

Secretary LAHOOD. Well——

Senator BOND [continuing]. We didn't know where they were going.

Secretary LAHOOD. Okay. Well, let me respond to some of this. Because——

Senator BOND. Sure.

Secretary LAHOOD. The truth is we put guidance up for the $1.5 billion, look on our Web site. It's up there now. We have another

$600 million that you all provided to us, thankfully, in our budget. We're going to put guidance up.

So, the guidance is up there. Everybody knows what the criteria are and then people begin to submit applications. I don't know of one lobbyist that darkened our door with an application. I don't know of one lobbyist that came to our office with the idea that they were going to have some kind of an edge because they're a lobbyist.

Okay. So, we put the guidance up, and then we took time to review them all. I'll be honest with you, Senator, we heard from a lot of Senators and Members of the House, who called me and said, "How many applications from my State? What are they?" and we heard from Governors, too. So, the idea that nobody weighed in on this from Capitol Hill is not accurate. I got phone calls every day from House Members, from Senators, from Governors, saying: How many applications did you receive from my State? What are they? How much are they for? What are they going to do?" We shared all that information.

Senator BOND. Well, it would be very easy, if you'd just put it on the Web site, save you all those calls.

Secretary LAHOOD. Well, I would have been happy to take a call from you, Senator, about anything in Missouri. And on the——

Senator BOND. Well, I——

Secretary LAHOOD [continuing]. High-speed rail—let me tell you about the high-speed rail. There is a rail plan. We put a rail plan together before we decided to go out and figure out what we were going to do with our $8 billion. We funded 13 regions in the country. Missouri did very well, by the way, because you're going to be connected with some other States. Then we received these applications, we evaluated them, we met with the people, and we awarded $8 billion. Thanks to all of you, we have an additional $2.5 billion this year. If anybody in Missouri had questions about high-speed rail, we sat down with them, we answered them. I talked to your Governor on several occasions about high-speed rail. So, the idea that people don't have access to information is absolutely not accurate. It's not. I'll give you a list of my phone log and show you how many Members of Congress have called me, and how many Governors.

Senator BOND. Well, I remember talking to you back in June. I said, "How are you going to spend the money that you got in the ARRA?" If I remember correctly, you said, "You gave us some money, and we'll spend it." That's what——

Secretary LAHOOD. Well——

Senator BOND [continuing]. We heard.

Secretary LAHOOD [continuing]. You know what, Senator, I'll look back on the record——

Senator BOND. Well——

Secretary LAHOOD [continuing]. But, I doubt if I put it that way.

Senator BOND. Well——

Secretary LAHOOD. We'll get a copy of the record and see.

Senator BOND. Well, this——

Secretary LAHOOD. You know——

Senator BOND [continuing]. This is——

Secretary LAHOOD [continuing]. Look it——

Senator BOND [continuing]. This is——

Secretary LAHOOD [continuing]. I have——
Senator BOND [continuing]. This is the——
Secretary LAHOOD [continuing]. Very——
Senator BOND [continuing]. Question we had——
Secretary LAHOOD [continuing]. High regard——
Senator BOND [continuing]. In the S. 128.

Secretary LAHOOD. Okay. Well, look I have a very high regard for Members of Congress, having been one, and I——

Senator BOND. I—and I——
Secretary LAHOOD [continuing]. I don't think——
Senator BOND [continuing]. Have a high regard for you, sir.
Secretary LAHOOD [continuing]. And I——
Senator BOND. But——
Secretary LAHOOD [continuing]. Don't take——
Senator BOND [continuing]. I'm just saying——
Secretary LAHOOD [continuing]. Lightly questions——
Senator BOND. Yes.
Secretary LAHOOD [continuing]. From Members——
Senator BOND. There's no information——
Secretary LAHOOD [continuing]. Of Congress.

Senator BOND [continuing]. On the waiting. You've got some big, broad—I'm going to ask you how you define livability and all those things. I mean, wow. You know, it's like saying we're going to oppose pornography. What are you going to oppose? How are you going to support livability? We'll get into that in the next round.

I have a great personal admiration for you; we've been good friends for a long time.

Secretary LAHOOD. Yes, sir.

Senator BOND. I'm just saying, the system is not working, and I need to know, before we put more money in. And more questions to follow.

Thank you.

Senator MURRAY. Do you need some more coffee, Senator?
Senator BOND. No.
Senator COLLINS. I—we could offer to get you some.
Senator BOND. Thank you, it's working.
Senator MURRAY. Senator Collins.

FREIGHT RAIL

Senator COLLINS. Thank you Madam Chairman.

Mr. Secretary, I want to take advantage of this opportunity to bring to your attention, and the attention of my colleagues, a very serious problem that we're facing in northern Maine. And the best way for me to do this is to refer to a map that we're providing to each of the members and to you. Thank you, I'm glad that you have it.

First, let me tell you a little bit about the geography. The area in question in Maine includes the largest county east of the Mississippi in our country. And it is facing the imminent loss of virtually all the freight rail service for this area. The Montreal, Maine, and Atlantic Railway has filed with the Surface Transportation Board to abandon 233 miles of rail. It's signified on the map by the red line. And, as you can see, it's an enormous area. In fact, the only freight rail that would remain is a little strip at the very northern border between Madawaska and Van Buren.

This area of our State has an unemployment rate that is almost 10 percent. It's higher than the national average, and it's higher than Maine's overall rate of 8.3 percent. If this rail line is abandoned, it will be devastating to the economy of northern Maine. There are about 20 major shippers that rely on this line. That includes a major paper mill that is in Madawaska; it includes a potato processing plant; and there are a variety of smaller shippers that also rely on the line.

I want to read to you a quotation from the Maine transportation commissioner, because it sums up well just how important this is. "The Maine Department of Transportation feels very strongly that we cannot allow this line to be abandoned. It is inconceivable that the largest county east of the Mississippi"—this is Aroostook County, it's my home county in Maine—"a county whose economy is primarily manufacturing and agrarian-based, would be completely cut off from rail service. That would truly be unprecedented. The outright abandonment of freight rail service would have an immediate and direct negative economic effect on the companies"—and I would add, all the employees—"that are located in this county."

Everyone, Mr. Secretary, is trying to work together—the State, the shippers, the local officials, county officials, State officials—but, it's obviously going to take an investment of capital to save this service. I am so committed to saving freight rail service for northern Maine. As you can see, it's an enormous area of our State. And I want the chairman of this subcommittee, and the ranking member, to understand that a contribution of Federal funding is going to be essential in saving this line. It's going to be one of my top priorities for the bill that we worked so hard on.

Mr. Secretary, I know that the decision on whether or not to allow abandonment does not fall to you, it falls to the Surface Transportation Board. However, the Department does have funding options. And today I'm asking you to work with me, to work with this subcommittee, to work with the State of Maine to come up with a solution. We simply cannot allow 233 miles of line to be abandoned, when there's no other freight service for this large area of Maine. It would have a devastating impact on the economy, an economy that is already very fragile.

So, today I'm asking you to work with me to try to identify solutions where the Federal Government can be a partner in trying to save this necessary freight service.

Secretary LAHOOD. Well, Senator, thank you for your leadership on this. Freight rail is very, very important. It's a big, big component of our transportation system around America, and I know it is for Maine. You'll have my full commitment. What I'd like to offer up is for our rail administrator to go to Maine, as quickly as possible, to meet with all of the stakeholders and all of the people that are involved, and we'll figure out some kind of a funding opportunity to make sure that this line is not closed down, because, it's like an interstate system. You can't close down a part of the interstate that connects so many other parts of the State.

We get it. I'm committed to helping you. I'll have our rail administrator in Maine, whenever we can get all the stakeholders together, and we will work with you on a plan to get this funded.

SAFETEA–LU

Senator COLLINS. Thank you so much. It's so important, and I very much appreciate your commitment.

I want, next, to discuss an issue that my colleagues have talked about, and that is the expiration of the 2005 highway reauthorization law. I'm very proud of the fact that Maine was the first State in the Nation to obligate all of the funding provided by the Recovery Act. That is a credit to Governor Baldacci, to State officials, but it also shows you what an overwhelming need that there is for funding for infrastructure in my State.

And it was brought home recently when a construction company executive came to meet with me. He talked about the fact that he had hired 150 workers as a result of the funding from the stimulus bill, but he's very concerned that there's no long-term highway funding plan on the horizon.

Given the unfortunate reality that it looks unlikely that Congress will pass a highway reauthorization bill this year, what actions are the administration taking to ensure that the Highway Trust Fund has adequate funding?

Secretary LAHOOD. Well, actually, the bill that you all passed—that's pending in the House today, and I think there'll be a vote on it—which extends our program through the end of the year, is an enormous help to the States. These 30-day extensions do them no good. As a matter of fact, States begin to lose money, and it's impossible to hire contractors. I mean, we like the bill that you all passed, and we're encouraging the House to pass it today, because it takes us right up to the end of the calendar year. It gives us time to work with all of you on another authorization bill, to find the money to do all the things we want to do. That bill, alone, is an enormous lift for all of these States.

Senator COLLINS. I couldn't agree with you more that it's a real problem that we're passing just these short-term extensions. I supported and helped advance the bill——

Secretary LAHOOD. Thank you.

Senator COLLINS [continuing]. In question, because—the contractors simply can't plan. And the State does not dare enter into contracts if it's not assured that funding is going to be forthcoming.

And finally, Mr. Secretary, I do want to mention the TIGER grant applications. The demand was enormous for that funding, as you know even better than I—nearly 1,400 applications were submitted, including several from Maine. We're grateful for the port funding that we received. But, there are other projects that are so important—the rail project that I just mentioned—but also what I believe is an innovative project that Maine and New Hampshire brought forth, to rebuild the bridge from Kittery, Maine, to Portsmouth, New Hampshire. The two States collaborated on a TIGER grant application. It has unanimous support from both the Maine and New Hampshire delegations, both of our Governors. And I hope, as you do the second round of TIGER grant applications—I believe it's $600 million——

Secretary LAHOOD. Yes.

Senator COLLINS [continuing]. More that you have available this year——

Secretary LAHOOD. Yes.

Senator COLLINS [continuing]. That you'll take a hard look at that application. This is a major thoroughfare connecting our two States. It's important for commerce, for tourism, for day-to-day travel by residents. And I urge you to take a close look. It's unusual for two States to collaborate together in filing an application, but that's what we've done.

Secretary LAHOOD. Yes. Senator, let me just suggest that maybe we could work with your staff and get the stakeholders from both of the States together. We could review their application, in anticipation of us posting up our guidance for the next round, and that may be helpful to them. If we could work with your staff to get a few of those people gathered together, we can talk about the previous application and the way forward.

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

Thank you, Madam Chairman.

Senator MURRAY. Thank you, Senator Collins.

PENNSYLVANIA EXPRESSWAY

Senator Specter.

Senator SPECTER. Thank you, Madam Chair, and good morning, Mr. Secretary.

Secretary LAHOOD. Good morning.

Senator SPECTER. Thank you for accepting the position in the administration to provide a breath of bipartisanship. We can use it around here. And thank you for being so accessible and the many trips you have made to Pennsylvania to take a look at our needs that come within the purview or your Department.

As I have mentioned to you in our private conversations, I think that Pennsylvania ought to be getting more on the next round of disbursements. I understand the problems you've had, but the fraction allocated to my State has been relatively small.

Picking up on some of the specifics, a very important project in Pennsylvania is the Mon Valley Expressway, and it connects Uniontown, in Fayette County, to the city of Pittsburgh, and is indispensable for economic growth in that area, an area which has been really hard hit with steel and coal, et cetera.

PENNDOT requested some $401 million from the stimulus high-speed, but no funding was awarded. And we're searching for the concerns which the U.S. Department of Transportation has. And this is a matter which has to be worked out at the staff level, but I want to make the request, to you, to use the power of the—your office to see if we can't move that along so that we're in a position to answer whatever questions there are. That—the Mon Valley Expressway is really of critical importance to southwestern Pennsylvania.

Turning now to the so-called Lackawanna Cutoff between Scranton and Hoboken, New Jersey, to establish a line which would set the stage for a Wall Street West, which would be very important for Wall Street and very developmental for New Jersey and also for northeastern Pennsylvania, the request was made for $401 million from Stimulus High-Speed. And, here again, we do not know what the problems were, and I'd like to get that worked out, at the staff level, so we can figure out to——

Secretary LAHOOD. Yes, sir.

Senator SPECTER [continuing]. Correct whatever problems you see.

The Schuylkill Valley Metro is a project you know, because you came to Norristown and graciously participated in a meeting out there. We have received substantial funding over the years, but it hasn't gone forward. But, there is a fund of $24 million which has not been obligated. And I wrote you, back on December 23, asking you not to reprogram the money, and I'd appreciate your taking a look at that and honoring our request, because that really is vital to take pressure off the Schuylkill Expressway. And one day we're going to get it worked out with existing sector rail lines called R6 and other lines which can be used to work all the way up to Reading.

The Maglev issue has been on the table for a long time, and there have been plans to allocate $90 million—half in the west and half in the east. And finally, yesterday—and I thank you—there was a release of the $950,000 which you and I talked about a long time ago. It was reduced to $889,200, but thank you for liberating it.

Secretary LAHOOD. Thank you for jogging my memory on it.

Senator SPECTER. Well, I'm glad you have a memory, once jogged, and even gladder, if there is such a word, that we got some of that money.

Mr. Secretary, without carrying on a monologue, where do you see Maglev heading, what kind of a timeframe do you see for a decision to make an allocation of the $45 million to Pennsylvania?

Secretary LAHOOD. Maglev is very expensive, Senator, and we really need to sit down with the stakeholders and look at their plans and determine what kind of commitment there will be from others. To be honest with you, it is a very expensive project, and we just need to make sure we know where all the money is going to be coming from, and that the plans are in place so that if somebody makes a decision to go ahead with this, that the commitments will be there, not only from us, but from those that want to implement this program.

Senator SPECTER. Mr. Secretary, whom are you looking toward to be at the table? Because I'd like to move ahead, and I would certainly take the lead in organizing the meeting. Who——

Secretary LAHOOD. Well, I think we need to get people in the State that are interested in this program, and members of your delegation who have expressed an interest, together and have a meeting. We'd be happy to help you organize that—or if you want to take the lead. I think we should do that.

Senator SPECTER. Well, I'd be glad to take the lead, and I will follow up with you on that. Maglev is present in other countries. I've rode on a pilot project in Hamburg; it must have been a decade ago. The train is designed to run close to 300 miles an hour. You go from Philadelphia to Pittsburgh in 2 hours and 7 minutes, with intermediate stops in Lancaster, Harrisburg, Altoona, Johnstown, and Greensburg. And you wouldn't have to take your shoes off to get on the train. It would cut down on a lot of vehicular traffic and have all the ingredients we talked about on high-speed rail—high-speed travel. And I think it is a technology which is expensive, but I think it would be worth it. But, let's pursue the——

Secretary LAHOOD. Yes, sir.

INFRASTRUCTURE FUND

Senator SPECTER [continuing]. The dialogue we've had.

We're working, on the Environment and Public Works Committee, on the highway bill—highway and transit—and we're talking about a figure of $600 billion. Is that realistic, from the point of view of the administration? I hope so.

Secretary LAHOOD. Well, if you look at the bill that's been put together in the House, it's about a $450 to $500 billion bill. Everywhere I've gone, I've said the President wants a robust, comprehensive transportation program. We need to find the money to do it. One of the ways that the President suggested, in the budget that you're all considering, is an infrastructure fund. Some people like it and some people don't, but it would be a fund that would allow for significant outstanding projects around the country.

We need to think outside of the box. The President is not for raising the gasoline tax when unemployment, nationally, is just below 10 percent. So, the Highway Trust Fund is not sufficient to do all the things we all want to do, and we need to think about an infrastructure fund, we need to think about tolling, we need to think about alternatives that help us do the things that we all want to do.

Senator SPECTER. Mr. Secretary, what would the source of the revenue be for the so-called infrastructure fund? Would there be bonds? How would we——

Secretary LAHOOD. That is correct.

Senator SPECTER. How would you—put a little flesh on the bones. How would you proceed on it?

Secretary LAHOOD. There are big, significant projects around the country that people don't have the money for, whether it's a bridge between two States, an interchange, or an extension of an interstate system to connect one State to another. The way I envision it, if Congress allowed this kind of a fund, to receive proposals for significant projects and then work with the States on the cost. The bonds would allow the money, then, to begin to flow, over a period of time.

Senator SPECTER. Well, it certainly would be a——

Secretary LAHOOD. I can tell you this, Senator. The Buy America Bond Program is wildly popular, oversubscribed. This is not exactly the same thing, but I'm just saying alternative funding is what we really need to think about, because there's just not enough money in the Highway Trust Fund.

Senator SPECTER. Well, I've given you some homework, and you've given me some homework. And I'll proceed to look at that. It's the kind of legislation that I would favor and would be inclined to introduce, and we'll proceed.

Well, my red light just went on.

Thank you very much for your——

Secretary LAHOOD. Thank you, sir.

Senator SPECTER [continuing]. Service, Mr. Secretary.
Thank you, Madam Chair.
Senator MURRAY. Thank you, Senator Specter.

HIGH SPEED RAIL

Senator Kohl.
Senator KOHL. Thank you very much, Senator Murray.
Secretary LaHood.
Secretary LAHOOD. Yes, sir.
Senator KOHL. On January 28, the White House announced the recipients of $8 billion in high-speed rail grants, including two projects, as you know, in Wisconsin.
Secretary LAHOOD. Yes.
Senator KOHL. Connecting Wisconsin's major metropolitan areas through high-speed rail will yield both immediate and long-term benefits. Ultimately, this link will help develop both Madison and Milwaukee's economies, creating long-term growth for each city, as well as the cities in between.

In the short-term, the projects will create thousands of jobs, and Wisconsin is anxious to get started, as I'm sure you can well understand. My understanding, Mr. Secretary, is that the Wisconsin Department of Transportation is ready to assign contracts next month, and could begin construction this coming fall. If our goal is quickly creating jobs, then getting money out the door seems to be the most important and the most effective thing that we can do.

I'd like to ask you what the Federal Railroad Administration's timeline is for getting this funding to the States. Will the FRA be able to get the funds to Wisconsin in time for our fall construction season?

I want to be clear, Mr. Secretary, this is about jobs—we all understand that—now and in the future. And I'd like to hope that you will do everything you can to make sure that this process is well expedited and that transportation departments are able to put people to work quickly. Do you have some sense or knowledge about how the FRA might be able to act quickly on the Wisconsin——

Secretary LAHOOD. We want to enter into agreements with these regions, of which, obviously, Wisconsin is ready to go, as quickly as we can so that people can begin working on high-speed rail and Americans can begin to see the results of this economic recovery. Our plan is to do that very quickly, sign these agreements with the States, and begin as soon as the States are ready to go. Our people are, right now, putting together documents and will meet with the stakeholders, like the State of Wisconsin, very, very soon, like within the next 10 days or 2 weeks, to begin to say, "Here are the documents, here's what we think needs to be signed so that you can begin."

Senator, let me just say something that I talked to you about privately. I want to compliment your Governor. I think the reason that Wisconsin is in the high-speed rail business is because Governor Doyle stepped up, a year ago. He came to see me and said, "How do we get into the high-speed rail business? This is something we've been planning." Thanks to the leadership of your delegation and your Governor, you all are going to be at the forefront of the Midwest Region by connecting your State with other States that are in that region. I want to compliment, not only you and Senator Feingold but also Governor Doyle, because he was early at the starting gate on this. We want to make it happen quickly, because we know there'll be thousands of jobs provided when they start building the train sets and the infrastructure and all the things that will be needed.

Senator KOHL. Well, that is really encouraging to hear. And, of course, you are right about Governor Doyle. He has been out front and has exhibited the foresight to see this coming down the road and seeing that Wisconsin was there in time, fully planned and organized to take advantage. It's nice for me to know that you are fully aware of it and that you want to expedite——

Secretary LAHOOD. Yes, sir.

Senator KOHL [continuing]. You know this particular project just as quickly as you can. I know he'll be happy to hear it. I think people all over our State will be happy to hear it, and I express my appreciation to you.

Secretary LAHOOD. Thank you.

Senator KOHL. Thank you.

TIGER PROGRAM

Senator MURRAY. Thank you very much, Senator Kohl.

Mr. Secretary, DOT has, as you know, recently awarded grants under the TIGER program that we funded under the Recovery Act. And, under that, it was necessary to give priority to projects that could be completed over the next few years. However, the funding that we provided for fiscal year 2010 has a new set of requirements, and it can be used for longer-term projects. I know there are a lot of projects across the country that need this funding. I've talked to you about one in Washington State, the Columbia River Crossing Project that's so important for mobility for cars and trucks and transit and bicycles and pedestrians; it's one of the worst bottlenecks we have on the I–5 corridor.

I wanted to ask you, this morning, how will the different requirements for the 2010 funding affect the kinds of projects that you'll be able to fund under the TIGER program?

Secretary LAHOOD. Right now, Madam Chair, we're probably looking at the same guidance that we provided for the other TIGER grants. And, frankly, we'd like to try and get some of this money out the door this year, so we can continue the progress that we've made with our economic recovery. We know that the $600 million will provide jobs. That's our goal. That's the reason you put this money in the bill, so people could go to work.

I don't think the guidance will be that much different. We also will probably look at some applications that were very close in the first competition. The projects that if we'd had more than $1.5 billion, they would have gotten funded. We're advising——

Senator MURRAY. You don't expect to see new requirements, even though we have said this funding can be for longer-term projects.

Secretary LAHOOD. I want to try and get the money out the door as quickly as possible so we can provide jobs.

RAIL TRANSIT SAFETY

Senator MURRAY. Okay. The budget that you submitted includes $24 million and 100 positions to establish a new Rail Transit Safety Oversight Program. That proposal, obviously, follows on the heel of rail transit accidents in Boston and San Francisco and, tragically, here in Washington, DC, and supports the legislation the administration transmitted to Congress in December. I know you're hopeful that Congress will approve that legislation this year. In the meantime, I wanted to ask you what you've been able to do, within your current authority that you have, to make sure transit systems are safe without that legislation.

Secretary LAHOOD. We're prohibited by law from doing that, Senator. That's the reason we proposed to all of you a bill. Because the law says we can't do it. For some strange reason—I guess it was because, years ago, people thought since we were divvying up the money, we shouldn't have the responsibility for the safety aspect of it.

Senator MURRAY. Can you provide training or technical assistance?

Secretary LAHOOD. Peter Rogoff, our transit administrator, is looking at best practices from around the country, and then trying to make sure that transit systems know what that is. But——

Senator MURRAY. So you really need that legislation.

Secretary LAHOOD. We do, absolutely. We need the legal authority that only a law can give us, to really get into this up to our eyeballs, and really do a good job in making sure that these transit systems are safe.

POSITIVE TRAIN CONTROL

Senator MURRAY. Okay. Positive train control is an important new technology that will help, we believe, and prevent some of these train-to-train collisions and derailments. Recognizing the safety benefits of this technology, the NTSB included positive train control on its most-wanted list for 18 years, and they took it off the list only after Congress mandated its use. For fiscal year 2010, this subcommittee provided $50 million for a new program that would support the development of positive train control, but you've requested no funding for the program this year. Can you explain to the subcommittee why the budget request doesn't include any funding?

Secretary LAHOOD. Well, we have a rule pending. We believe positive train control is something that is absolutely critical to safety. I'm going to ask Chris—you all know Chris Bertram, go ahead.

Mr. BERTRAM. Yes. We did not include any funding for that. There is, as the Secretary mentioned, a rule pending at OMB that would mandate positive train control.

Senator MURRAY. But, you've requested no funding.

Mr. BERTRAM. Correct.

Senator MURRAY. And you don't believe it needs any funding?

Mr. BERTRAM. I think the FRA will take a look at the money that Congress provided, and evaluate the effectiveness of that.

Senator MURRAY. From last year.

Mr. BERTRAM. From last year, yes.

Senator MURRAY. Okay. Well, I may submit another question on the record on that.

FERRY FUNDING

I wanted to ask you about ferry systems. As you know, ferries are, just, a critical part of transportation systems in my home State, connecting communities between Puget Sound and across the Columbia River system. In fact, the ferry system in my home State is the largest ferry system in the United States, with over 40 percent of U.S. ferry passengers, and about three-fourths of the vehicles, carried nationwide. Last year, I introduced legislation to reauthorize the Federal Ferryboat Discretionary Program and expand the Federal investment in our Nation's ferry system, and that legislation built directly on what we did in SAFETEA–LU to give priority to ferry systems that carry the most passengers and most vehicles and have access to critical areas. I wanted to ask you, Mr. Secretary, this morning, if I have your commitment to work closely with us, following that directive in SAFETEA–LU, to allocate ferry funding in 2010.

Secretary LAHOOD. Absolutely. I had the privilege, when I was in Seattle, to use the ferry system. I know how important it is as a part of the overall comprehensive transportation system in the Northwest, and you have my commitment.

Senator MURRAY. To work on the criteria.

Secretary LAHOOD. Absolutely.

MEXICAN TRUCKS

Senator MURRAY. Great, one last question for you. I wanted to ask you a question on a topic that we talked about at this hearing last year: cross-border trucking with Mexico. Last year, you talked about the work you were doing with the various departments to craft a plan to resume cross-border trucking with Mexico in a way that would address the safety concerns raised during the pilot and in the tariffs that have now been imposed by the Mexican Government. Those tariffs were imposed on over 90 U.S. products and they undermine the competitiveness of many agricultural products in my home State of Washington. If we're not able to find a path forward with Mexico on this issue, these tariffs are going to send American jobs north to Canada as our growers and our processors and our packers are being forced to relocate, and it is threatening the livelihood of many communities in my State.

Now, I appreciate there's a lot of concern about implementing this cross-border trucking, but we've got to work with Mexicans to address this impasse and move forward. I met with Ambassador Kirk a few weeks ago. I wanted to ask you, this morning, to give us an update on your discussions with the administration and with Mexico, to give us a sense of when we will see the plan from the administration.

Secretary LAHOOD. We are finalizing a plan. The reason it's taken so long is because there's a lot of different moving parts, including about five different Cabinet officials. Every time we make a tweak or a change, everybody has to sign off on it. But, we're very near a proposal that we think will meet all of the safety concerns that I heard when I talked to 25 Members of Congress. We're close to talking to all of you about what we think are——

Senator MURRAY. Okay, well, we're——

Secretary LAHOOD [continuing]. Our way of addressing the safety concerns that Congress brought to us.

Senator MURRAY. Okay, Mr. Secretary, I appreciate that. And you and I have had this discussion; I know you're working on it. This is critical to a number of our agricultural industry now in my State. Would you please tell the folks you're talking to in the White House, and others, that we need to get this done?

Secretary LAHOOD. I will.

Senator MURRAY. Thank you, Mr. Secretary.

Secretary LAHOOD. Thank you.

Senator MURRAY. I'm going to turn this over to my ranking member, Senator Bond. I have to get to another hearing. He has kindly agreed to be very nice to you. No.

Secretary LAHOOD. Thank you, Madam Chair, for all of your leadership on transportation. We really appreciate your forward-looking on transportation issues, and it's a joy to work with you and your staff on these things that we all really want to get done. So, thank you for your leadership.

Senator MURRAY. Thank you, Mr. Secretary.

I will turn this over to Senator Bond. He is going to ask his questions and recess the meeting for me. And I really appreciate your doing that.

Thank you.

LIVABILITY

Senator BOND [presiding]. Thank you, Madam Chair. If you will continue to keep the E&W meeting going, I will look forward—I'd have some friendly questions to ask Secretary Chu.

But, Mr. Secretary, let's go back to a couple of the questions we were talking about, about the standards. The TIGER grants, you said, the strategic plan is for safety, economic competitiveness, state of good repair, and livability. What's livability?

Secretary LAHOOD. Communities where people have access to many different forms of transportation and affordable housing and the ability to really have access to all of the things that are important to them, whether it's a grocery store, a drug store—access. It's not dissimilar to the neighborhood, for example, that the Department of Transportation is located in. After the ballpark went there, there was a Metro stop, there were new bus stops, there are new condominiums, there's access to affordable housing. What it is, Senator, it's an opportunity for people who want to live in neighborhoods—maybe they don't want a car—so they can walk to work, they can take mass-transit to work, they can take a bus to work, they can go to a grocery store. These are communities and neighborhoods where people want to live, where they have access to all the things that they want.

Senator BOND. Well, I mean, how do you measure that? I mean, the—I don't think the Department of Transportation is in the business of determining the state of the communities. We do—we try to help build community plans that are locally based community plans, that come to the request from HUD for neighborhood stabilization, economic development; and the plans must come from the localities. And I've supported access—transportation access—the BRT program in Kansas City—bus rapid transit—it's been very important. But, that supplements a local plan, where transportation is just one part of it, where there is a much broader plan for the housing, the facilities, and what the State is doing. And livability, to me—you know, I've got a lot of constituents for whom livability means having a decent highway. They've got to drive on the highway because they live in a rural area and they've got to drive from one town to another town or maybe from one town to a city. And we are killing those people on the roads. We have—we lose three people a day on highways, in Missouri, and at least one-third of those deaths are due to poor highway conditions. This is not a question of convenience; this is a question of staying alive.

So, livability, in some areas, has a different meaning. And I just question—if we're building—if we're looking at all these dollars to go in and build urban livability sections, I think there needs to be broader criteria, as well. That's why I'm questioning——

Secretary LAHOOD. Well, Senator, let me just give you an example in your home State. The $50 million that we gave to Kansas City is for some of the simplest things that you and I take for granted. In this neighborhood—it's a 150-block neighborhood, in your colleague Congressman Cleaver's district. That money is going to be used to do simple things, like make sure people have a sidewalk to walk on, and to make sure that there are curbs. Now, that may sound silly to you——

Senator BOND. No, it's not—it's——

Secretary LAHOOD [continuing]. But when I went there for the announcement, I took a tour with Mr. Cleaver, and what we found was an abandoned neighborhood, because there are no sidewalks, there are lousy streets, and people can't even drive down the streets. So, what Congressman Cleaver and a whole group of community people did is put together a plan—$50 million of our money and some HUD money—to build affordable housing so that people that want to stay in this neighborhood can stay in the neighborhood. That's what Livable Communities is all about.

Senator BOND. Mr. Secretary, I have the highest respect for Congressman Cleaver. A former mayor I've worked very closely with. I don't know what's going on in Kansas City. But, when did it become the responsibility of the Federal Department of Transportation to build sidewalks?

Secretary LAHOOD. When you all put it in the——

Senator BOND. I think that——

Secretary LAHOOD. No. When you all put it in the transportation bill for the amenities for neighborhoods, whether——

Senator BOND. This is——

Secretary LAHOOD [continuing]. Its streetscape or medians, or whatever it is, you all did it. I was a part of it. I was a Member of Congress that did it, too.

Senator BOND. To go in and be building sidewalks, when there is a—there are such transportation needs. You—I know that heel-and-toe is transportation, but what I'm saying is, there are other priorities that I think come ahead of that. And I just question how much money is going to be spent on sidewalks, when we need highways and we need bridges. That's where—and I—any—this is a——

Secretary LAHOOD. Senator, if you look at——

Senator BOND. It's a question of priorities.

Secretary LAHOOD. If you look at our portion of the economic recovery—you all provided $48 billion—the lion's share of it went to highways—$28 billion; $8 billion for transit, $8 billion for high-speed rail, $1.5 billion for so-called TIGER grants, $28 billion for highways. That's——

Senator BOND. That is——

Secretary LAHOOD. That's your priority.

Senator BOND. Well, unfortunately——

Secretary LAHOOD. That's where the lion's share of the money went.

Senator BOND [continuing]. It was a drop in the bucket—out of $787 billion——

Secretary LAHOOD. I'm talking about——

Senator BOND [continuing]. That was far too little—no, but I'm—I think we might be on the same side, on that one. I think it was far too little, because we could have used a whole lot more for highways and bridges.

But, my problem is that every dollar we're spending in that stimulus bill, and a lot of other things we're doing, is going on the deficit. We are borrowing from our children and our grandchildren. And I am kind of embarrassed to tell my son and—if he and his wife have children, tell my grandchildren—"Oh. I'm sorry. We've been spending—we spent your—we spent on your credit card." And I think there is a growing realization that we need to get these deficits under control, and spend only on things that we can justify to our children and grandchildren. That's the problem.

And high-speed rail, again—I don't know if you saw it, but the Wall Street Journal had a—had an article by Wendell Cox, on January 31 called the "Runaway Subsidy Train." Did you see that?

HIGH SPEED RAIL

Secretary LAHOOD. No, sir.

Senator BOND. I'll give you a copy of it.

Secretary LAHOOD. Okay.

Senator BOND. It's very critical, and I think raises questions that need to be answered. It says, "Proponents claim that high-speed rail is profitable, but this is off the mark. Internationally, only two segments have ever broken even—Tokyo to Osaka and Paris to Lyon." And they did that because they had $4 gasoline—equivalent of $4 gasoline and highway tolls of $40 to $100, respectively. If that—if you want to make it profitable, you have to have those kinds of tolls.

It—the question that I have, generally, about high-speed rail is what's going to be the total cost? I know that—let's see, I guess the estimate in California is that—let's see—California high-speed rail, Los Angeles to San Francisco, $40 billion to $60 billion. Totally taxpayer subsidized taxpayer money. Same time, we've got airlines flying there that are not flying on the—they're not being subsidized by the taxpayer dollar. The people who drive on the roads are paying taxes that not only pay for roads, but also help subsidize high-speed transportation. I want to know what the total cost of all these wonderful high-speed rail plans are and what is the justification. How is it going to be—how are we going to know that these are valuable? There seems to be—there are many, many questions about why—whether some of these routes are going to be much faster than when the trains were, back in the 1930s and 1940s. I know we got $34 million in Missouri. That's nice. That will probably provide some amenities, like extra sidings for trains to—freight trains, or even passenger trains, if needed, to pull off so they can get passed. But, what are the projections for ridership between St. Louis and Kansas City? How many billions of dollars is it going to cost to build a high-speed rail through there? Can we justify that to the taxpayers—not just to Missouri, but to the Nation—for what we'd have to spend? These are questions I think we have a responsibility to ask when we are working in a deficit situation.

And even if—you know, always glad to see money in Missouri. But, before we continue to spend that money, I want to make sure we're spending it properly. That's the big concern I have. Are we spending it properly?

I'll give you that and—we had another couple of Wall Street Journal editorials that I think——

Secretary LAHOOD. You want me to answer these for the record, Senator, or——

[The information follows:]

Ensuring proper use and distribution of funds remain high priorities for the Department of Transportation. As the Department moves forward in the development of each of the State corridors, we will be working with our State partners to develop reliable cost estimates for programs to develop specific high-speed rail corridors recognizing the challenges associated with predicting costs for projects that might span decades. We will also be looking for the States and other interest parties to become part of both the planning and corridor development process.

Each program will include several projects. As we move to project level decisions that involve commitment of funds for construction, we will be refining cost estimates, refining ridership and benefit estimates, and refining commitments from stakeholders and interested parties. In this merit-based competitive program, those corridor projects that move to construction are the ones that are expected to generate the largest benefits to the U.S. taxpayers.

Senator BOND. Oh, I——

Secretary LAHOOD [continuing]. Do you want me to answer them?

Senator BOND [continuing]. Well, yes, answer these for the record. Or, I mean, if you've got any comment——

Secretary LAHOOD. Okay, all right.

Senator BOND. I'll let you——

Secretary LAHOOD. I know you want to go to another committee meeting, so I'll answer them for the record for you.

Senator BOND. Okay. And if you have any comments on my comments, I'd welcome those now. I mean——

Secretary LAHOOD. Of course, I have comments. Yes. I didn't know if——

Senator BOND. Good. No, I——

Secretary LAHOOD [continuing]. You wanted to go on to another hearing, or not.

Senator BOND. But, this is important, so—but I mean——

Secretary LAHOOD. Yes.

Senator BOND [continuing]. For these things I gave you, if you may want to look at them and have——

Secretary LAHOOD. Okay.

Senator BOND [continuing]. Indepth comment, but——

Secretary LAHOOD. Yes.

Senator BOND [continuing]. You—I want to let you——

Secretary LAHOOD. No, look it——

Senator BOND [continuing]. Have an opportunity——

Secretary LAHOOD. Senator, you know——

Senator BOND [continuing]. For anybody who's still listening, I want you to make sure you have your time to——

Secretary LAHOOD. Sure.

Senator BOND [continuing]. Express your view.

Secretary LAHOOD. I appreciate that.

Senator BOND. Sure, no. That's——

Secretary LAHOOD. No, I appreciate that.

When President Eisenhower signed the Interstate Highway bill, nobody knew where all the lines were going to go, and nobody knew how we were going to pay for all of it. So, I'm not going to sit here and tell you I know where all the money's going to come from for high-speed rail. I know this: Americans want high-speed passenger rail. We did not have one of the 13 regions turn us down in their opportunity to receive some of the $8 billion. There are so many people around America that want good passenger rail transportation. I can tell you, when the announcement was made in Missouri, there was a big hue and cry that went up. I didn't hear one word of criticism about it from your Governor or any of the elected officials there, because it's going to connect opportunities for people.

You know this as well as I do, Senator. If you build it, they will come. The interstate system is an example of that. What an economic engine the interstate system has been for places all over America. What's happened in Europe and Asia, their governments have made a huge investment and these corridors have become a huge economic engine everywhere that they are.

I can cite chapter and verse. You build a transit line, you build a busline, you build an interstate or a—improve a street—you build it, and they will come.

I know this. There's going to be a lot of private investment. We had a meeting with all of the companies that build train sets, not only in Europe, but in Asia. And we had them come to the Department, and what we said to them——

Senator BOND. Oh man, they—I mean, they—they love it. They're the ones who are going to build it. They're going to—yes, that—they're——

Secretary LAHOOD. Yes, but they're also going to make an investment of some of their money, because they know this is an opportunity to get into the high-speed, inner-city rail——

Senator BOND. Yes, right.

Secretary LAHOOD [continuing]. Business in America.

Senator BOND. Now, they're going to make some money off of it, but how much——

Secretary LAHOOD. They're going to invest——

Senator BOND [continuing]. Is it going to cost—how much is it going to cost——

Secretary LAHOOD [continuing]. The money too, Senator.

Senator BOND [continuing]. The taxpayer?

Secretary LAHOOD. They're going to invest a lot of money, too, Senator——

Senator BOND. And where they do——

Secretary LAHOOD [continuing]. The way they have in Europe——

Senator BOND [continuing]. They're going to invest in——

Secretary LAHOOD [continuing]. And in Asia.

Senator BOND [continuing]. Where they get some money out of it.

Secretary LAHOOD. The——

Senator BOND. I—I've talked to the people who are building toll roads, and they love it, because they know they are going to make money. But, here, as I said, two rail—two high-speed rail lines are profitable—I will—as Governor, I supported Amtrak. I started subsidizing Amtrak, and we could—the State of Missouri, I think, is still subsidizing Amtrak. But have they come in large numbers? No. I've—I rode it, and I've seen how a few people are on it. We have Amtrak from—between Kansas City and St. Louis. Yes. I'd like to see that. But, am I willing, on the thought that they will come, to spend billions of dollars more? I haven't seen it, so far.

And to make that into a high-speed——

Secretary LAHOOD. Well, you were willing to put——

Senator BOND [continuing]. Rail——

Secretary LAHOOD. As Governor, and certainly, as a Senator here, you've been willing to stake a claim on the idea that if we build a bridge between Illinois and Missouri, people are going use it.

Senator BOND. I will put a whole lot more money on that one——

Secretary LAHOOD. I know you will; you already have.

Senator BOND [continuing]. Than on spending billions on—spending billions on high-speed rail. You and I both need that bridge. We want you——

Secretary LAHOOD. The principle is that——

Senator BOND. We want you Illinois people to come over and watch the Cardinals. We're not——

Secretary LAHOOD. Well, I'm looking forward to being with you to dig the first spade of dirt. But, I'm——

Senator BOND. Yes.

Secretary LAHOOD. Senator, you know this. When that bridge is built, people are going to use it. You build it and they will come. I don't think you would have staked a claim to that unless you thought people were going to use it and that it was needed. And I can——

Senator BOND. We've seen the projection——

Secretary LAHOOD. The same principle is true for high-speed inter-city passenger rail.

Senator BOND. I'm sorry, I believe we have an experience with the highways. We know how important they are. We have a good track record. The track record, unless you're looking at Tokyo to Osaka, or Paris to Lyon, is not that good. So, I just would like to know the total estimated cost, where the funding is going to come from to ensure the things you are starting now, and what commitment, by State, localities, and private companies, are going to meet the required need, before we invest—before we commit to—I don't care whether it's St. Louis to Kansas City, St. Louis to Chicago, Chicago to Milwaukee, or Portland to Seattle—how much is it going to cost? What do you project the ridership? How much is that ridership going to be per person? Sometimes those numbers are pretty scary, because it's the taxpayer dollar that we're putting at risk. Well——

Secretary LAHOOD. Those are all very good questions——

Senator BOND. Yes.

Secretary LAHOOD [continuing]. And I'll do my best to answer them.

[The information follows:]

The administration's support of the high-speed rail program highlights the significance that this intercity passenger rail initiative is expected to have on American way of life and our economy. This initiative will help relieve congestion, is environmentally sound, and ultimately promotes more livable communities across the country. Although the cost of a national high-speed rail system is unknown at this time, the closest analogy that we can make is the Interstate Highway program, which began in 1956. DOT did not estimate the cost to complete the Interstate System, but the benefits to the United States were immeasurable.

The $8 billion appropriated under ARRA, as well as the $2.5 billion that was appropriated in fiscal year 2010, and the $1 billion requested in fiscal year 2011 President's budget, are reflective of the administration's commitment to advance the building of the infrastructure necessary to make high-speed intercity passenger rail transportation a reality. These resources are the down payment for this long-term infrastructure effort. We are working closely with the States and the rail industry to develop preliminary estimates and longer-term infrastructure requirements and plans. We commit to keep the subcommittee informed as we validate requirements and assemble more tangible plans.

Senator BOND. Good, good. And I—and I—those are—that's what I'm asking, because this is not like—we all know what—when you build a highway, when you build a bridge—and you and I know that a good friend of ours, when I was fighting for the highway bill and I proposed a bridge, he complained that there was a—"You should not be using highway money to build a bridge." Well he happened to come from a very dry State, and I explained to him, "In the Heartland, highways don't work unless you have a bridge across the river." So, I fought—I've fought that battle. I know——

Secretary LAHOOD. I know.

Senator BOND [continuing]. That battle.

Secretary LAHOOD. I know.

Senator BOND. I know it from both sides. That's why I raise it.

CYBER SECURITY

Now, I've got a very—one very serious question that we are not going to discuss at length in a—in an open hearing. You've got $30 million for cybersecurity. I'm not going to ask you to go into the threats. I'm on the Intel Committee, and I know what the threats are. Do you have a plan for how that money is being spent?

Secretary LAHOOD. Yes, sir. I'll be happy to come up and brief you on that.

Senator BOND. Okay.

Secretary LAHOOD. I'd like to do that.

Senator BOND. We would like—I think Chairman Feinstein and I, on the Intel Committee, are also——

Secretary LAHOOD. Yes, sir.

Senator BOND [continuing]. On Appropriations. If you would arrange to send your staff up—is the plan completed?

Secretary LAHOOD. It is.

Senator BOND. And who was responsible for preparing it?

Secretary LAHOOD. We have hired a very, very experienced person to deal with this issue.

Senator BOND. Has it been completed, in cooperation with other agencies?

Secretary LAHOOD. Absolutely. It's being coordinated with other agencies, of course.

Senator BOND. Has it—have you coordinated with NSA?

Secretary LAHOOD. Of course.

Senator BOND. Okay. Let me just say—I was hoping that they would be here, but my—all right. Lewis Tucker, on my staff, and David Grannis, on Chairman Feinstein's staff, would like to work with you to prepare a full staff briefing, and then we would like to have an opportunity—Brian Smith, from the Budget Office, in the Intel Committee. This is a very, very important investment, and we want to work with you on it to make sure——

Secretary LAHOOD. Yes, sir.

Senator BOND [continuing]. It is done—that the money that you need is available, that it's well designed, and it's——

Secretary LAHOOD. Yes, sir.

Senator BOND [continuing]. Well carried out, because this is——

Secretary LAHOOD. We will do it.

Senator BOND. No further comments on that one, here, but just know that we appreciate how serious it is.

Secretary LAHOOD. Yes, sir.

ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. And we'd work with you to make sure it's done. At this time I would ask the subcommittee members to submit any additional questions they have 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 BY SENATOR PATTY MURRAY

Question. Mr. Secretary, your budget request includes $4 billion for a new agency at DOT—the Infrastructure Fund, or I-Fund. This proposal goes beyond the TIGER program that we funded in the Recovery Act and the regular 2010 bill. The I-Fund would not only evaluate project applications, but it would also look for projects to fund, whether or not the project even considered applying to DOT.

Giving this authority to DOT would be granting the Department an unprecedented amount of discretion over taxpayer dollars.

Senator Bond and I are both responsible for making sure that DOT conducts its programs with a fair and open process.

Mr. Secretary, how would this kind of authority be consistent with running the Department with transparency and accountability?

Answer. At the Department of Transportation, we are absolutely committed to accountability and full transparency, and the operations of the National Infrastructure Innovation and Finance Fund (NIIFF) would be handled in the same manner. The Infrastructure Innovation Fund would take a relatively small portion of the overall Federal expenditure for transportation infrastructure and focus on funding projects of national and regional significance that help us achieve our national goals, such as economic competitiveness and livability. The ability to dedicate a portion of Federal transportation resources to fund these projects through a merit-based process, based on performance and outcomes of the projects, is an important part of our overall approach to address our most critical transportation infrastructure needs. We have been clear about the criteria we have established to evaluate these projects and about the analysis that we expect applicants to prepare to support them. We would be happy to work with you and your staff to develop appropriate ways of achieving the transparency and accountability that we all agree will be essential in this program.

Question. Why should such an ambitious program be considered before we even know what is in the administration's reauthorization proposal?

Answer. The Department has committed to releasing principles for a reauthorization bill as soon as they are ready. We hope to use the time between now and the end of the year, when the current extension of the surface transportation program runs out, to make progress in developing long-term legislation. The I-Fund's merit based evaluation process will be an important part of our overall approach to address the most critical transportation infrastructure needs. Every project selected through the TIGER discretionary grant and the National Infrastructure Investment (TIGER II) grant process will require specific performance measurements so we can track actual outcomes against the estimates provided in the submitted applications. This will provide a new knowledge that will help inform the Department's other surface transportation programs, as we work to better identify the highest-priority needs, and how to address them, through the Reauthorization process.

Question. In any competitive program, there will always be questions about how funding decisions were made. And the TIGER program was the Department's first experience running a discretionary program of that size.

Mr. Secretary, as you go through the process of awarding TIGER grants funded in 2010, how will you ensure the Department follows a fair and open process?

Answer. DOT has made a significant amount of material available to the public about the criteria used to select projects, description of the process used to evaluate applications and list of the applications received. More than just making information available, DOT has aggressively reached out to the Congress and public to answer questions about the TIGER process, through webinars, conference calls and face-to-face meetings.

The fiscal year 2010 appropriations act provided $600 million to be awarded by the Department of Transportation for National Infrastructure Investments ("TIGER II Discretionary Grants"). To ensure a fair and open process, the TIGER II Discretionary Grants will be awarded on a competitive basis by measuring grant applications for eligible projects against the selection criteria specified in the program's Federal Register notice (an interim notice was published on April 26 and a final notice was published on June 1).

The "Primary Selection Criteria" include:

—*Long-term Outcomes*.—The Department will give priority to projects that have a significant impact on desirable long-term outcomes for the Nation, a metropolitan area, or a region.

The following long-term outcomes will be given priority:

—*State of Good Repair*.—Improving the condition of existing transportation facilities and systems, with particular emphasis on projects that minimize life-cycle costs;

—*Economic Competitiveness*.—Contributing to the economic competitiveness of the United States over the medium- to long-term;

—*Livability*.—Fostering livable communities through place-based policies and investments that increase transportation choices and access to transportation services for people in communities across the United States;

—*Environmental Sustainability*.—Improving energy efficiency, reducing dependence on oil, reducing greenhouse gas emissions and benefitting the environment; and

—*Safety*.—Improving the safety of U.S. transportation facilities and systems.

—*Job Creation & Economic Stimulus*.—While the TIGER II Discretionary Grant program is not a Recovery Act program, job creation and economic stimulus remain a top priority of this administration; therefore, the Department will give priority (as it did for the TIGER Discretionary Grant program) to projects that are expected to quickly create and preserve jobs and stimulate rapid increases in economic activity, particularly jobs and activity that benefit economically distressed areas.

The "Secondary Selection Criteria" include:

—*Innovation*.—The Department will give priority to projects that use innovative strategies to pursue the long-term outcomes outlined above.
—*Partnership*.—The Department will give priority to projects that demonstrate strong collaboration among a broad range of participants and/or integration of transportation with other public service efforts.

The Department will give more weight to the Long-term Outcomes and Job Creation & Economic Stimulus criteria than to the Innovation and Partnership criteria. Projects that are unable to demonstrate a likelihood of significant long-term benefits in any of the five long-term outcomes will not proceed in the evaluation process. For the Job Creation & Economic Stimulus criterion, a project that is not ready to proceed quickly is less likely to be successful.

Pursuant to the fiscal year 2010 appropriations act, the Department will also strive for an equitable geographic distribution of funds, an appropriate balance in addressing urban and rural needs and investment in a variety of transportation modes.

The June 1, 2010, notice published in the Federal Register provides additional guidance on how the Department will apply the selection criteria.

Question. The Rail Safety Improvement Act of 2008 mandates that railroads implement positive train control over large areas of their track by the end of 2015. Such widespread use of Positive Train Control will require a large investment by the public sector, as well as significant investments by the Federal Government. Mr. Secretary, what are you doing to make sure that railroads are able to meet this mandate?

Answer. The Department has taken a number of steps to assist railroads in meeting the December 31, 2015 mandate. The Federal Railroad Administration (FRA), in partnership with its Railroad Safety Advisory Committee (RSAC), published a final rule on January 12, 2010, that addresses the requirements of the Positive Train Control (PTC) mandate.

A critical step in achieving PTC implementation was the requirement that each applicable railroad submit a PTC implementation plan (PTCIP) by April 16, 2010. Each PTCIP was to map out: (1) the railroad's lines; (2) the lines meeting the criteria requiring PTC; (3) the manner in which the railroad will provide for interoperability within its PTC system of movements of trains of other railroad carriers over its lines; and (4) implementation of PTC on its line segments prioritized by areas of greater risk to areas of lesser risk. FRA received 40 implementation plans and has assembled a team of subject matter experts and is on target to complete the review and approval of the plans within 90 days. To support railroads during their PTC system testing and implementation phase, FRA's PTC Specialists will oversee the testing and implementation and otherwise address PTC-related issues. The PTC Specialists will be further supported by FRA Signal Engineers and Specialists, as well as a small cadre of Senior Engineering staff.

To minimize duplication of effort by railroads and vendors, and facilitate PTC system certification, FRA established a process where railroads may share common PTC system information. For example, railroads using the same PTC product only need to provide railroad-specific information necessary to certify the PTC product on their property.

To address technical issues and facilitate interoperability, in fiscal year 2010, FRA is targeting the $50 million available under the Railroad Safety Technology Grant Program to address common PTC interoperability questions. This decision maximizes the utility of these limited resources by making investments in projects that benefit the railroad industry, verses using these grant resources to procure PTC equipment for few individual railroads.

Finally, FRA is supporting the railroads and their suppliers by actively participating in meetings, reviewing draft documents, and providing feedback on the implementation of PTC. FRA, with the support of the Railroad Safety Advisory Committee, has crafted regulations that limit the scope of PTC implementation to a level consistent with enhancing the safety of railroad employees and the general public. Individual stakeholders may have strong feelings regarding the most appropriate way to achieve this goal. Consequently, FRA has provided mechanisms to allow individual railroads to demonstrate that the railroads' proposed actions provide an equivalent level of safety for employees and the public.

Question. Mr. Secretary, your budget request redirects $200 million from the regular highway program, and puts that money into livability grants that would help transportation planning organizations.

I understand the need for these planning grants, but I also believe that we need to invest in our Nation's highways. This past year, Senator Bond and I worked hard to provide an increase of $600 million for the Federal highway program.

I don't know if that is something we'll be able to do again this year. The budget resolution hasn't been developed, and the subcommittee does not have its allocation yet.

Mr. Secretary, can you please explain your decision in funding livability grants out of the highway program?

Answer. The President's budget marks a bold new way of thinking about investments in our transportation infrastructure and will become a key component of the administration's future surface transportation proposal. The President's budget requests $200 million to fund a competitive livability program within FHWA, which is compatible with the legislative intent of the Federal-aid Highway Program (FAHP). This benefits State and local governments, helping to modernize outdated planning and regional models and improve data needed to make transportation investment decisions. Because of competition for scarce resources, sometimes innovative solutions can take a back seat to the more pressing needs of maintenance and repair. By targeting some investment funding, DOT hopes to demonstrate that smart investment up front can save communities tax money over time by strengthening communities and lowering infrastructure costs.

The $200 million request to leverage a proportional takedown from funding authorized for FAHP activities is a wise and much needed investment that will allow for the better leveraging of public funds for future transportation investments. This program will provide transportation practitioners with the tools, resources, and capacity they need to develop transportation systems that provide transportation choices, save people money, protect the environment, and efficiently move goods.

Question. The Department is also requesting a new office within the Office of the Secretary. You are also requesting additional OST staff to work on livability issues, but they would not be a part of this new office.

Congress is working on the reauthorization of most transportation programs. This legislation will also take a look at the Department's overall structure.

Mr. Secretary, why is it necessary to create a new office at this time?

Answer. The Partnership for Sustainable Communities and the DOT's livability initiative are a high priority for this administration. Because this is a new emphasis for the Government, however, there is substantial analysis and policy-making required to remove barriers and align the Federal programs and funding requirements to support the principles of livability. The Livable Communities Program within the Office of the Secretary will house full time employees that support this initiative. The Office will coordinate livability programs across DOT's operating administrations and assess the effectiveness of various programs in supporting livability. It will also assist in coordinating interagency efforts for the Partnership for Sustainable Communities, lead in developing metrics and performance measures for livability, and assist in the selection and management of grant and technical assistance programs for seeking greater input and buy-in from the public.

Question. Mr. Secretary, you have spoken many times on the topic of livability. Often, you talk about the importance of giving our communities a variety of transportation options. And how people shouldn't be forced into driving a car wherever they want to go.

But the biggest initiatives in your budget for livability don't focus on funding specific projects. Instead, your new initiatives are about giving planning organizations access to better data and analytical tools, supporting public outreach efforts, and providing technical assistance.

In the end, different communities will have their own definition of what is livable. For some it's a traditional road that just happens to include room for bicycles and pedestrians. For others, it's nothing short of a new transit line.

How important is the planning process to DOT when it evaluates the livability of a transportation project?

Answer. A livable community is one with transportation choices, housing choices and destinations located close to home. Because coordinating transportation with other investments like housing, water infrastructure and economic development initiatives is at the heart of creating a livable community, a strong planning process is essential to generating the sorts of projects that improve livability. However, these kids of comprehensive planning efforts require good data, tools and staff, and often this is difficult for struggling communities in difficult budget times.

USDOT is, therefore, proposing to provide communities with the resources necessary to take a comprehensive look at their land-use decisions in conjunction with their housing, transportation, and environmental infrastructure plans. The result will be projects that provide a higher return on investment to the Federal taxpayer.

Question. What standards is the Department using now to judge the livability of transportation projects?

Answer. While the Partnership is working to determine performance measures that can be used for livability projects, the current standards used are those listed in the Notice of Funding Availability (NOFA) for TIGER and TIGER II grants. The livability of transportation projects is judged by: enhanced mobility by creation of more transportation options; improved connectivity; increased accessibility to economically disadvantaged populations, non-drivers, senior citizens, and persons with disabilities; and the result of a planning process which coordinated land use and transportation planning decisions and involved community participation in the project.

Question. DOT's budget request includes $527 million for new initiatives that would support community livability.

In addition, the Department of Housing and Urban Development is requesting $150 million as part of the administration's sustainability initiative. This request builds on the funding this subcommittee provided HUD for fiscal year 2010.

Mr. Secretary, I am glad to see that over the past year, DOT has worked hard to coordinate with HUD and the EPA on matters of livability and sustainability. However, it is still unclear how your livability requests fit with the work that HUD started this year.

Can you explain to me how your new initiatives on livability will work with HUD's ongoing livability program?

Answer. In the fiscal year 2011 budget request, the three agencies divided up the roles in order to reduce overlap and redundancy and save taxpayer money. The focuses of the agencies represent which agency will act as the lead on this topic. DOT's program will focus on capacity building. The goal is to increase capacity at all levels of government to integrate transportation, housing, economic development and water infrastructure investments in urban and rural communities. The funds could be used to improve modeling and data collection, provide training, fund household transportation surveys, and support organizational changes to better reflect integrated planning.

On the other hand, HUD's program has a focus on planning. Their goals are to improve regional planning efforts that integrate housing and transportation decisions, and update land use plans and zoning codes. They will be able to award funds to housing, transportation, and environmental stakeholders who are focused on planning efforts.

Without the support to build institutional capacity to do the sort of comprehensive planning that HUD is promoting, communities may simply find an outside contractor to develop the plan without having the internal capacity to implement it and adjust it in the long term. DOT and HUD's programs rely on one another to reach the highest levels of success.

Question. The relationship between DOT and HUD is an important one, and Federal departments should coordinate and work together—whether it's on livability or any other issue area. But we need to make sure that this relationship is sustained by more than the force of personalities.

Mr. Secretary, what are you doing to make this new relationship between DOT and HUD something that will live beyond the current administration?

Answer. Ensuring that this Partnership continues in the long-term—beyond the term of this administration—is a top priority. We are working together to institutionalize changes that will support this priority. We have begun this effort by creating offices at DOT, HUD, and EPA to head up the important work of encouraging livable communities. Our initial goals include joint NOFAs for planning grants and joint funding application review, evaluation and award processes. We also have been identifying institutional barriers and addressing them, such as HUD's ban on multifamily housing on a cleaned up brownfield or replacing the New Starts cost-effectiveness review for a more broad cost-benefit analysis that includes economic development, housing and environmental impacts.

Question. The DOT budget request includes $1.1 billion for the FAA's effort to modernize the air transportation system—called "NextGen". And an essential part of NextGen is the replacement of radar surveillance with satellite-based technology.

However, for this program to work, each aircraft that uses the air traffic control system must be equipped with compatible technology. The FAA has mandated such equipage by the year 2020, but there is no guarantee that airlines will be able to meet this mandate.

Mr. Secretary, your budget proposal includes no funding to support NextGen equipage.

Do you believe that the airlines can afford to meet the mandate on their own?

Answer. The FAA has not currently mandated any NextGen equipage by aircraft owners and operators. We are in the final stages of considering industry comments on a proposed rule that would mandate Automatic Dependent Surveillance-Broad-cast (ADS–B) "Out" in certain airspace by 2020. The final rule is expected to be published soon. ADS–B is one of several components of NextGen and is capable of broadcasting ("Out") and receiving ("In") information regarding the location of other aircraft. Equipage mandates generally require following rulemaking procedures, including cost benefit analysis and public comments.

The administration has been exploring various options to incentivize NextGen equipage prior to any mandatory due dates. The primary focus of our work has been to accelerate equipage above that which may occur naturally. Operational incentives for early adopters ("best equipped, best served") could help to alleviate concerns regarding the financial ability of aircraft owners and operators to equip their aircraft with NextGen technologies in the near-term.

Question. Secretary LaHood, I appreciate the work we've done together to promote sustainable communities and address climate change. As you may know, about one-half of the emissions in my home State of Washington come from the transportation sector—which is much higher than the national average. So it's really important to me to work to address this important issue.

That's why I created the Transit Investments for Greenhouse Gas and Energy Reductions in the Recovery Act. The program was such a huge success and we were able to include fiscal year 2010 funding as well.

Secretary LaHood, can you tell me what lessons have been learned in establishing this new program?

Answer. There is a great deal of interest and demand for such programs and assistance. The Federal Transit Administration (FTA) received over 560 project proposals and reviewed more than $2 billion in applications for the $100 million made available through the American Recovery & Reinvestment Act (ARRA) of 2009. Forty three proposals were selected from across the country as part of a nationwide competition, which rated projects on such factors as readiness to implement, applicant capacity, degree of innovation and national applicability.

We also learned that there are a wide variety of technologies or operational efficiencies that can be implemented to reduce the energy and/or greenhouse gas emissions of our transit agencies. For example, among the projects funded within this competitive environment, Alabama will replace gasoline and diesel buses with electric hybrids, Massachusetts will construct wind energy generation turbines and Vancouver, Washington, will install solar panels at transit facilities. Ultimately, there are many innovative ideas that need to be researched and actions that can be taken to assist our transit agencies become more efficient as well as sustainable.

Question. What lessons have been learned from projects selected for Grant Agreements?

Answer. Due to the great variety of selected projects, we are just now beginning to understand some of the challenges we will need to address going forward such as how to more accurately calculate and document energy use and savings claims. We have learned, for example, that transit agencies need help measuring their carbon footprint, and that the source of their energy is ultimately a factor in moving the country forward toward sustainability.

Question. Washington State is very appreciative of the $590 million you have approved for the NW High Speed Rail Corridor projects in Washington State. As a State, we've put a lot of investment into this corridor and these funds are going to help build on this to dramatically improve passenger service.

Our State has nearly $280 million in projects that can turn dirt and put nearly 2,000 people to work during the 2010 spring and summer construction season. This includes a lot of work that is ready to begin within 60 days.

However, Washington State DOT is waiting for approval from FRA to proceed, and it's unclear how long this approval process may take. It is very important we get these WA projects underway as well as others around the country and put people to work during this upcoming construction season.

I'd like your commitment to have your staff look into this and work with the Washington State DOT on an acceptable schedule.

Answer. The Federal Railroad Administration (FRA) is working closely with Washington State DOT to implement these projects as quickly as possible. Among the things FRA is collaborating on is completion of the environmental review required under the National Environmental Policy Act (NEPA) and other laws. These environmental approvals are necessary before FRA can complete and execute the grant agreement. FRA is also working with Washington to finalize the scope, schedule, and budget of each of the large projects planned as part of the anticipated $590 million in infrastructure improvements.

The Department understands the urgency of beginning construction as soon as possible. As a result, FRA has reached out to Washington and the host railroads (BNSF and Sound Transit) to provide them guidance on the appropriate ways in which they might begin construction of certain projects in advance of the signed grant agreement with the goal of maximizing the likelihood that the State and host railroad could be reimbursed later with grant funds. FRA looks forward to continued progress in our productive on-going collaboration with Washington State.

Question. Two projects in Washington State—the North-South Freeway in Spokane and the Mercer Street Corridor in Seattle—have been awarded TIGER grants recently.

They are both great projects. The project in Spokane will create about 100 jobs—and the Seattle grant is the final piece required to finish a project that will create thousands of jobs.

Would you please comment briefly on the role of infrastructure investment in supporting local and regional economies?

Answer. Infrastructure spending has an immediate, primary, impact in creating employment in the communities while the infrastructure is being built. We estimate that the $48.1 billion in infrastructure investment funded by the Recovery Act will produce 523,000 job-years of employment, many of which take the form of jobs produced when increased employment at construction sites leads to increased spending at local and regional businesses producing consumer goods and services.

In the longer run, transportation infrastructure investment helps to shape communities' economic options. Manufacturers of high-value, high-volume semiconductors or electronics depend on air shipments to move their products to markets around the globe. Commodity agriculture or raw materials producers depend on access to bulk freight transportation infrastructure. Manufacturers of complex, high value products like automobiles depend on multi-modal freight links.

Equally important are the benefits that good personal transportation options can confer on communities in the era of a global, knowledge-based economy. Livable communities are better able to attract clusters of high-skill, high-paying knowledge-based industries and workers, to the benefit of residents, communities, and the U.S. economy as a whole. Building livable communities requires collaboration across levels of government and between the public and private sector.

One of my highest priorities is to work closely with Congress, other Federal departments, the Nation's Governors, and local officials to help promote more livable communities through sustainable surface transportation programs.

Question. In September 2009, the Department of Transportation Inspector General issued a Management Advisory to PHMSA raising strong concerns with the management and processing of special permits to transport hazardous materials. PHMSA developed an action plan and began a process to review the fitness of special permit holders to rectify the agency's fundamental failure to appropriately review: (1) an applicant's safety history; and (2) an applicant's proposed alternative safety packaging and transport plan.

How many special permits have been reviewed to date? Of those special permits reviewed, how many have been suspended, revoked, or denied?

Answer. From November 1, 2009 to May 11, 2010, there have been 1,155 Special Permit applications reviewed. Of those reviewed, 10 were terminated and 12 were denied.

Question. What is your projected caseload for the processing of special permit applications in fiscal year 2011?

Answer. PHMSA expects a significant increase in the projected caseload of special permits and approvals applications in fiscal year 2011 due to policy changes for trade associations.

PHMSA is in the process of modifying (or terminating when appropriate) special permits and approvals granted to association members collectively. For any special permit issued to association members collectively, PHMSA has started the process of providing notice of modification or termination to the association and each individual member whose name and address is on file with PHMSA. This notice provides information for the individual members to determine whether the activity authorized by the special permit or approval will eventually be incorporated into the regulations or will continue to need a special permit or approval.

When a special permit or approval is not incorporated into the regulation, the individual members must submit an application for a special permit or approval. This will result in an increase in the 2011 caseload that could be up to 20,000–30,000 applications.

As of April 2010, PHMSA has approximately 6,000 pending applications, which include applications received more than 180 days ago in addition to applications received less than 180 days ago. The 6,000 applications on file are divided into 2 categories—Approvals (5,400) and Special Permits (600).

Question. In the President's proposed budget for fiscal year 2011, you are eliminating $900,000 for contractor support to assist in executing the agency's full-scale review of existing special permits to fulfill the IG's recommendations.

With this proposed cut in funding, will you have the resources necessary to appropriately process the estimated 5,500 special permit holder's requests for approvals consistent with the new PHMSA action plan guidelines and Inspector General recommendations?

Answer. PHMSA's 2011 budget request included $1.5 million to annualize 20 positions enacted in fiscal year 2010 in support of the special permits and approvals action plan to enhance management and oversight of this hazardous materials safety program.

Question. The Department of Transportation Office of Inspector General is due to issue a second management advisory to PHMSA regarding the review and authorization of explosive classifications and insufficient oversight of the four labs authorized by PHMSA to examine and test explosives.

When will PHMSA be providing its personnel with the necessary guidance for classifying and approving explosives?

Answer. PHMSA has formed a cross-functional team to review all previous guidance, both formal and informal, and existing regulatory provisions for classifying and approving explosives. The team has developed a draft guidance manual that covers three separate audiences: (1) guidance for persons applying for an explosive classification recommendation; (2) guidance for the authorized explosive test laboratories for testing and examination; (3) Standard Operating Procedures for PHMSA related to approving authorized test agencies, and evaluating and approving explosive classifications. This guidance manual is under review and will be formalized by September 2010.

Question. How many explosives classifications and approvals has the agency processed annually for the past 5 fiscal years?

Answer. See table.

Approval Type	2005	2006	2007	2008	2009	2010 (YTD)
Explosives	733	1,626	1,752	1,930	1,681	1,364
Fireworks	505	5,201	4,933	4,599	2,579	2,265

Question. What processes and internal certifications will you develop to ensure that all authorized testing labs comply with PHMSA guidance for classifying and approving explosives?

Answer. As of March 2010 PHMSA requires on-site inspections by PHMSA for all new and renewal approvals applications for all certification agencies. The on-site inspection will determine whether the certification agency, including explosive testing labs, is fit and capable of operating in accordance with the specifications outlined in the approval. The inspection will include review of the specific requirements and criteria under the requested special permit or approval, including:

—Test procedures and equipment
—Internal quality assurance/control measures
—Spatial Requirements
—Security policies/procedures
—Personnel and subcontract qualifications
—Employee training and certifications
—Independent and impartial operations

The four PHMSA authorized explosive examination laboratories were inspected between March and April 2010. The PHMSA inspection team found all four laboratories fit to perform the examination and shipping classification recommendation functions authorized under approval. Some minor violations related to training, marking, labeling, and reporting were noted, which the audit team determined not to adversely impact their fitness capability under the approvals.

Question. How are you improving your oversight of PHMSA's approved explosives testing labs and who specifically will be accountable for the lab's safety reviews, fitness inspections, and regulatory compliance?

Answer. The Special Permits and Approvals Office is responsible and accountable for certification agency oversight. PHMSA is developing more detailed application, inspection, reporting, and accountability provisions to ensure impartial and quality performance of the laboratories. We plan to require each laboratory to reapply under these new terms. These guidelines require an initial inspection from PHMSA staff prior to issuing the approval, and compliance inspections by our enforcement staff.

Question. Please use the attached table to provide a complete listing by year of employees who received retention bonuses during the years 2006–2010. For each year, please include each employee's name, title, grade, salary, and retention bonuses.

Answer. The information for fiscal year 2007–2010 is provided below. Data prior to fiscal year 2007 is not readily available due to FAA's conversion to the Delphi accounting system in 2006.

Some employees have more than one entry for a given fiscal year. Since retention bonuses are calculated using base salary, if that changes during the course of a year then separate retention bonus amounts must be calculated against each separate base salary. Adding the multiple retention bonus amounts listed equals the employee's total retention bonus earned for that year. The amounts in the "Salary" column, however, are not additive.

Employee Name	Title	Grade	Salary	Retention Bonus
Fiscal Year 2007:				
BORO, THOMAS R.	SUPV PERSONNEL MANAGEMENT SPEC	J	$104,500	$8,068.20
			106,200	22,408.60
CLAYTON, ROBERT J.	SUPV PERSONNEL MANAGEMENT SPEC	K	127,000	15,877.40
DIX, MARY E.	DEP ASST ADMIN FOR HR MGMT	02	146,193	2,849.76
			148,678	9,660.00
GIBSON, VENTRIS C.	ASST ADMIN FOR HUMAN RESOURCE MGMT.	01	155,653	11,592.00
GOMES, GARY R.	SUPV AVIATION SAFETY INSPE	K	124,800	556.80
	SUPV AVIATION SAFETY INSPECTOR	K	124,800	2,153.28
JUBA, EUGENE	SR VICE PRESIDENT FOR FINANCE	01	164,100	11,592.00
KERWIN, PETER J.	SUPV AVIATION SAFETY INSPECTOR	K	127,000	16,279.20
MINIACE, JOSEPH N.	DEP ASST ADM STRATEGIC LABOR MGT REL.	02	145,785	3,864.00
PUNWANI, RAMESH	ASST ADMIN FOR FINANCIAL SERVICES	01	161,400	11,082.40
			164,100	30,590.00
RITMAN, ALLISON W.	SUPERVISORY ACCOUNTANT	K	127,000	2,771.20
	SUPV ACCOUNTANT	K	124,792	674.48
			127,000	519.60
WILLETT, ANTHONY J.	PROGRAM MANAGER	K	127,000	2,771.31
WILLIAMS, CLIFFORD J.	AIRWAY TRANSPORTATION SYS SPEC	H	61,335	11,254.00
WILLIAMS, HAROLD F., III	AIRWAY TRANSPORTATION SYS SPEC	H	78,657	14,433.00
Fiscal Year 2007 Total				178,997.23
Fiscal Year 2008:				
AMANN, GORDON K.	AIR TRAFFIC CONTROL SPEC (C)	LH	110,711	3,527.82
ANDERSON, THEODORE H.	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	148,960	920.16
ANGLE, THEODORE W.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	3,268.44
AUSTIN, THOMAS P.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	4,139.19
BACILE, MICHAEL J.	AIR TRAFFIC CONTROL SPEC	KH	120,165	3,910.20
BAHLER, GARY C.	AIR TRAFFIC CONTROL SPEC (T)	LH	126,402	4,027.86
BALL, RANDALL R.	AIR TRAFFIC CONTROL SPEC (T)	LH	140,319	3,445.26
BARBIERI, JOHN R.	AIR TRAFFIC CONTROL SPEC	KH	120,165	3,910.20
BEADLE, MARK R.	AIR TRAFFIC CONTROL SPEC (T)	HH	91,568	1,417.98
BERRA, PATRICK M.	AIR TRAFFIC CONTROL SPEC (T)	FH	90,802	2,068.08
BIGGERS, JACK H.	AIR TRAFFIC CONTROL SPEC	KH	120,165	2,346.12
BLACK, NELSON K.	AIR TRAFFIC CONTROL SPEC (T)	FH	74,705	2,187.54
BLAIS, MICHAEL J.	AIR TRAFFIC CONTROL SPEC (T)	LH	126,400	6,265.56
BLITTERSDORF, JEFFREY E.	AIR TRAFFIC CONTROL SPEC	GH	83,814	1,908.90
BOELTER, TIMOTHY T.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	4,027.86
BONE, MICHAEL D.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	3,094.98
BORO, THOMAS R.	MANAGER, LABOR & EMPLOYEE REL BRACH.	J	106,200	1,179.40
			109,000	23,278.80
	SUPV PERSONNEL MANAGEMENT SPEC	J	106,200	8,255.80
BOWE, JOHN R.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	4,475.40
BOYLE, DANIEL P.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	4,088.88
BROKER, BARBARA A.	AIR TRAFFIC CONTROL SPEC (T)	LH	119,178	3,797.82
BURTON, CARL JR	SUPV AIR TRAFFIC CONTROL SPEC	KJ	141,029	460.08
BURZYCH, CRAIG A.	AIR TRAFFIC CONTROL SPEC (T)	LH	126,402	1,342.62
BUSSE, JUDITH A.	SUPV AIR TRAFFIC CONTROL SPEC (T)	LJ	140,908	460.08
BYRNE, JOHN J.	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	142,230	2,760.48
BYTHEWAY, DAVID L.	AIR TRAFFIC CONTROL SPEC (T)	HH	104,010	3,745.80
CARMICHAEL, DAVID L.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,122	3,238.62

Employee Name	Title	Grade	Salary	Retention Bonus
CARVER, STEVEN T.	SUPV COMPUTER SPEC	K	115,015	21,187.20
CATOE, RALPH D.	AIR TRAFFIC CONTROL SPEC (T)	IH	102,216	1,995.48
CERAMI, JOSEPH S.	AIR TRAFFIC CONTROL SPEC (C)	LH	130,011	4,137.39
CLAYTON, ROBERT J.	SUPV HUMAN RESOURCES SPECIALIST	K	130,000	24,096.00
	SUPV PERSONNEL MANAGEMENT SPEC	K	127,000	10,103.80
			130,000	6,024.00
CLEAVER, MICHAEL D.	SUPV AIR TRAFFIC CONTROL SPEC	KJ	139,353	1,360.26
			141,030	3,671.04
COLFER, STEVEN L.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	5,978.83
CONTRERAS, CARLOS	AIR TRAFFIC CONTROL SPEC (C)	LH	115,783	3,689.82
COPPA, MICHAEL F.	AIR TRAFFIC CONTROL SPEC (T)	HH	102,216	4,320.00
DOBRINICH, DAVID A.	SUPV AIR TRAFFIC CONTROL SPEC (T)	LJ	147,123	460.08
			148,893	3,680.64
DOEGE, BLANE S.	AIR TRAFFIC CONTROL SPEC	LH	125,928	1,719.60
DRESSLER, ROBERT K.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,788	5,651.88
DRISCOLL, CHARLES F.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	4,922.94
DYER, STANLEY J.	SUPV AIR TRAFFIC CONTROL SPEC (T)	LJ	144,045	2,970.36
EWING, MICHAEL L.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	3,268.44
FRAWLEY, EDWARD J.	SUPV AIR TRAFFIC CONTROL SPEC	LJ	160,414	1,980.24
			162,344	3,960.48
FREDRICKSON, THOMAS E.	AIR TRAFFIC CONTROL SPEC (T)	KH	128,892	1,677.60
FUNKHOUSER, BRADLEY C.	AIR TRAFFIC CONTROL SPEC (C)	JH	120,954	1,574.16
GALASSINI, DEBRA A.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,788	3,912.84
GIBBS, BRENDA E.	AIR TRAFFIC CONTROL SPEC	KH	120,165	3,910.20
GIBSON, VENTRIS C.	ASST ADMIN FOR HUMAN RESOURCE MGMT.	01	155,653	6,762.00
			159,544	7,920.96
GISH, EDMUND C.	SUPV AIR TRAFFIC CONTROL SPEC (T)	LJ	164,168	920.16
GOODNOUGH, DAVID W.	AIR TRAFFIC CONTROL SPEC (T)	GH	90,802	609.96
GRATYS, JOHN G.	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	140,908	2,760.48
GRIFFIN, CHARLES W.	AIR TRAFFIC CONTROL SPEC (T)	LH	118,733	1,249.38
GRIMM, CYNTHIA J.	AIR TRAFFIC CONTROL SPEC (T)	LH	121,658	6,030.36
GROENE–BRASS, LISA C.	AIR TRAFFIC CONTROL SPEC (T)	HH	92,617	2,109.66
GROFF, BRYAN W.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,122	4,626.60
HAGEN, SHAWN C.	AIR TRAFFIC CONTROL SPECIALIST (T)	LH	61,328	860.40
HALL, MICHAEL A.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	1,400.76
HASENPFLUG, JEFFREY D.	AIR TRAFFIC CONTROL SPEC	JH	129,058	3,554.40
HOCKING, ROBERT G.	AIR TRAFFIC CONTROL SPEC (C)	LH	110,605	4,738.60
HOFFMAN, ROBERTA S.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	5,063.52
HORNER, WILLIAM T.	AIR TRAFFIC CONTROL SPEC (T)	KH	125,405	4,080.60
HOUSE, MARK S.	DIR FIN ANALYSIS & PROCESS REENGINEER.	02	144,848	4,830.00
			148,469	18,812.28
HURLEY, WILLIAM J., JR	AIR TRAFFIC CONTROL SPEC (T)	HH	90,042	1,757.88
HYLAND, JOHN L.	AIR TRAFFIC CONTROL SPEC (C)	JH	117,682	1,148.76
JEANES, JOSEPH A.	AIR TRAFFIC CONTROL SPEC (T)	IH	116,303	4,162.62
JONES, MELVIN B.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	3,537.12
JUBA, EUGENE	SR VICE PRESIDENT FOR FINANCE	01	164,100	6,762.00
			168,200	19,802.40
KERWIN, PETER J.	SUPV AVIATION SAFETY INSPECTOR	K	127,000	5,997.60
			130,000	887.52
KEYES, ROBERT C.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	4,142.88
KHATCHERIAN, PAUL	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	142,230	2,300.40
KOOS, MARK	AIR TRAFFIC CONTROL SPEC (C)	LH	135,543	1,380.30
KUHN, GEORGE W.	AIR TRAFFIC CONTROL SPEC (C)	LH	111,843	3,564.00
KUZANEK, DWIGHT M.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,788	4,782.36
LADNIER, DARRYL A.	AIR TRAFFIC CONTROL SPEC	KH	113,300	1,105.92
LANGSTON, MILES H., JR	AIR TRAFFIC CONTROL SPEC (T)	KH	125,405	2,448.36
LAWRENCE, TONY H.	AIR TRAFFIC CONTROL SPEC (T)	LH	125,928	429.90
LEWIS, KEITH C.	AIR TRAFFIC CONTROL SPEC (T)	LH	118,733	1,249.38
LIGNELLI, ROBERT J.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	4,089.96
LIZZIO, MICHAEL J.	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	131,855	2,300.05
LOVETT, STEVEN B.	SUPV AIR TRAFFIC CONTROL SPEC	KJ	142,837	1,394.28
			144,556	3,762.72
MARKS, ROBERT L.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,329	3,861.54
MATHEIS, ULRICH R.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	5,059.01
MAURICE, LOURDES Q.	CHIEF SCIENTIFIC & TECHNICAL ADVISOR	03	138,516	5,777.28
MCCONAHAY, KENNETH C.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	2,693.52

Employee Name	Title	Grade	Salary	Retention Bonus
MCCORMICK, MICHAEL J.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	1,362.96
MIETH, DOUGLAS R.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	4,139.19
MINER, MATHEW M.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	1,400.76
MINIACE, JOSEPH N.	DEP ASST ADM STRATEGIC LABOR MGT REL.	02	145,785	9,016.00
			149,430	21,122.56
MISNER, JOHN E.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	2,685.24
MOFFAT, JAY	AIR TRAFFIC CONTROL SPEC (T)	LH	122,788	3,043.32
MOLLICA, ANTHONY J.	AIR TRAFFIC CONTROL SPEC (T)	HH	92,235	664.32
MORALES, DAVID A.	AIR TRAFFIC CONTROL SPEC (T)	EH	70,600	1,378.44
MORRISON, ROBERT M.	SUP ATCS (C/T–I)	K	130,000	5,640.00
NASH, CHARLES F.	AIR TRAFFIC CONTROL SPEC (T)	GH	83,814	1,090.80
NELSON, BARRY J.	AIR TRAFFIC CONTROL SPEC (T)	EH	76,950	1,759.32
NEMCEK, RICHARD M.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	4,027.86
NICHOLAS, ROBERT M.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	5,059.01
OSEKOWSKI, CRAIG P.	SUPV AIR TRAFFIC CONTROL SPEC	KJ	144,738	470.94
			146,480	3,813.12
PALLONE, MARK A.	AIR TRAFFIC CONTROL SPEC (T)	LH	125,928	859.80
PARMAN, DENNIS J.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	1,747.20
PASSIALES, JAMES J.	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	127,548	2,709.72
PATT, LAWRENCE K.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	4,997.52
PETRE, PHILIP J.	SUPV AIR TRAFFIC CONTROL SPEC (T)	KJ	127,159	2,482.56
PRATT, THOMAS J.	SUPV AVIATION SAFETY INSPECTOR	K	127,000	1,864.28
			130,000	18,642.80
PUGH, DENNIS W.	AIR TRAFFIC CONTROL SPEC (T)	GH	83,814	2,533.68
PUNWANI, RAMESH	ASST ADMIN FOR FINANCIAL SERVICES	01	164,100	11,270.00
			168,200	31,353.80
QUINN, GLENN P.	AIR TRAFFIC CONTROL SPEC (T)	KH	127,032	447.48
RAWLINGS, KEVIN S.	AIR TRAFFIC CONTROL SPEC (T)	HH	94,798	3,393.06
RAY, MARK A.	AIR TRAFFIC CONTROL SPEC (C)	LH	137,237	4,140.18
REGRUTO, SANDRA G.	AIR TRAFFIC CONTROL SPEC (T)	FH	81,884	4,368.00
REINERT, KURT A.	AIR TRAFFIC CONTROL SPEC (T)	FH	84,643	3,029.40
RHEA, RODNEY R.	AIR TRAFFIC CONTROL SPEC	GH	83,814	1,908.90
RITMAN, ALLISON W.	MANAGING DIR OF FINC RPTNG & CONTROLS.	02	135,93	3,212.66
		K	130,000	180.72
	SUPERVISORY ACCOUNTANT	K	127,000	1,212.42
			130,000	180.72
ROESKE, DAVID W.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	4,027.86
ROY, KIM A.	AIR TRAFFIC CONTROL SPEC (T)	KH	127,032	447.48
RUIZ, DAVID R.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	4,997.52
SACKETT, GREGORY A.	SUPV AIR TRAFFIC CONTROL SPEC	KJ	146,290	951.96
			148,050	3,853.92
SANOCKI, MICHAEL H.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	5,984.16
SCOTT, ROBERT E.	AIR TRAFFIC CONTROL SPEC (C)	LH	109,000	1,929.60
SEACAT, GARY D.	AIR TRAFFIC CONTROL SPEC (T)	HH	92,617	301.38
SICKLES, STEPHAN J.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	4,202.28
SMITH, TERRY R.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,329	429.06
SNYDER, FREDERICK J., JR	AIR TRAFFIC CONTROL SPEC (C)	KH	125,568	1,435.32
SNYDER, THOMAS G.	AIR TRAFFIC CONTROL SPEC	GH	83,814	1,636.20
STANKOWICZ, JOSEPH M.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	4,139.19
STAROS, JOHN D.	AIR TRAFFIC CONTROL SPEC (T)	LJ	128,572	2,731.32
STEINBERG, FREDERICK W.	AIR TRAFFIC CONTROL SPEC (T)	GH	84,550	2,577.12
STEINWEDEL, ROBERT P.	AIR TRAFFIC CONTROL SPEC	KH	120,165	2,346.12
STRONG, ROBERT L.	AIR TRAFFIC CONTROL SPEC	JH	125,568	864.60
SWITCH, JAY M.	AIR TRAFFIC CONTROL SPEC	KH	120,165	3,519.18
TIGHE, GRACE	AIR TRAFFIC CONTROL SPEC (T)	GH	93,531	2,738.88
TOTH, DANIEL A.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	3,580.32
VANDERWEEL, PETER J.	AIR TRAFFIC CONTROL SPEC (T)	IH	116,303	1,135.26
VELLA, ANTHONY C.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	4,997.52
VERONICO, JAMES N.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	6,435.94
WALSH, STEPHEN G.	AIR TRAFFIC CONTROL SPEC	GH	88,474	1,151.52
WAWRZYNSKI, DAVID B.	AIR TRAFFIC CONTROL SPEC (T)	LH	125,928	1,324.98
WAZOWICZ, PAUL J.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	5,976.23
WHEELER, DAVID A.	AIR TRAFFIC CONTROL SPEC (T)	KH	127,941	2,497.68
WHITE, LARRY D.	AIR TRAFFIC CONTROL SPEC (T)	HH	92,617	1,205.52
WHITMAN, STEPHEN S.	AIR TRAFFIC CONTROL SPEC (C)	LH	137,237	4,140.18
WIEGMANN, DARRYL L.	AIR TRAFFIC CONTROL SPEC (T)	LH	143,599	1,380.24

Employee Name	Title	Grade	Salary	Retention Bonus
WILLENBRINK, WAYNE C.	AIR TRAFFIC CONTROL SPEC (T)	GH	93,531	3,347.52
WILLETT, ANTHONY J.	PROGRAM MANAGER	K	127,000	6,466.41
			130,000	19,276.80
WILLIAMS, CLIFFORD J.	AIRWAY TRANSPORTATION SYS SPEC	H	61,335	3,310.00
			61,337	1,324.00
			63,226	4,279.41
WILLIAMS, HAROLD F., III	AIRWAY TRANSPORTATION SYS SPEC	H	78,657	4,245.00
			78,660	1,698.00
			81,770	5,533.65
WISHOWSKI, DONALD A.	AIR TRAFFIC CONTROL SPEC (C)	LH	140,842	5,981.04
WITTMAN, MARK A.	AIR TRAFFIC CONTROL SPEC	JH	122,080	2,101.50
WOLVIN, MICHAEL S.	AIR TRAFFIC CONTROL SPEC (T)	HH	100,334	1,958.76
WYNKOOP, DOUGLAS J.	AIR TRAFFIC CONTROL SPEC (T)	LH	123,598	2,109.60
ZAROBA, PAUL B.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	3,094.98
Fiscal Year 2008 Total				719,405.04
Fiscal Year 2009:				
ALLEGRINI, KEVIN J.	AIR TRAFFIC CONTROL SPEC	GH	68,424	3,583.68
ALLSOP, KEVIN L.	AIR TRAFFIC CONTROL SPEC (T)	FH	93,531	6,121.74
ANDERSON, THEODORE H.	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	148,960	3,220.56
			155,663	21,165.10
ANGLE, THEODORE W.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	466.92
AUSTIN, THOMAS P.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	20,337.73
		LI	135,772	464.75
BACILE, MICHAEL J.	AIR TRAFFIC CONTROL SPEC	KH	120,165	16,858.32
BAHLER, GARY C.	AIR TRAFFIC CONTROL SPEC (T)	LH	126,402	19,792.56
BALL, RANDALL R.	AIR TRAFFIC CONTROL SPEC (T)	LH	140,319	22,292.10
BARBIERI, JOHN R.	AIR TRAFFIC CONTROL SPEC	KH	120,165	16,858.32
BEADLE, MARK R.	AIR TRAFFIC CONTROL SPEC (T)	HH	91,568	4,099.62
BERRA, PATRICK M.	AIR TRAFFIC CONTROL SPEC (T)	FH	90,802	10,068.36
BIGGERS, JACK H.	AIR TRAFFIC CONTROL SPEC	KH	120,165	18,441.12
BINNER, ROGER A.	AIR TRAFFIC CONTROL SPEC	LH	140,319	993.24
BLACK, NELSON K.	AIR TRAFFIC CONTROL SPEC (T)	FH	74,705	12,682.62
BLAIS, MICHAEL J.	AIR TRAFFIC CONTROL SPEC (T)	LH	126,400	17,506.86
BLINK, CHARLES L.	AIR TRAFFIC CONTROL SPEC (T)	HH	92,235	6,636.84
BLITTERSDORF, JEFFREY E.	AIR TRAFFIC CONTROL SPEC	GH	83,814	13,683.72
BOELTER, TIMOTHY T.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	19,792.57
BONE, MICHAEL D.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	20,897.58
BORO, THOMAS R.	MANAGER, LABOR & EMPLOYEE REL BRACH.	J	109,000	7,351.20
			110,800	23,917.20
BOWE, JOHN R.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	19,335.42
BOYLE, DANIEL P.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	19,642.56
BRANNIGAN, TIMOTHY W.	AIR TRAFFIC CONTROL SPEC	GH	67,342	3,527.04
BROKER, BARBARA A.	AIR TRAFFIC CONTROL SPEC (T)	LH	119,178	19,088.10
BROMLEY, DANA L.	AIR TRAFFIC CONTROL SPEC	GH	79,154	4,663.44
BRYAN, JEFFREY L.	AIR TRAFFIC CONTROL SPEC	IH	104,966	5,154.30
BURTON, CARL JR	SUPV AIR TRAFFIC CONTROL SPEC	KJ	141,029	3,220.56
			147,375	3,310.30
BURZYCH, CRAIG A.	AIR TRAFFIC CONTROL SPEC (T)	LH	126,402	22,987.74
BUSSE, JUDITH A.	SUPV AIR TRAFFIC CONTROL SPEC (T)	LJ	140,908	3,220.56
			147,248	20,319.36
BYRNE, JOHN J.	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	142,230	3,220.56
			148,630	18,749.30
BYTHEWAY, DAVID L.	AIR TRAFFIC CONTROL SPEC (T)	HH	104,010	15,799.32
CARGIULO, LUIS P., JR	HUMAN RESOURCES SPECIALIST	I	84,626	5,836.80
CARMICHAEL, DAVID L.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,122	20,761.38
CARVER, STEVEN T.	SUPV COMPUTER SPEC	K	115,015	7,945.20
CATOE, RALPH D.	AIR TRAFFIC CONTROL SPEC (T)	IH	102,216	15,686.34
CERAMI, JOSEPH S.	AIR TRAFFIC CONTROL SPEC (C)	LH	130,011	20,346.93
CHAMBERLIN, MARK J.	AIR TRAFFIC CONTROL SPEC (T)	GH	86,141	2,256.00
CHIASSON, MICHAEL P.	SUPV AIR TRAFFIC CONTROL SPEC	IJ	118,893	3,502.44
CLAYTON, ROBERT J.	SUPV HUMAN RESOURCES SPECIALIST	K	130,000	10,542.00
			132,200	18,715.20
CLEAVER, MICHAEL D.	SUPV AIR TRAFFIC CONTROL SPEC	KJ	141,030	3,212.16
			147,376	18,650.94

Employee Name	Title	Grade	Salary	Retention Bonus
COLFER, STEVEN L.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	18,459.37
CONTRERAS, CARLOS	AIR TRAFFIC CONTROL SPEC (C)	LH	115,783	18,544.14
COPPA, MICHAEL F.	AIR TRAFFIC CONTROL SPEC (T)	HH	102,216	14,824.80
DOBRINICH, DAVID A.	SUPV AIR TRAFFIC CONTROL SPEC (T)	LJ	148,893	3,220.56
			155,593	17,292.12
DOEGE, BLANE S.	AIR TRAFFIC CONTROL SPEC	LH	125,928	20,766.60
DRESSLER, ROBERT K.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,788	17,450.46
DRISCOLL, CHARLES F.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	18,878.28
DUNPHY, DANIEL P.	AIR TRAFFIC CONTROL SPEC (T)	IH	110,732	18,817.68
DUTTON, RANDELL L.	AIR TRAFFIC CONTROL SPEC	IH	114,201	4,111.80
DYER, STANLEY J.	SUPV AIR TRAFFIC CONTROL SPEC (T)	LJ	144,045	3,465.42
			150,527	19,157.28
EWING, MICHAEL L.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	21,616.32
FRAWLEY, EDWARD J.	SUPV AIR TRAFFIC CONTROL SPEC	LJ	162,344	3,465.42
			166,959	21,618.78
FREDRICKSON, THOMAS E.	AIR TRAFFIC CONTROL SPEC (T)	KH	128,892	20,628.72
FUNKHOUSER, BRADLEY C.	AIR TRAFFIC CONTROL SPEC (C)	JH	120,954	18,961.92
GALASSINI, DEBRA A.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,788	19,665.85
GIBBS, BRENDA E.	AIR TRAFFIC CONTROL SPEC	KH	120,165	20,005.20
GIBSON, VENTRIS C.	ASST ADMIN FOR HUMAN RESOURCE MGMT.	01	159,544	6,930.84
			164,011	9,159.48
GISH, EDMUND C.	SUPV AIR TRAFFIC CONTROL SPEC (T)	LJ	164,168	3,220.56
			166,959	21,165.09
GOODNOUGH, DAVID W.	AIR TRAFFIC CONTROL SPEC (T)	GH	90,802	15,297.96
GOSS, NORBERT L., JR	AIR TRAFFIC CONTROL SPEC (T)	GH	74,501	4,876.50
GRATYS, JOHN G.	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	140,908	3,220.56
			147,248	18,749.30
GREEN, JEFFREY S.	AIR TRAFFIC CONTROL SPECIALIST (T)	EH	65,107	4,261.14
GRIEST, DIANE L.	SUPV AIR TRAFFIC CONTROL SPEC	LJ	159,567	920.16
			166,747	8,985.10
GRIFFIN, CHARLES W.	AIR TRAFFIC CONTROL SPEC (T)	LH	118,733	20,563.98
GRIMM, CYNTHIA J.	AIR TRAFFIC CONTROL SPEC (T)	LH	121,658	17,285.04
GROENE–BRASS, LISA C.	AIR TRAFFIC CONTROL SPEC (T)	HH	92,617	13,605.30
GROFF, BRYAN W.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,122	24,295.19
HABER, SELIM	GENERAL ENGINEER	K	132,200	4,539.36
HALL, MICHAEL A.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	22,599.24
HARDIMAN, MATTHEW J.	AIR TRAFFIC CONTROL SPEC	GH	67,342	3,527.04
HASENPFLUG, JEFFREY D.	AIR TRAFFIC CONTROL SPEC	JH	129,058	20,105.28
HAYNES, DARRYL A.	AIR TRAFFIC CONTROL SPEC	JH	130,974	5,014.02
HEINTZ, ROBERT B.	AIR TRAFFIC CONTROL SPEC	GH	68,970	3,612.48
HOFFMAN, ROBERTA S.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	19,417.08
HOLDGATE, FREDERICK I.	AIR TRAFFIC CONTROL SPEC	GH	85,520	4,479.36
HOLLAND, JEFFERY K.	AIR TRAFFIC CONTROL SPEC	IH	104,966	4,467.06
HORNER, WILLIAM T.	AIR TRAFFIC CONTROL SPEC (T)	KH	125,405	17,593.33
HOTRUM, GLENN M.	AIR TRAFFIC CONTROL SPEC (T)	LH	115,133	21,978.01
HOUSE, MARK S.	DIR FIN ANALYSIS & PROCESS REENGINEER.	02	148,469	6,930.84
			152,626	8,141.76
HURLEY, WILLIAM J., JR	AIR TRAFFIC CONTROL SPEC (T)	HH	90,042	13,817.04
HYLAND, JOHN L.	AIR TRAFFIC CONTROL SPEC (C)	JH	117,682	18,065.64
IMUNDO, RICO F.	SUPV TRAFFIC MANGEMENT COORDINATOR.	JJ	124,448	8,698.20
JEANES, JOSEPH A.	AIR TRAFFIC CONTROL SPEC (T)	IH	116,303	15,551.70
JONES, MELVIN B.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	19,553.16
JUBA, EUGENE	SR VICE PRESIDENT FOR FINANCE	01	168,200	6,930.84
			171,100	8,141.76
KELLY, THOMAS C.	SUPV AIR TRAFFIC CONTROL SPEC	LJ	164,740	8,740.19
KEYES, ROBERT C.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	20,340.76
KHATCHERIAN, PAUL	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	142,230	3,220.56
			148,630	19,235.03
KOOS, MARK	AIR TRAFFIC CONTROL SPEC (C)	LH	135,543	23,631.42
KRAKOWSKI, HENRY P.	CHIEF OPERATING OFFICER	1A	211,000	25,762.24
KUHN, GEORGE W.	AIR TRAFFIC CONTROL SPEC (C)	LH	111,843	17,512.20
KUZANEK, DWIGHT M.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,788	6,558.36
	SUPV AIR TRAFFIC CONTROL SPECIALIST	LH	122,788	11,780.10
LADNIER, DARRYL A.	AIR TRAFFIC CONTROL SPEC	KH	113,300	18,876.12
LAMBERT, DAWN E.	SUPV AIR TRAFFIC CONTROL SPEC	LJ	132,494	2,344.50

Employee Name	Title	Grade	Salary	Retention Bonus
LANGSTON, MILES H., JR	AIR TRAFFIC CONTROL SPEC (T)	KH	125,405	19,245.24
LASH, WILLIAM C.	AIR TRAFFIC CONTROL SPEC (C)	LH	125,928	23,062.80
LAWRENCE, TONY H.	AIR TRAFFIC CONTROL SPEC (T)	LH	125,928	22,082.58
LESTER, CRAIG S.	AIR TRAFFIC CONTROL SPEC (T)	FH	90,802	2,972.40
LEWIS, KEITH C.	AIR TRAFFIC CONTROL SPEC (T)	LH	118,733	20,142.60
LEWIS, TIMOTHY R.	AIR TRAFFIC CONTROL SPEC	KH	123,598	6,068.70
LICON, RUBEN	AIR TRAFFIC CONTROL SPEC	LH	129,524	23,162.28
LIGNELLI, ROBERT J.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	19,633.32
LIZZIO, MICHAEL J.	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	131,855	3,220.07
LOVETT, STEVEN B.	SUPV AIR TRAFFIC CONTROL SPEC	KJ	144,556	3,292.38
			151,061	16,390.45
MANCHESTER, RICHARD D.	AIR TRAFFIC CONTROL SPEC	GH	68,424	3,583.68
MARKS, ROBERT L.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,329	18,550.38
MATHEIS, ULRICH R.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	19,398.55
MAURICE, LOURDES Q.	CHIEF SCIENTIFIC & TECHNICAL ADVISOR	03	138,516	4,493.44
			142,394	7,391.12
MCCARTNEY, WILLIAM A.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	23,162.28
MCCONAHAY, KENNETH C.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	21,228.84
MCCORMICK, MICHAEL J.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	22,432.56
MCKEE, DAVID C.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,329	22,435.92
MICHAEL, GLENN W.	CAST OUTREACH PROGRAM MGR	K	132,200	9,951.36
MIETH, DOUGLAS R.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	20,337.73
MINER, MATHEW M.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	23,055.72
MINIACE, JOSEPH N.	DEP ASST ADM STRATEGIC LABOR MGT FREL.	02	149,430	9,241.12
			153,614	9,498.72
MISNER, JOHN E.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	21,163.99
MOFFAT, JAY	AIR TRAFFIC CONTROL SPEC (T)	LH	122,788	20,114.46
MOLLICA, ANTHONY J.	AIR TRAFFIC CONTROL SPEC (T)	HH	92,235	1,992.96
MOORE, DIANNA H.	MANAGEMENT AND PROGRAM ANA	I	63,698	7,525.44
MOORE, GEORGE E.	AIR TRAFFIC CONTROL SPEC	LH	129,524	23,162.28
MORALES, DAVID A.	AIR TRAFFIC CONTROL SPEC (T)	EH	70,600	10,603.92
MORRISON, ROBERT M.	SUP ATCS (C/T–I)	K	130,000	5,640.00
NASH, CHARLES F.	AIR TRAFFIC CONTROL SPEC (T)	GH	83,814	13,374.99
NELSON, BARRY J.	AIR TRAFFIC CONTROL SPEC (T)	EH	76,950	13,889.89
NELSON, MATTHEW F.	AIR TRAFFIC CONTROL SPEC (T)	JH	114,418	5,243.28
NEMCEK, RICHARD M.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	19,792.56
NICHOLAS, ROBERT M.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	19,398.55
OSEKOWSKI, CRAIG P.	SUPV AIR TRAFFIC CONTROL SPEC	KJ	146,480	3,336.48
			153,072	18,142.81
OTERO, CARLOS V.	SUPV AIR TRAFFIC CONTROL SPEC	GJ	95,385	4,995.84
PALLONE, MARK A.	AIR TRAFFIC CONTROL SPEC (T)	LH	125,928	21,643.92
PARMAN, DENNIS J.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	21,546.42
PASSIALES, JAMES J.	SUPV AIR TRAFFIC CONTROL SPEC (C)	LJ	127,548	3,161.34
			133,287	18,748.44
PATT, LAWRENCE K.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	18,717.90
PETRE, PHILIP J.	SUPV AIR TRAFFIC CONTROL SPEC (T)	KJ	127,159	2,896.32
			132,881	870.00
PRATT, THOMAS J.	SUPV AVIATION SAFETY INSPECTOR	K	130,000	3,728.56
PUGH, DENNIS W.	AIR TRAFFIC CONTROL SPEC (T)	GH	83,814	12,414.60
PUNWANI, RAMESH	ASST ADMIN FOR FINANCIAL SERVICES	01	168,200	11,551.40
			171,100	16,962.00
QUINN, GLENN P.	AIR TRAFFIC CONTROL SPEC (T)	KH	127,032	23,860.08
RABINOWITZ, BRIAN R.	AIR TRAFFIC CONTROL SPEC	GH	49,145	2,402.18
RAWLINGS, KEVIN S.	AIR TRAFFIC CONTROL SPEC (T)	HH	94,798	16,090.15
RAY, MARK A.	AIR TRAFFIC CONTROL SPEC (C)	LH	137,237	20,343.60
REGRUTO, SANDRA G.	AIR TRAFFIC CONTROL SPEC (T)	FH	81,884	12,531.12
REINERT, KURT A.	AIR TRAFFIC CONTROL SPEC (T)	FH	84,643	14,089.09
RHEA, RODNEY R.	AIR TRAFFIC CONTROL SPEC	GH	83,814	14,232.48
RITMAN, ALLISON W.	MANAGING DIR OF FINC RPTNG & CONTROLS.	02	135,933	755.92
RITMILLER, JOHN M.	AIR TRAFFIC CONTROL SPEC (C)	LH	129,524	1,833.60
RIXEY, WILLIAM S.	AIR TRAFFIC CONTROL SPEC	GC	33,700	147.12
		GG	44,500	1,748.16
	AIR TRAFFIC CONTROL SPEC (T)	GC	33,700	147.12
	AIR TRAFFIC CONTROL SPECIALIST	GG	44,500	194.24
ROESKE, DAVID W.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	19,792.56

Employee Name	Title	Grade	Salary	Retention Bonus
ROY, KIM A.	AIR TRAFFIC CONTROL SPEC (T)	KH	127,032	23,860.09
RUBIN, BARRY E.	AIR TRAFFIC CONTROL SPEC (C)	JH	104,612	4,451.46
RUIZ, DAVID R.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	18,502.42
SACKETT, GREGORY A.	SUPV AIR TRAFFIC CONTROL S	KJ	154,712	17,815.20
		KK	160,900	508.86
	SUPV AIR TRAFFIC CONTROL SPEC	KJ	148,050	3,372.18
		KK	160,900	2,544.30
SANOCKI, MICHAEL H.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	18,460.14
SCAVILLA, JASON R.	AIR TRAFFIC CONTROL SPEC (	GH	49,373	2,586.24
SCOTT, ROBERT E.	AIR TRAFFIC CONTROL SPEC (C)	LH	109,000	2,701.44
			110,800	16,128.96
SEACAT, GARY D.	AIR TRAFFIC CONTROL SPEC (T)	HH	92,617	16,041.54
SECIA, PAULA E.	AVIATION ASSISTANT	E	35,687	1,869.12
SICKLES, STEPHAN J.	AIR TRAFFIC CONTROL SPEC (T)	LH	133,122	19,797.72
SLOSEK, CARRIE A.	AIR TRAFFIC CONTROL SPEC	GH	67,342	3,527.04
SMITH, TERRY R.	AIR TRAFFIC CONTROL SPEC (T)	LH	122,329	22,840.98
SNYDER, FREDERICK J., JR	AIR TRAFFIC CONTROL SPEC (C)	KH	125,568	23,647.86
SNYDER, THOMAS G.	AIR TRAFFIC CONTROL SPEC	GH	83,814	14,234.16
STANKOWICZ, JOSEPH M.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	20,337.74
STAROS, JOHN D.	SUPV AIR TRAFFIC CONTROL SPEC (T)	LJ	128,572	3,186.54
			134,357	18,898.92
STEINBERG, FREDERICK W.	AIR TRAFFIC CONTROL SPEC (T)	GH	84,550	14,271.84
STEINWEDEL, ROBERT P.	AIR TRAFFIC CONTROL SPEC	KH	120,165	18,441.12
STRONG, ROBERT L.	AIR TRAFFIC CONTROL SPEC	JH	125,568	22,650.24
STYER, MICHAEL J.	AIR TRAFFIC CONTROL SPEC	LH	129,524	10,254.72
SUTPHEN, SCOTT S.	AIR TRAFFIC CONTROL SPEC (T)	HH	89,675	3,815.76
SWITCH, JAY M.	AIR TRAFFIC CONTROL SPEC	KH	120,165	20,400.90
TIGHE, GRACE	AIR TRAFFIC CONTROL SPEC (T)	GH	93,531	13,122.96
TOOREN, JUERGEN G.	SUPV FOREIGN AFFAIRS SPECIALIST	L	150,327	10,828.48
TOPHAM, PATRICK M.	SUPV AIR TRAFFIC CONTROL SPEC	GL	98,746	5,171.52
TOTH, DANIEL A.	AIR TRAFFIC CONTROL SPEC (C)	LH	126,402	20,249.70
VANDERWEEL, PETER J.	AIR TRAFFIC CONTROL SPEC (T)	IH	116,303	18,615.54
VELLA, ANTHONY C.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	18,712.56
VERONICO, JAMES N.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	17,982.62
WACHTER, MARK V.	AIR TRAFFIC CONTROL SPEC	GG	48,100	2,519.04
WALSH, STEPHEN G.	AIR TRAFFIC CONTROL SPEC	GH	88,474	15,028.93
WAWRZYNSKI, DAVID B.	AIR TRAFFIC CONTROL SPEC (T)	LH	125,928	21,808.38
WAZOWICZ, PAUL J.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	18,003.53
WEBER, GLENN M.	AIR TRAFFIC CONTROL SPEC (T)	GH	83,814	1,097.52
WHEELER, DAVID A.	AIR TRAFFIC CONTROL SPEC (T)	KH	127,941	20,052.10
WHITE, LARRY D.	AIR TRAFFIC CONTROL SPEC (T)	HH	92,617	14,823.42
WHITMAN, STEPHEN S.	AIR TRAFFIC CONTROL SPEC (C)	LH	137,237	20,343.60
WIEGMANN, DARRYL L.	AIR TRAFFIC CONTROL SPEC (T)	LH	143,599	23,899.93
WILKS, RANDY O.	AIR TRAFFIC CONTROL SPEC	KH	123,598	2,427.48
WILLENBRINK, WAYNE C.	AIR TRAFFIC CONTROL SPEC (T)	GH	93,531	13,119.24
WILLETT, ANTHONY J.	PROGRAM MANAGER	K	130,000	6,746.88
			132,200	14,972.11
WILLIAMS, CLIFFORD J.	AIRWAY TRANSPORTATION SYS SPEC	H	63,226	1,728.23
			65,692	5,160.98
WILLIAMS, HAROLD F., III	AIRWAY TRANSPORTATION SYS SPEC	H	81,770	2,234.75
			85,646	6,729.16
WISHOWSKI, DONALD A.	AIR TRAFFIC CONTROL SPEC (C)	LH	140,842	18,042.66
WITTMAN, MARK A.	AIR TRAFFIC CONTROL SPEC	JH	122,080	19,881.80
WOLVIN, MICHAEL S.	AIR TRAFFIC CONTROL SPEC (T)	HH	100,334	15,397.08
WYNKOOP, DOUGLAS J.	AIR TRAFFIC CONTROL SPEC (T)	LH	123,598	19,951.20
ZAROBA, PAUL B.	AIR TRAFFIC CONTROL SPEC (T)	LH	129,524	20,004.30
Fiscal Year 2009 Total				2,998,201.46
Fiscal Year 2010:				
ALLEGRINI, KEVIN J.	AIR TRAFFIC CONTROL SPEC	GH	68,424	2,090.48
			70,477	2,467.20
ALLSOP, KEVIN L.	AIR TRAFFIC CONTROL SPEC (T)	FH	93,531	10,408.26
BINNER, ROGER A.	AIR TRAFFIC CONTROL SPEC	LH	140,319	3,476.34
			145,974	4,132.80
BLACK, NELSON K.	AIR TRAFFIC CONTROL SPEC (T)	FH	74,705	1,711.92

Employee Name	Title	Grade	Salary	Retention Bonus
			77,715	2,040.48
BLINK, CHARLES L.	AIR TRAFFIC CONTROL SPEC (T)	HH	92,235	9,041.74
BLITTERSDORF, JEFFREY E.	AIR TRAFFIC CONTROL SPEC	GH	83,814	1,920.66
			87,191	2,289.12
BORO, THOMAS R.	HUMAN RESOURCES SPECIALIST (ER/LR)	J	110,800	7,552.80
			114,100	10,435.21
	MANAGER, LABOR & EMPLOYEE REL BRACH.	J	110,800	1,258.80
BRANNIGAN, TIMOTHY W.	AIR TRAFFIC CONTROL SPEC	GH	67,342	2,057.44
			69,362	2,428.16
BROMLEY, DANA L.	AIR TRAFFIC CONTROL SPEC	GH	79,154	1,813.56
			82,344	9,179.40
BRYAN, JEFFREY L.	AIR TRAFFIC CONTROL SPEC	IH	104,966	2,405.34
			109,196	11,143.44
CARGIULO, LUIS P., JR	HUMAN RESOURCES SPECIALIST	I	84,626	6,809.60
			86,742	8,024.00
CERAMI, JOSEPH S.	AIR TRAFFIC CONTROL SPEC (C)	LH	130,011	464.62
CHAMBERLIN, MARK J.	AIR TRAFFIC CONTROL SPEC (T)	GH	86,141	1,974.00
			89,612	2,352.96
CHIASSON, MICHAEL P.	SUPV AIR TRAFFIC CONTROL SPEC	IJ	118,893	2,724.12
			121,865	3,199.68
CLEAVER, MICHAEL D.	SUPV AIR TRAFFIC CONTROL SPEC	KJ	147,376	3,376.80
			151,944	3,989.28
CONDLEY, GARY R.	FAA ACADEMY SUPERINTENDENT	02	146,505	8,014.00
DUTTON, RANDELL L.	AIR TRAFFIC CONTROL SPEC	IH	114,201	2,616.60
			118,803	12,967.44
FLEMMING, JOHNNIE M.	DIRECTOR OF HUMAN RESOURCES	K	132,200	2,884.80
			136,200	11,920.00
FRAWLEY, EDWARD J.	SUPV AIR TRAFFIC CONTROL SPEC	LJ	166,959	3,562.02
			171,133	4,132.80
GIBBS, BRENDA E.	AIR TRAFFIC CONTROL SPEC	KH	120,165	2,753.52
			125,008	3,282.24
GOSS, NORBERT L., JR	AIR TRAFFIC CONTROL SPEC (T)	GH	74,501	8,291.10
GREEN, JEFFREY S.	AIR TRAFFIC CONTROL SPECIALIST (T)	EH	65,107	178.49
GRIEST, DIANE L.	SUPV AIR TRAFFIC CONTROL SPEC	LJ	166,747	15,580.07
GROFF, BRYAN W.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,122	3,297.84
			138,487	3,956.64
HABER, SELIM	GENERAL ENGINEER	K	132,200	2,269.68
HARDIMAN, MATTHEW J.	AIR TRAFFIC CONTROL SPEC	GH	67,342	2,057.44
			69,362	2,428.16
HAYNES, DARRYL A.	AIR TRAFFIC CONTROL SPEC	JH	130,974	3,190.74
			136,252	3,817.44
HEINTZ, ROBERT B.	AIR TRAFFIC CONTROL SPEC	GH	68,970	2,107.28
			71,039	2,487.04
HOLDGATE, FREDERICK I.	AIR TRAFFIC CONTROL SPEC	GH	85,520	2,612.96
			88,086	3,083.52
HOLLAND, JEFFERY K.	AIR TRAFFIC CONTROL SPEC	IH	104,966	2,405.34
			109,196	11,889.73
IMUNDO, RICO F.	SUPV TRAFFIC MANGEMENT COORDINATOR.	JJ	124,448	15,107.41
JEANES, JOSEPH A.	AIR TRAFFIC CONTROL SPEC (T)	IH	116,303	761.40
JEFF-CARTIER, JOLAINA	HUMAN RESOURCES SPECIALIST (LR)	J	87,349	2,071.29
KELLY, THOMAS C.	SUPV AIR TRAFFIC CONTROL SPEC	LJ	164,740	920.02
		LK	164,740	14,260.30
KRAKOWSKI, HENRY P.	CHIEF OPERATING OFFICER	1A	211,000	15,007.52
LAMBERT, DAWN E.	SUPV AIR TRAFFIC CONTROL SPEC	LJ	132,494	3,282.30
			136,601	2,000.23
LESTER, CRAIG S.	AIR TRAFFIC CONTROL SPEC (T)	FH	90,802	2,080.68
			94,461	2,480.16
LEWIS, TIMOTHY R.	AIR TRAFFIC CONTROL SPEC	KH	123,598	2,832.06
			128,579	13,120.57
MANCHESTER, RICHARD D.	AIR TRAFFIC CONTROL SPEC	GH	68,424	2,090.48
			70,477	2,467.20
MCKEE, STEVEN W.	HUMAN RESOURCES SPECIALIST	I	93,300	9,156.00
MICHAEL, GLENN W.	CAST OUTREACH PROGRAM MGR	K	132,200	4,353.72
			136,200	2,580.32

Employee Name	Title	Grade	Salary	Retention Bonus
MOORE, DIANNA H.	MANAGEMENT AND PROGRAM ANA	I	63,698	4,052.16
			66,437	3,645.12
NELSON, MATTHEW F.	AIR TRAFFIC CONTROL SPEC (T)	JH	114,418	2,621.64
			119,030	11,771.53
NICHOLAS, ROBERT M.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	464.75
OSEKOWSKI, CRAIG P.	SUPV AIR TRAFFIC CONTROL SPEC	KJ	153,072	501.06
OTERO, CARLOS V.	SUPV AIR TRAFFIC CONTROL SPEC	GJ	95,385	2,914.24
			98,342	3,442.56
PARDEE, JAY J.	DIR, OFF OF ACCIDENT INVEST & PREV	02	162,695	7,232.40
RABINOWITZ, BRIAN R.	AIR TRAFFIC CONTROL SPEC	GH	49,145	1,257.39
			52,469	915.53
		LH	68,496	338.00
RAWLINGS, KEVIN S.	AIR TRAFFIC CONTROL SPEC (T)	HH	94,798	2,172.24
			98,618	2,589.12
REINERT, KURT A.	AIR TRAFFIC CONTROL SPEC (T)	FH	84,643	1,939.56
			88,054	2,312.16
RHEA, RODNEY R.	AIR TRAFFIC CONTROL SPEC	GH	83,814	1,920.66
			87,191	2,289.12
RITMILLER, JOHN M.	AIR TRAFFIC CONTROL SPEC (C)	LH	129,524	3,208.80
			134,744	3,849.60
RIXEY, WILLIAM S.	AIR TRAFFIC CONTROL SPECIALIST	GH	48,100	1,469.44
			52,469	1,836.80
RUBIN, BARRY E.	AIR TRAFFIC CONTROL SPEC (C)	JH	104,612	2,396.94
			108,828	11,134.56
SACKETT, GREGORY A.	SUPV AIR TRAFFIC CONTROL S	KJ	154,712	3,545.22
			161,365	4,132.80
SANOCKI, MICHAEL H.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	465.24
SCAVILLA, JASON R.	AIR TRAFFIC CONTROL SPEC (	GH	49,373	1,508.64
			52,469	1,836.80
SCHMITT, RICHARD A.	SATCS, OPERATIONS SUPERVISOR	GJ	85,247	1,678.68
SECIA, PAULA E.	AVIATION ASSISTANT	E	35,687	1,090.32
			36,793	1,288.32
SLOSEK, CARRIE A.	AIR TRAFFIC CONTROL SPEC	GH	67,342	2,057.44
			69,362	2,428.16
SNYDER, THOMAS G.	AIR TRAFFIC CONTROL SPEC	GH	83,814	1,920.66
			87,191	2,289.12
STANKOWICZ, JOSEPH M.	AIR TRAFFIC CONTROL SPEC (C)	LH	133,625	464.75
STYER, MICHAEL J.	AIR TRAFFIC CONTROL SPEC	LH	129,524	12,934.56
SUTPHEN, SCOTT S.	AIR TRAFFIC CONTROL SPEC (T)	HH	89,675	2,054.64
			93,289	10,156.92
SWITCH, JAY M.	AIR TRAFFIC CONTROL SPEC	KH	120,165	2,753.52
			125,008	3,282.24
TOOREN, JUERGEN G.	SUPV FOREIGN AFFAIRS SPECIALIST	L	150,327	3,989.44
TOPHAM, PATRICK M.	SUPV AIR TRAFFIC CONTROL SPEC	GL	98,746	3,016.72
			101,807	3,118.64
VERONICO, JAMES N.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	464.62
WACHTER, MARK V.	AIR TRAFFIC CONTROL SPEC	GG	48,100	1,469.44
			49,543	1,734.40
WALSH, STEPHEN G.	AIR TRAFFIC CONTROL SPEC	GH	88,474	2,027.34
			92,039	2,416.80
WAZOWICZ, PAUL J.	AIR TRAFFIC CONTROL SPEC (T)	LH	130,011	20.24
WEBER, GLENN M.	AIR TRAFFIC CONTROL SPEC (T)	GH	83,814	1,920.66
			87,191	2,289.12
WICKS, EDWIN D.	HUMAN RESOURCES SPECIALIST	I	93,300	7,518.40
WIETHORN, MICHAEL R.	AIR TRAFFIC CONTROL SPEC	KH	113,300	385.26
			117,866	3,213.60
WILKS, RANDY O.	AIR TRAFFIC CONTROL SPEC	KH	123,598	2,832.06
			128,579	3,375.84
WILLIAMS, CLIFFORD J.	AIRWAY TRANSPORTATION SYS SPEC	H	65,692	2,007.04
			67,334	2,357.12
WILLIAMS, HAROLD F., III	AIRWAY TRANSPORTATION SYS SPEC	H	85,646	2,616.88
			87,787	3,073.28
Fiscal Year 2010 Total				519,137.07

Question. Other than FAA, do any other offices within DOT provide retention bonuses? If so, under what circumstances and restrictions?

Answer. Yes. The following agencies have provided retention bonuses: FHWA, NHTSA, FRA, PHMSA, SLSDC, OST, RITA, OIG, and STB.

The Department of Transportation follows the guidelines in DPM 575–1, Payment of Recruitment and Relocation Bonuses and Retention Allowances. Retention incentives are used to retain current employees with unique competencies that are critical to the Department's mission. In most cases, retention incentives are used to keep individuals who are eligible for and who have indicated they will be retiring. However, they may also be used to retain staff with unique and very marketable competencies who could otherwise earn a higher salary in the private sector.

Question. The budget includes $24 million and 100 positions to establish a new Rail Transit Safety Oversight Program. This proposal follows on the heels of rail transit accidents in Boston, Los Angeles, San Francisco, and Washington, DC and supports the legislation the administration transmitted to Congress in December.

In the meantime, however, what can FTA do within its current authority to ensure transit systems are safe, without new legislation, be it through training, technical assistance or other efforts?

Answer. Even without authorization legislation in place, FTA could still take important steps to stand up its safety program if Congress provides the necessary funds, including:

—Hiring new program staff (as opposed to field safety inspectors) with special expertise in areas of safety, engineering, and behavioral experts.

—Undertaking research and demonstration projects in the area of transit safety.

Moreover, FTA currently is taking steps to strengthen State Safety Oversight Agencies (SSOAs). FTA provides stakeholder outreach (informational exchanges, best practices, lessons learned, program guidance) through a variety of efforts, including:

—Two State Safety Oversight workshops per year including one for SSOAs and one for both SSOAs and Rail Transit Agencies.

—Two Safety & Security Roundtables per year co-sponsored by TSA and attended by safety and security officials from the largest 50 transit agencies.

—FTA's Safety and Security Web site, which contains resource documents, program guidance, training course listings.

—"Dear Colleague" letters issued to industry stakeholders about best practices.

Question. Please explain the need for Federal regulation and oversight of rail transit safety. What information does FTA have on the current performance of the State Safety Oversight Agencies in overseeing safety on rail transit systems, including their safety standards, level of oversight, and ability to enforce compliance? What kind of enforcement actions would FTA be able to take?

Answer. Concerning the need for Federal regulation and oversight, FTA does not have regulatory authority or the resources to oversee safety performance of transit agencies. This responsibility currently resides at the State and local levels. Without field verification audits, FTA cannot confirm that (1) rail transit agencies have adopted the appropriate safety standards for track, vehicles, signals and train control, operating practices, and electrification systems and (2) that the adopted standards are being implemented. Nor do we have the authority to require States and rail transit agencies to address critical safety issues, such as fatigue (hours of service), medical qualification (to include sleep apnea and other sleep disorders), incorporation of automatic systems and technology into track inspection, and information management systems to enhance communication between and across operating and maintenance departments regarding the reporting and analysis of safety hazards and concerns.

In December 2009, FTA transmitted to Congress authorization legislation that would expand FTA's responsibilities to help ensure the safety of the Nation's transit systems. The legislation would allow FTA to create an oversight program focused on transit safety, with the ability to develop safety regulatory standards and with increased enforcement authority. We urge Congress to take up this important legislation as soon as possible.

Regarding State safety oversight (SSO) agencies, FTA obtains information on the requirements, activities, and performance of the SSO agencies and the rail transit agencies from several sources including:

—*The SSO Initial Submission*.—Made prior to entering the program. FTA uses a checklist to review the initial submission and corresponds with the SSO agency until all open issues are resolved. At the current time, all 27 SSO agencies have Program Standards that have passed the basic initial submission review and approval process.

—*The SSO Annual Submission*.—Made to FTA by March 15 of each year. This report includes information on the personnel devoted to implementing the SSO program, the training received that year by personnel, the use of contractors to support the State's SSO program, as well as the accidents that were investigated at the rail transit agency.
—*SSO 3-Year Reviews*.—Each State also submits any 3-year reviews completed at the rail transit agencies in its jurisdiction. FTA uses this information to develop its Rail Transit Safety Statistics Report and to track the level of effort expended by each State to meet 49 CFR part 659 requirements. Three-year review reports also provide valuable snapshots of the rail transit agencies and their activities to implement their System Safety Program Plans.
—*Periodic Submission*.—FTA has the authority to collect information from the State safety oversight agencies periodically to address special requests. Working with the States, FTA collects information on specific rail transit agency issues in response to publicly submitted complaints. For example, FTA has used this authority to investigate complaints involving rail transit agencies in Atlanta, Detroit and Memphis. In addition, FTA works with the States to get information from rail transit agencies in special studies, such as on fatigue management, track inspection, on-site reviews and audits, or managing safety in extensions and major capital projects.
—*Audit Program*.—FTA audits each State no less than once every 3 years. As part of the audit process, FTA requests an extensive list of materials that the State collects from the rail transit agency, including the rail transit agency System Safety Program Plan, hazard tracking log, all accident investigations completed in the last year prior to the audit, all internal audit reports, and any special studies or investigations performed by the rail transit agency or the State. Each audit report provides an in-depth look at how each State is implementing 49 CFR part 659. As appropriate, in certain cases, FTA can also make determinations regarding how well the rail transit agency is performing specific safety functions, such as internal auditing, hazard identification and analysis, accident investigation and corrective action management. FTA does not, however, conduct independent inspections to verify that track, vehicles, and equipment are being operated and maintained within specified standards. Nor does FTA review or approve any standards adopted by the rail transit agency.
—*National Transit Database*.—FTA compares the accidents and safety information being reported by the rail transit agencies to the Safety and Security Reporting Module of the national Transit Database with the information being reported to the States to ensure that States are notified of the accidents they should be notified of and that information is reported accurately to the NTD.

Collectively, information received from these sources provides FTA with a reasonable picture regarding the level of staffing, expertise, training and activity being performed to carry out safety functions in the States and the rail transit agencies. Further, we have a strong analytic handle on the types and frequency of accidents occurring in the rail transit industry, their causes and the typical actions being taken to prevent recurrence. It is the information culled from these sources that has contributed to the administration's conclusion that the status quo is inadequate and is in dire need of reform.

Question. FTA has requested $30 million in fiscal year 2011 for this new program. What does FTA project this program will cost in subsequent years and how does it plan to use these funds?

Answer. As you know, the fiscal year 2011 budget includes $30 million and 130 FTE to support policies and activities included in the administration's transit safety legislation, the "Public Transportation Safety Program Act of 2009" transmitted to Congress on December 7, 2009. We believe these resources will enable FTA to institute an effective regulatory system for the rail transit industry. Looking ahead, we will assess any potential additional resource requirements as part of the fiscal year 2012 budget.

Question. What is FTA doing to help the Washington Metropolitan Area Transit Authority get back on track in terms of safety? Do you believe the Tri-State Oversight Committee as currently organized, can provide appropriate oversight of WMATA?

Answer. FTA's greatest contribution has been the audit we recently conducted in December 2009 of both Tri-State Oversight Committee (TOC) and WMATA. This audit enabled us to identify priority actions to support both agencies in strengthening their safety programs. TOC and WMATA recently submitted their initial plans for addressing the audit findings and we believe positive steps are being taken as a result of our action. Moving forward, FTA has planned quarterly meetings on-site with WMATA and TOC to review their progress in addressing and closing our audit findings.

In terms of technical assistance, through the Transportation Safety Institute (TSI) FTA has provided safety training, including training on internal auditing and hazard management on site at WMATA in late 2009. We are currently working with WMATA to schedule additional training deliveries for their employees in the next few months including the following courses.

—Instructors Course for Rail Trainers
—Current Trends in Transit Rail System Safety
—Transit System Security
—Effectively Managing Transit Emergencies
—Transit Rail Incident Investigation
—Transit Rail System Safety.

In June, FTA is bringing a new Track Inspection Refresher Training Workshop to WMATA with three offerings. This 2-day workshop is designed to reinforce critical skills and safety practices of employees in WMATA's track inspection program.

FTA has also participated with WMATA, TOC and the Federal Railroad Administration (FRA) in supporting WMATA's Roadway Worker Protection Working Group to overhaul and improve WMATA's existing rules and procedures for protecting workers on the right of way.

In terms of funding, the Passenger Rail Improvement Act of 2008 authorized a special appropriation for WMATA of $150 million per year. Congress appropriated as much in fiscal year 2010 and FTA requested funding for fiscal year 2011. Under this program, the Secretary will use his authority to approve grants to ensure that available funds first address WMATA's most critical safety needs. Maintenance and repair needs are also addressed through formula grants funded from both the Urbanized Area and the Fixed Guideway Modernization programs. These grants are in addition to the $150 million appropriation.

Regarding the Tri-State Oversight Committee's oversight, we recognize that the current three jurisdiction committee organization presents challenges to the TOC in effectively carrying out its important safety oversight mission. It has suffered from inadequate resources, lack of authority and lack of permanent technical staff.

The Obama administration's Public Transportation Safety Act of 2009 that was submitted to Congress this past December will address these and other shortcomings of the current SSO framework on a National basis.

As far as TOC's current status, we appreciate that the Commonwealth of Virginia, the State of Maryland, and the District of Columbia have come together to address some of the challenges TOC confronts with its current legal and organizational structure. In response to an FTA finding from the December audit, TOC jurisdictions have created a TOC Executive Committee. This committee recently had its first meeting, and took action with both the WMATA Interim General Manager and the WMATA Board to request monthly safety reporting and to ensure that WMATA follows its hazard reporting and accident notification thresholds. These are good first steps.

In addition, Virginia Governor Bob McDonnell, Maryland Governor Martin O'Malley and Washington, DC Mayor Adrian Fenty recently released a white paper documenting their proposal for enhancing TOC's existing authority and resources. Phase 2 of this plan calls on the jurisdictions to create a distinct legal entity—the Metro Safety Commission—that would have additional authorities beyond the existing program.

The best long term solution to the problems faced by TOC and the 26 other SSO agencies around the Nation are for Congress to take prompt action on the Obama administration's safety reform proposal.

Question. In January, the Department announced it will now consider other important factors in addition to reduced commuting time when evaluating new transit projects. Cutting commuting times is clearly important, but this change signals a more holistic approach that considers the impact on congestion, the environment, and local economies. All contribute to making the places we live and work more vibrant and sustainable.

When will the draft rule to be made public?

Answer. FTA published an Advance Notice of Proposed Rulemaking (ANPRM) in the Federal Register on Thursday, June 3, 2010, asking for public comment on how to change the way major transit project proposals seeking Federal funding are rated and evaluated.

Question. How will this change affect the importance of cost effectiveness when the Department considers future transit projects?

Answer. Cost-effectiveness will continue to be evaluated as one of the six statutory project justification criteria, but will not be the only consideration in making funding recommendations. Through a rulemaking, FTA will develop measures for better capturing the environmental, community and economic development benefits provided by transit projects, including a revised cost effectiveness measure that will recognize these benefits. This Advance Notice of Proposed Rulemaking (ANPRN) will invite feedback on what benefits should be included in the evaluation process and issues related to baseline alternatives, travel demand modeling, and New Starts and Small Starts streamlining. The New Starts and Small Starts projects funded in the fiscal year 2011 budget were selected using the current project rating criteria. The earliest any revised rating criteria could be utilized would be for the fiscal year 2013 budget.

Question. What is the Department's opinion on allowing transit agencies discretion to use transit assistance funding for operating costs during these difficult economic times?

Answer. Secretary LaHood has stated that DOT will work with Members of the House and Senate this year to see if we can allow transit agencies more flexibility to use a portion of their Federal funds to cover operating costs during these tough economic times. However, he has also stated that this cannot be open-ended, and that such assistance would be temporary, not the normal course of business.

Question. What is the estimated capital needs backlog of transit systems?

Answer. There is no one single estimate or a simple method to determine the capital backlog needs of the Nation's transit systems. That said, we know that transit agencies in general are facing significant funding shortfalls. For example, an April 2009 FTA report to Congress identified a $50 billion repair and replacement backlog at the seven largest rail transit agencies in the country. Moreover, when you expand the universe from the 7 largest rail operators to 690 separate rail and bus systems, the estimated funding shortfall to bring the entire transit system in a state of good repair grows from $50 billion to $78 billion.

FTA is proposing to merge its Bus and Bus Facilities and Fixed Guideway Modernization programs into a new $2.9 billion Bus and Rail State of Good Repair program to better address the tens of billions of dollars in rail and bus transit assets that are in marginal or poor condition. The funding request represents an 8 percent increase above the equivalent 2010 appropriation, which is significantly more than is proposed for most other FTA programs—all in a budget that increases funding for the FTA by just 1 percent.

Question. Transit rail passenger cars purchased across the United States are relatively unique. A few cars can be used on different systems, for example, Virginia Railway Express (VRE) can use Chicago Metra commuter cars, but many others are designed specifically for their systems' infrastructure and preferences. This uniqueness may increase the costs to procure transit rail cars as it results in smaller orders, sometimes limiting the economies of scale that could be obtained from larger orders.

Has FTA considered supporting efforts to increase standardization in rail cars or new systems, to help keep the cost of transit rail cars down? Why or why not? Might this also have safety benefits?

Answer. FTA is supporting the efforts of the American Public Transportation Association (APTA) in developing consensus standards for the North American rolling stock industry. APTA, as a Standards Development Organization (SDO), has developed standards for commuter rail cars, light rail vehicles, buses, and other rolling stock funded in part by FTA. While FTA encourages the use of these standards by our grantees we do not have regulatory authority to require their use.

FTA's financial assistance has also enabled APTA to support development of rail car crashworthiness standards by another SDO—the American Society of Mechanical Engineers.

Conceivably standardization in rail cars and new systems, such as improved crashworthiness standards and crash avoidance systems, will have safety benefits, but there may be additional costs associated with achieving standardization, at least initially.

FTA is statutorily prohibited from directly establishing transit vehicle standards. As a result, FTA has been unable to implement recommendations from the National Transportation Safety Board related to transit vehicle crashworthiness, event recorders and other vehicle safety features. As a result of this limited authority to improve safety, Secretary LaHood delivered the Obama administration's legislative proposal entitled the Public Transportation Safety Act of 2009 to the Congress this past December. We take this opportunity to urge Congress to take prompt action on this proposal.

Question. Has FTA taken steps to support transit agencies' efforts through joint procurement, etc? If so, what are some examples of these steps?

Answer. Yes, in addition to supporting the APTA standards development efforts, FTA has conducted research into joint vehicle procurements and procurement incentive systems for our section 5307 and 5311 Formula Grants. Specification standardization and joint vehicle procurements have been promoted by FTA on a limited basis with mixed results.

FTA recently completed a study for Congress that included an FTA concept for a shared procurement for FTA funded rolling stock. See FTA's Report to Congress on the Results of the Cooperative Procurement Pilot Program at: http://www.fta.dot.gov/publications/publications_11548.html.

Based on the results of the five completed final projects, FTA found the following:

—The additional Federal share allowed in the pilot program did not sufficiently induce greater use of pooled procurement;

—Savings from cooperative procurement are more likely to be realized by agencies purchasing a small number of vehicles. Agencies already purchasing a significant number of vehicles are less likely to achieve savings through additional economies of scale; and

—Difficulties in forming consortiums, the administrative burden placed on lead agencies and the reluctance of the other participating agencies to relinquish control over the process to the lead agencies pose considerable obstacles to the use of cooperative procurements.

In an August 2008 study, FTA addressed joint vehicle procurements in its Report to Congress on Incentives in Federal Transit Formula Grant Programs, http://www.fta.dot.gov/publications/publications_8674.html.

Some of the findings from this report were the following:

—Barriers and difficulties that contributed to the limited implementation of these procurement systems include:

—*Transit Culture*.—"Agencies Believe They Are Unique . . . The agencies are justifiably proud of their corporate cultures and heritage, and their pride may have many positive effects. However, if the industry is to realize the full benefits of standards, the systems must weigh their traditions against the benefits of standards and make the collective effort that is necessary to settle on safety standards and adhere to economical design standards."

—Joint procurements involve significant administrative efforts because the agencies must reconcile their requirements and practices to each other's.

—Conflicting legal issues, differing operating requirements, and differing professional opinions must be resolved.

Question. What other options or authorities might FTA consider seeking to reduce transit railcar costs?

Answer. As mentioned previously, FTA has focused on developing standards and specifications to reduce the capital and operating costs of new rail vehicles. In recent years, FTA has funded APTA's efforts to develop technical requirements for the design and procurement of new LRV type vehicles. APTA is responsible for coordinating and managing this effort.

Question. On September 10, 2009, FTA issued an Advance Notice of Proposed Rulemaking on capital project management. FTA is considering whether to require some type of financial plan for all fixed guideway capital projects. Further, it is considering the extent to which it should use Project Management Oversight Contractors (PMOCs) to oversee projects other than Major Capital Projects (those costing $100 million, among other requirements). Finally, transit properties over time have indicated that Federal oversight can increase the time, and thus the cost, it takes to build a new rail transit line or extension.

How will these potential changes impact the PMOC and FMOC budgets as well as the funds necessary to oversee PMOCs and FMOCs?

Answer. Several items included in FTA's ANPRM on capital projects management were aimed at soliciting comments and suggestions from the industry on how to improve overall project management of major capital projects based on experiences to date. FTA is currently reviewing input provided by stakeholders as it prepares the Notice of Proposed Rulemaking, and has not determined what additional oversight, if any, is necessary. Looking ahead, FTA will consider resource requirements for its oversight program as it develops its fiscal year 2012 budget.

FTA oversight of public transportation systems is necessary to safeguard the taxpayer's investment. FTA has designed its oversight process to minimize the intrusion on grantees while protecting tax payers' dollars. One tool that has provided tangible benefits is FTA's risk-informed project management system, which assists grantees in identifying costly risks at a stage of development which subsequently allows grantees to mitigate those risks and avoid enormous costs. The latest innovation by FTA is the incorporation of the New Starts Engineering Workshop into our outreach program. This workshop is designed to provide a roadmap for prospective and existing capital project sponsors on how to prepare for FTA's project management oversight review process. FTA believes that outreach of this kind will assist the grantees in being better prepared to make quality submittals and shorten the time it takes for oversight reviews.

Question. FTA is proposing that funding guidelines for major transit projects be based on livability issues such as economic development opportunities and environmental benefits, in addition to cost and time saved, which are currently the primary criteria. This would change how projects are selected to receive Federal financial assistance in the FTA New Starts and Small Starts programs. In making funding decisions, the FTA will now evaluate the environmental, community and economic development benefits provided by transit projects, as well as the congestion relief benefits from such projects.

Will the proposed changes in economic development criteria increase the number of projects that may be eligible for New Starts or increase the back log?

Answer. Because the New Starts program is a complex program and the new criteria under development have not been finalized, it is not possible to predict how potential changes to the evaluation criteria would impact the number of projects eligible for funding in the future. That said, the aim of making these changes is to more fully recognize the various types of benefits that are generated by investments in transit services and to ensure that all prospective projects receive due consideration.

Question. How will FTA determine the value of the economic development opportunities and community and environmental benefits when making funding decisions?

Answer. As announced by Secretary LaHood on January 13, FTA plans to use the rulemaking process to better capture in its evaluation and rating process the wide range of benefits New Starts projects can provide. On Thursday, June 3, FTA published an Advance Notice of Proposed Rulemaking (ANPRM) in the Federal Register asking for public comment on how to change the way major transit project proposals seeking Federal funding are rated and evaluated.

Question. In October 2008, FTA issued a report "Transit State of Good Repair: Beginning the Dialogue" highlighting the importance of maintaining the condition of our transit and the fact that much of existing bus and rail assets are in poor or marginal condition. The fiscal year 2011 budget request includes $2.3 million for bus and rail state of good repair program activities (along with decreases in fixed guideway modernization and bus and bus facility grants).

How does FTA plan to implement this "program" and distribute the funds, and how would it differ from the way funds in the existing programs are distributed?

Answer. Under the proposed State of Good Repair program, funds would be distributed by formula. Though the specifics of such a formula have yet to be developed, the goal would be allocate funds to both rail and bus transit systems by formula. FTA looks forward to working with Congress on developing the program as Congress begins work on 2011 appropriations legislation.

Question. How will this program help rail transit agencies replace aging transit car fleets?

Answer. One of FTA's highest priorities is to maintain our Nation's transit assets in a state of good repair (SGR) so they can provide safer and more efficient service. This new focus will involve emphasizing the SGR activities in our existing programs, initiating new activities to address unique local needs, and providing analysis products that will help decisionmakers better understand their options for managing the condition of their aging infrastructure. Accordingly, for fiscal year 2011 FTA has proposed to merge its Bus and Bus Facilities and Fixed Guideway Modernization programs into a new $2.9 billion Bus and Rail State of Good Repair program. The funding request represents an 8 percent increase above the equivalent fiscal year 2010 appropriation, which is significantly more than is proposed for most other FTA programs. The fiscal year 2011 budget also requests $4.61 billion for the Urbanized Area Formula Grant Program for allocation of funds to urbanized areas (UZAs) around the Nation for maintenance and capital investment in bus and rail systems.

We also very much appreciate that in fiscal year 2010 Congress supported FTA using $5 million in research funding to help improve transit asset management practices. This critical funding will fund enhanced data collection, asset management, technical assistance, and a pilot SGR project. Because FTA is currently exploring how transit agencies should implement SGR practices, it has not determined whether having an asset management plan should be a necessary criterion for receiving Federal funds.

Question. What is known about the effects of aging infrastructure on rail transit safety?

Answer. Rail transit is statistically among the safest modes of transportation. A rail transit passenger is over 100 times less likely to be killed in an accident than is an automobile passenger. That said, FTA is aware that there is a backlog of rail transit infrastructure maintenance and renewal. FTA's previous study of the seven largest rail transit systems estimated a $50 billion shortfall, but did not correlate the investment shortfall to safe operations. There is an obvious intrinsic correlation and transit agencies must carefully manage their operations and maintenance to keep the system safe in spite of aging infrastructure. If done properly, this will affect frequently service before it affects safety. For example, track infrastructure may have more defects as it ages, but operations can continue safely at lower speeds. Given the extent that rail transit operators are relying on older equipment and capital stock, the need to enact transit safety legislation is all the more urgent.

SUBCOMMITTEE RECESS

Senator BOND. Well, with no further questions, the hearing stands—is in recess.

And March 11 at 9:30, we'll take testimony from Secretary Donovan on the budget request for 2011 Housing and Urban Development.

[Whereupon, at 11:16 a.m., Thursday, March 4, the subcommittee was recessed, to reconvene at 9:30 a.m. Thursday, March 11.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2011

THURSDAY, MARCH 11, 2010

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

The subcommittee met at 9:32 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray, Leahy, and Bond.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. SHAUN DONOVAN, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

Senator MURRAY. This subcommittee will come to order.

This morning, this subcommittee will conduct an oversight hearing on the Department of Housing and Urban Development's budget for fiscal year 2011. We are pleased that Secretary Donovan is with us today to discuss his Department and his budget.

Today, the country faces daunting challenges. Unemployment remains high. Credit is tight. Housing stability is fragile, and the number of homeless Americans is growing. HUD programs respond to challenges across the spectrum of this crisis from stabilizing the housing market to providing assistance to the Nation's most vulnerable.

This subcommittee's job is to provide the oversight and resources to make sure that HUD can effectively fulfill its responsibilities. At the same time, we must also continue to make investments that will strengthen our economy, create jobs, and support our communities, both large and small.

Just over a year ago, we passed the American Recovery and Reinvestment Act, making key investments in public housing, community development, and affordable housing to help those in need and weather the crisis. I commend HUD for getting this funding out the door quickly. And today, we can see it making a difference in our communities, improving housing, creating new housing, and putting people to work.

I have seen these dollars at work in my own State. For example, in Vancouver, Washington, a Housing Authority is using $2.5 million in public housing capital funds to support construction and rehabilitation of housing. The jobs created from these projects are critical to Clark County, where unemployment has now topped 14 percent.

In Yakima, Washington, where for years we have struggled to provide affordable and adequate housing to local workers, recovery funds have gone to renovation efforts that have improved the lives of families, many with children, who live well below the poverty line. But as this funding goes to work and as our economy moves toward recovery, we must remain focused on stabilizing the housing market.

As we all know, for most Americans, the family home is their largest investment, an asset that provides them with a roof over their heads and financial security. This security gives Americans the confidence to spend and invest and plan for the future.

FEDERAL HOUSING ADMINISTRATION

Stabilizing and improving the housing market is critical to the Nation's economic recovery, and the Federal Housing Administration has played a vital role in this effort. When the private sector became skittish about mortgage lending and credit froze, FHA stepped in to make sure that Americans could still get a mortgage, and this has helped to stabilize the market.

That is exactly what FHA was created to do. But taking on this increased role comes with risks of its own. FHA has gone from insuring only 2 percent of the market in 2006 to nearly 30 percent today. This dramatic increase in business requires sufficient staff and the technical capacity to protect FHA from risk and fraud.

Even as FHA's new business grows, it must also continue to manage loans that were made during the height of the housing boom. Unfortunately, FHA is not immune from the wave of foreclosures devastating the housing market. These losses have taken their toll on FHA's finances.

This fall, FHA's capital reserve fund fell below the mandatory 2 percent required by Congress. While this does not mean that FHA requires Federal relief, it is a cause for concern.

For each of these last 3 years, Senator Bond and I have held hearings on FHA to focus attention on the solvency of its Mutual Mortgage Insurance Fund. The recent losses to the capital reserve fund have now brought this issue into focus for others for the first time. FHA must continue to seek ways to strengthen the position of its capital reserve fund to ensure taxpayers will not be left on the hook to pay for risky or fraudulent mortgages.

Mr. Secretary, I commend you and FHA Commissioner Stevens for moving swiftly to assess FHA's risks and to implement reforms to reduce its exposure and recapitalize the reserve fund. These changes both protect the American taxpayer and ensure FHA can continue to provide needed liquidity in the market.

Some of the reforms proposed require a legislative change. One of these would allow HUD to increase annual premiums on FHA mortgage insurance and is included as part of the budget. I will have questions today on this change, and specifically, how it would protect FHA from future losses.

Now, despite some positive signs in the housing market, the crisis we face is not over. And for the more than 2.8 million Americans facing foreclosure, positive national trends offer little comfort. So while I am encouraged today by reports that foreclosure filings appear be slowing, and Washington State fell 13 percent from this time last year, there are still many people at risk of foreclosure.

Areas in Washington State continue to experience severe declines in home values, and nearly a quarter of a million Washington State homeowners are underwater today. So for families living in Clark and Pierce County, Washington, we want to know how the Federal Government can help them hold onto their homes and regain economic security.

Providing help isn't easy, and we don't want to reward borrowers that took on mortgages that they could not afford. But while so many of the early foreclosures resulted from subprime and other exotic mortgages, many of the homeowners today who are in trouble are those that are impacted by the recession. These are unemployed homeowners and those who owe more on their mortgage than the home is worth because of those plummeting home values.

MORTGAGE MODIFICATION

Several efforts have been launched to help struggling homeowners, including the Home Affordable Modification Program, but servicers have been slow to provide permanent modifications. To date, only 116,000 homeowners have received permanent modifications, which is far short of the administration's goal of 3 million to 4 million.

The President recently announced a new program to help five States that have been particularly hit hard by this crisis. While this initiative does attempt to address the problems of unemployed and underwater borrowers, its geographic restrictions will limit its impact on the overall market, including other parts of the country, like Washington State's Clark and Pierce Counties.

Your testimony today mentions other ways that we might assist struggling homeowners. So, today, I want to discuss how we can improve current programs and what other steps may be taken to protect families from foreclosure.

HUD has a broad and important mission. The President's budget requests more than $48 billion in fiscal year 2011 in recognition of the role the Department plays in supporting housing, especially for some of the most vulnerable in our society.

SECTION 8 AND NEW INITIATIVES

This funding would maintain critical rental assistance to help millions of low-income Americans who rely on section 8 vouchers or live in project-based or public housing. The President's budget also provides funding to continue or expand initiatives started in 2010, such as Sustainable Communities and Choice Neighborhoods. The budget also proposes new initiatives, including Catalytic Investment Competition Grants and vouchers for homeless individuals and families.

The largest new proposal is the $350 million Transforming Rental Assistance initiative. This ambitious proposal seeks to address the capital needs of public and HUD-assisted housing. By fundamentally changing the way this housing is funded, the administration hopes to leverage significant private sector resources to preserve this irreplaceable stock of affordable housing.

However, the budget offers few details on the changes HUD would make or in the long-term costs. While the concept may have merit, this subcommittee does not take its responsibilities lightly. We require more information if we are to give the proposal serious consideration. So I want to have a discussion about the long-term plan for this and the cost of this initiative.

PROPOSED CUTS

Now, Mr. Secretary, among the promising reforms included in the budget, there are several drastic cuts to important programs you and I have talked about, including the housing for the elderly and disabled. HUD justifies these cuts by citing program deficiencies. If these programs aren't working effectively, let us fix them. But the President's budget doesn't propose any changes. Instead, it brings the programs to a halt with a promise to just fix them later.

I am also concerned by other cuts proposed in this budget to programs like the Native American Housing Block Grants and the highly successful HOME program. While the President's budget made some difficult choices in order to freeze discretionary spending, this subcommittee may well be forced to consider even further reductions.

The President's budget assumed receipts from FHA totaling $5.8 billion. These receipts would offset some of the spending included in the HUD's budget for next year. Last Friday, Congress received the Congressional Budget Office's re-estimate of the President's budget.

As a result of continued uncertainty about the housing market, CBO concluded the budget would only generate $1.8 billion in offsetting FHA receipts. That means there could be potentially a shortfall of $4 billion just to pay for the program increases proposed in the President's budget. That is a staggering amount, given the housing needs of this country.

This subcommittee is going to face a very difficult task to provide resources to this Department so that it can continue the programs that serve so many Americans across the country, from homeless veterans, to first-time homeowners, to families that need help accessing affordable housing. Secretary Donovan, you have worked very hard to improve HUD's programs, and I hope you can offer us suggestions on how to tackle the complex housing and community development needs that are facing this Nation with limited resources.

So thank you so much for being at this hearing today. I look forward to your testimony in just a few minutes.

But before we have that, I want to turn it over to my partner and ranking member, Senator Bond.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Madam Chair, and thank you for holding the important hearing.

We are always pleased to welcome our distinguished Secretary of Housing and Urban Development, Secretary Donovan, who is passionate about housing and community development. He has been working hard to remake the Department, a task that is Herculean, to say the least. We wish him well on his efforts, but we do have some questions, as the chair has outlined.

Now it is no surprise to anyone here that there are significant deficit issues facing the entire Federal Government. Making an already bad situation worse, the Congressional Budget Office re-estimated the President's budget would add $8.5 trillion to the national debt by 2020, with a deficit of $1.5 billion in this fiscal year and another $1.3 billion in 2011. CBO projects the national debt will balloon to some 90 percent of the economy by 2020, while interest payments on the debt will soar by $800 billion over the same period.

But that is only if the interest rates stay the same. And no one I know who is versed in finance or economics generally will propose that interest rates will not rise significantly when lenders see the deficit spending and the tremendous debt we have built up. In other words, we are facing a drowning in debt with interest rates skyrocketing and adding to an increasingly high debt spiral.

I do not believe, as some in the administration do, that making the Federal Government larger is the solution to fixing our economic woes. Nevertheless, we are in an unprecedented budget crisis, which is domestic and global in nature, something we have never faced in my career in Government service.

And as you know, many of the decisions we make on the budget and appropriations will be critical to the future economic health of the Nation. That includes finding the right balance of spending in HUD with regard to both HUD's current programs, as well as the dramatic new proposals contained in the HUD 2011 budget request.

I believe a number of your HUD policy and reform initiatives are bold and thoughtful, but I am very concerned about the cost of these initiatives in both the 2011 budget, as well as the potential huge cost in out-years. For the HUD budget, this is of particular concern since we recently received word, as the chair has noted, that there will be a loss of some $4 billion in FHA receipts. That $4 billion hit will make funding many of the HUD initiatives even more difficult in 2011 and possibly limit funding for this subcommittee's other priorities, like transportation and infrastructure projects.

As you well know, Mr. Secretary, I have long warned about FHA and the potential consequences to the budget of the Department, the appropriations available for this subcommittee, and the impact on our national economy. We need to be asking tough questions like where is money for new programs going to come from.

If the President is serious about promising fiscal restraint, he has to quit treating taxpayer dollars like Monopoly money. Our children and grandchildren are going to have to pay in the future for every extra dollar we borrow and spend, and that is not something I want to be able to tell them.

PROPOSED CUTS

While HUD is proposing to create new or expand existing programs at great cost to the taxpayer, the Department is also proposing to eliminate or cut funding for a number of important and proven programs that serve our most vulnerable populations like seniors and the disabled, as had been mentioned by the Chair, and homeless veterans, something which she and I have led the battle to fund. And to say that we are not pleased by the budget recommendations I would say, at least for my part, is a huge understatement.

Cuts to these programs like section 202 elderly housing, the 811 housing program for persons with disabilities, and the capacity-building funding for LISC and Enterprise will make it more difficult for low-income seniors or disabled Americans to find safe and affordable housing.

Of all the capacity-building entities I have seen, LISC and Enterprise seem to be the ones that are working. I think they should be the model, and I think they should continue to have the resources they need and not have the funds distributed over a wider area, where they do not have the same skills and abilities.

The HUD staff has claimed all of these programs will receive funding once needed reforms are made. It seems much more likely the non-profits will begin to lose their experts during a zero funding year, a brain drain that will only get worse if there is not a significant infusion of new funds in the very near future. Funding in future years will likely be marginal at best, with HUD and the administration arguing that 202 and 811 will be unneeded once the Transforming Rental Assistance, or TRA, program is fully funded, including any provisions targeted to the elderly and disabled.

RURAL HOUSING FUND

Also, I was disappointed to see the administration wants to eliminate a $25 million rural housing fund, something I fought with Senator Harkin to include for many years. This small program offers a unique opportunity for HUD's housing and community programs to partner with rural development at the USDA.

It is a mistake for the administration to ignore the housing needs in our rural communities. Everybody knows the housing programs in the city because people see them all the time. I live in the rural areas. I see them. I travel the rural areas, and I know the need is great. And this budget does not recognize it.

In addition to the dollars and cents, rural versus urban questions, I have overall concerns about the proposal we have received from HUD. Not to keep using a tired, old analogy, but the proposal I received from the Department of Transportation and the budget blueprint has left me feeling a little bit like Bill Murray in "Groundhog Day."

In other words, the budget blueprint this year asks for Congress to write a big check, fails to provide details on the programs we are supposed to fund. I have been there. I have seen that before. I have done that. And at least Bill Murray got smart in "Groundhog Day," and I don't see any of us getting smarter or better as we see Groundhog Day come back again.

TRANSFORMING RENTAL ASSISTANCE

Despite not having the proposed actual language for TRA, HUD's 2011 budget calls for some $350 million for the program, with projected annual costs of some $1.5 billion when fully implemented. There is an old story, an old saw about a pig in a poke, but I won't go into that any further.

Also before Congress is going to sign any check, we need to see the program details. Members of Congress need to see specific legislative language for proposed programs, and it has to be passed. So there are some guidelines in place. You may have good ideas. We may even like those good ideas. We may propose them, and they may not come out on the other end of the sausage factory.

So I, for one, have real concerns about potential unintended consequences of the TRA that could impact low-income families assisted under public housing or other low-income housing programs. Broad waiver language will not do the trick since there is a widespread risk of abuse and a great danger of the lack of transparency.

CHOICE NEIGHBORHOODS VS. HOPE VI

Another program where I need to see some details—and Congress and our constituents, the taxpayers, deserve answers—is on Choice Neighborhoods. Now, we have discussed Choice Neighborhoods many times, and you know that I would like to claim some credit for HOPE VI. And this $250 million program is replacing HOPE VI as the next evolution in affordable housing and revitalizing distressed communities.

And if we can make it better, that is always good. I am willing to do that. But in particular, Choice Neighborhoods proposes to transfer and merge into its account for 2011 all remaining HOPE VI funding, despite having account language that is very broad and which has no metrics for measuring success or for understanding the grantmaking and implementation process.

While Choice Neighborhoods appears to be a much more ambitious program than HOPE VI, we need more information to understand the evolution from HOPE VI to Choice Neighborhoods. I was there at the beginning when HOPE VI was a mere idea until it became a major program, ultimately going beyond housing and transforming entire communities. And I personally know how important HOPE VI has been to communities across the Nation.

Some of our great successes have been in HOPE VI. And that is why I don't want to waste the successes of HOPE VI on Choice Neighborhoods unless and until we see it is a truly viable successor to HOPE VI. I want to ensure this new program is designed and implemented in a manner that will revitalize and grow our low-income communities beyond the greatest potential of HOPE VI. You have assured me that that will happen. I believe you said that in good faith, but it is time that we got to work on the details.

FHA

In addition to specific program concerns, I remain very concerned, as the Chair has indicated, about the future of FHA mortgage insurance. Mr. Secretary, you inherited the FHA problems. To your credit, you acknowledged them. You have taken a number of important steps to address them.

Under your guidance, HUD is proposing a number of new reforms to put FHA mutual mortgage insurance on a solid footing.

The proposed reforms include an increase to annual premiums, as well as credit-related fix, which would allow these borrowers with a FICO score of 580 and above to make a 3.5 percent down payment, while borrowers with a FICO score between 500 and 580 would be required to make a minimum down payment of 10 percent. Borrowers with FICO scores below 500 would be ineligible for FHA mortgage insurance.

It is not that we are not concerned about those people. But before we put somebody in housing, try to get them into owning housing we need to make sure that they can afford to pay it. When they can't afford to pay it, when they don't have any skin in the game, they don't have the means to make the payments and then the American dream becomes the American nightmare. Their communities suffer, and we have seen the tremendous hardship and harm that a whole raft of those mortgages gone badly has caused our entire economy and the world's economy.

While the reforms are important, the FHA still faces many challenges. I remain concerned that FHA is a powder keg that could explode, leaving taxpayers on the hook for yet another bailout.

When we look at the numbers, just as recently as 2007, FHA accounted for less than 4 percent of housing and now, as the chair indicates, dominates the market with a share of between 30 and 60 percent, including refinances. This puts FHA smack in the middle of the housing crisis, and I want to be sure that FHA is dealing with it despite the obvious staffing and expertise shortfall.

I want to know how HUD is dealing with mortgage default litigation problems, especially in light of proposed new FHA reforms. How will these reforms impact homeowners with a mortgage default crisis who are seeking help from FHA? Have mortgage defaults become primarily a Fannie Mae and Freddie Mac problem, or is HUD proposing alternative relief?

While I expect to raise many FHA issues at a scheduled FHA budget hearing later this month, an understanding of the foundation of current FHA requirements now would be useful.

TRANSPARENCY FOR TAXPAYERS

The last point I make is most important, and that is transparency for taxpayers, as we have discussed briefly. I discussed at the hearing for the Department of Transportation, on its budget for the coming year last week, I am still waiting for real transparency in the current administration grantmaking process. Congress has role and a responsibility not only in authorizing and appropriating Federal funds, but also in ensuring that the funds are awarded according to objective and understandable criteria, including clear benchmarks to measure success.

This was a particular problem for me and others when HUD awarded some $2 billion in competitive neighborhoods stabilization programs under the stimulus bill. I have yet to receive, and I look forward to getting an understanding, how HUD cherry-picked the winners. We saw a lot of—we found out later about a lot of good projects which failed. And we want to know how the winners were chosen.

Where is the promised transparency in the HUD grant process? It is critical that the process be transparent, so Congress and our constituents and those seeking the dollars know how the taxpayer dollars are being allocated. In fact, I think the process should be no less transparent than the current requirements for congressional decisionmaking.

There has been a lot of criticism of Congress. We cleaned up our act. We make it transparent. At a minimum, the criteria and process by which grantmaking decisions are made in the administration should be posted on the Internet for every taxpayer, every potential applicant to see, to understand so that community leaders and local people won't be coming to us, saying, "What happened? Where is it going? Why is it going there?"

Cost shares and leveraging of funds also should be made available. Information should be on the Internet so they and we have access to information about other sources of Federal, State, or private funds that may be used to augment grant awards.

In particular, we in Congress expect to be notified of award decisions 3 days prior to HUD announcement, with backup materials and information on the methodology of the award selections, including how these awards meet our housing and community development goals. It is critical that the Nation, Congress, and the administration fully understand the process and decisionmaking of how the billions of Federal housing and community dollars are spent.

Mr. Secretary, I thank you very much, and I look forward to your testimony.

Senator MURRAY. Thank you very much, Senator Bond.

I will turn it over to the Secretary for his testimony. And just to forewarn you, both Senator Bond and I also have to go to an energy and water hearing for a short amount of time. We may be changing the gavel back and forth.

But we will both be very attentive to your statement, and we both have a number of questions. So, with that, I will turn it over to you, Mr. Secretary.

STATEMENT OF HON. SHAUN DONOVAN

Secretary DONOVAN. Madam Chairwoman, Ranking Member Bond, and members of the subcommittee, thank you for the opportunity to testify regarding the fiscal year 2011 budget for the Department of Housing and Urban Development, Investing in People and Places.

I appear before you to discuss this budget in a far different environment than that of a year ago when our economy was hemorrhaging over 700,000 jobs each month, housing prices were in freefall, and economic observers warned that a second Great Depression was a real possibility. Today, though there is still a long way to go, it is clear that our housing market has made significant progress toward stability.

What that has meant to middle-class families is clear. First, security, as a result of stabilizing home prices and lower financing costs, by the end of September, home equity had increased by over $900 billion, $12,000 on average for the Nation's 78 million homeowners.

Second, confidence, though it is still fragile, homeowner equity is key to consumer confidence and to bringing new borrowers back into the market, helping the economy grow at the fastest rate in 6 years and creating jobs.

Third, money in families' pockets, mortgage rates, which have been near historic lows over the past 10 months, have spurred a refinancing boom that has helped nearly 4 million borrowers save an average of $1,500 per year, pumping $7 billion annually into local economies and businesses, generating additional revenues for our Nation's communities, and benefiting our economy more broadly.

FHA

The Federal Housing Administration has been essential to this improved outlook, in the past year helping more than 800,000 homeowners refinance into stable, affordable fixed-rate mortgages, protecting an additional half million families from foreclosure—and that, Senator Bond, I would note, is through our loss mitigation programs that you asked about, one-half a million families in 2009—guaranteeing approximately 30 percent of home purchase loan volume and fully one-half of all loans for first-time home buyers.

With FHA's temporarily increased role, however, as you said, Madam Chairwoman comes increased responsibility and risk. That is why HUD's fiscal year 2011 budget presents a careful, calibrated balancing of FHA's three key responsibilities—first, providing responsible home ownership opportunities; second, supporting the housing market during difficult economic times; and third, ensuring the health of the MMI Fund.

FHA has rolled out a series of measures over the last year to mitigate risks and augment the MMI Fund's capital reserves—first, to increase the mortgage insurance premium; second, to raise the combination of FICO scores and down payments for new borrowers; third, to reduce seller concessions to industry norms; and fourth, to implement a series of significant measures aimed at increasing lender responsibility and enforcement.

With the help of Congress, FHA has also begun implementing a plan to ensure its technology infrastructure and personnel needs reflect this increased responsibility. All of these changes will lead to increased receipts for FHA for the 2011 budget.

Last Friday, as you mentioned, the Congressional Budget Office released its re-estimate of the President's 2011 budget, including their view on FHA's proposed changes. Although the CBO re-estimate includes a more conservative assessment of how new loans made through FHA's MMI Fund will perform in coming years, both CBO and the administration forecast that with our proposed FHA changes, such credit activity will result in significant net receipts to the Government. We differ, however, on the amount.

While the President's budget forecasts, as you said, Madam Chairwoman, $5.8 billion in net receipts resulting primarily from insurance premiums and other fees, CBO re-estimated these net savings at $1.9 billion. In addition, CBO agrees with FHA that Ginnie Mae and our GI/SRI fund will produce another roughly $1 billion in receipts.

While recognizing that such a difference with CBO complicates budget resolution development, it is important to note that the forecast used in the President's budget will determine the receipts transferred to FHA's capital reserve account. This will help have that fund get back on track to be capitalized with the statutorily mandated 2 percent of insurance in force. I would also note that based on extensive modeling and analysis, we remain confident in our forecast for FHA.

Even with increased FHA receipts, however, because of broader need for fiscal responsibility, we have had to make very difficult choices in this budget. We have chosen to prioritize existing rental assistance in section 8, public housing—public housing operating fund, and other areas, which has required us to propose difficult cuts in a number of our capital programs, as you mentioned, and to target our funding to the most catalytic uses.

TRANSFORMING RENTAL ASSISTANCE

On that note, allow me to highlight some key initiatives. The first is HUD's multiyear effort called Transforming Rental Assistance, or TRA. It does not take a housing expert to see that HUD's rental assistance programs desperately need simplification. HUD currently provides deep rental assistance to more than 4.6 million households through 13 different programs, each with its own rules administered by three different operating divisions.

In my career both in the private and public sectors, it was a constant struggle to integrate HUD's rental assistance streams and capital funding resources into the local, State, and private sector financing that was necessary to get the job done. But I dealt with HUD subsidy programs for a simple reason—because the engine that drives capital investment at the scale needed is reliable long-term, market-based stream of Federal rental assistance.

No other mechanism has ever proven as powerful at unlocking a broad range of public and private resources to meet the capital needs of affordable housing. That said the status quo is no longer an option.

With a public housing program that has unmet capital needs upwards of $20 billion, now is the moment to permanently reverse the long-term decline in the Nation's public housing portfolio and address the physical needs of an aging assisted stock. This initiative is anchored by four guiding principles.

First, that the complexity of HUD's programs is part of the problem, and we must streamline and simplify them so that they are governed by a single, integrated, coherent set of rules and regulations that better aligns with the requirements of other Federal, State, local, and private sector financing streams.

Second, that the key to meeting the long-term capital needs of HUD's public and assisted housing lies in shifting from the Federal capital and operating subsidy funding structure we have today to a Federal operating subsidy that leverages capital from private and other public sources.

Third, that bringing market investment to all of our rental programs will also bring market discipline that drives fundamental reforms. Only when our programs are built, financed, and managed like other housing will we be able to attract the mix of incomes and uses and stakeholders that we need.

And fourth, that we must combine the best features of our tenant-based and project-based programs to encourage resident choice and mobility. TRA reflects HUD's commitment to complementing tenant mobility with the benefits that a reliable, property-based, long-term rental assistance subsidy can have for neighborhood revitalization efforts and as a platform for delivering social services.

To be clear, this commitment to tenant mobility is not to restart old ideological debates about place-based versus people-based strategies. To revitalize neighborhoods of concentrated poverty and segregation, we need the best of both approaches. That is why we look forward to continuing to work with the subcommittee and authorizers on our Choice Neighborhoods initiative to make the redevelopment of distressed public and assisted housing the anchor of broader community development efforts.

CHOICE NEIGHBORHOODS

Choice Neighborhoods builds on and expands the lessons of HOPE VI. Not only that investment at scale can affect dramatic change at the community level, but also that for an investment to be game-changing, it must take into account more than housing alone.

For too long, HUD's community development programs have lacked such a place-based, targeted tool for creating jobs. That is why our budget proposes $150 million for a catalytic investment fund designed to help distressed communities reorient their economies for the 21st century. HUD can't afford to make housing investments in isolation from community development investments, particularly when so many communities are ahead of us in terms of combining housing, economic development, and transportation.

SUSTAINABLE COMMUNITIES

That is why it was so important that we launched our Sustainable Communities initiative in 2010 to support these efforts. I want to thank the subcommittee for making this possible and emphasize the need for continued funding in 2011.

I recognize that I have asked you to help HUD make these investments in a difficult fiscal climate. Our approach has been to target resources where we get the biggest bang for the buck, and nowhere is this clearer than the area of homelessness, where we have seen a 30 percent reduction in chronic homelessness over the last 4 years.

HOMELESSNESS

Our budget request reflects HUD's commitment to its own targeted homeless programs with a $200 million increase. But as chair of the Interagency Council on Homelessness as well, charged with producing a Federal strategy to end homelessness later this spring, it also reflects a commitment to working across silos to end homelessness, embodied by our joint housing and services for homeless person demonstration with the Department of Health and Human Services and the Department of Education.

HUD'S 2010 TRANSFORMATION

Last, let me say a few words about HUD, how it's transforming the way it does business at the agency. With your help, HUD's 2010 Transformation Initiative is allowing us to take long-overdue steps to upgrade and modernize our Department, helping us replace computer programs written in the 1980s, build the capacity of communities—Senator Bond, you mentioned this, and we have been growing our resources for technical assistance—and demonstrate what works and what doesn't.

It has also begun to provide us with the flexibility we need to cross-cutting initiatives. But a critical next step for 2011 is to take this approach further. In part, it is a matter of additional funding to move forward with large, multiyear projects and demonstrations. But just as important is the flexibility to use up to 1 percent of HUD's budget as unexpected needs arise during the year.

For example, to revamp FHA as it stepped up in the mortgage market or to provide technical assistance communities trying to use neighborhood stabilization funds in the most impactful way. These are the kinds of flexible investments other cutting-edge organizations have the ability to make, and they are essential to building the nimble, results-oriented agency our Nation needs and this subcommittee deserves to oversee.

And so, Madam Chairwoman, this budget continues the transformation begun with your help. With the housing market showing signs of stabilization, our economy beginning to recover, and the need for fiscal discipline crystal clear, now is the moment to reorient HUD for the challenges of the 21st century. With your help, I believe we can and that we will.

Thank you.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

Madam Chairwoman, Ranking Member Bond, and members of the subcommittee, thank you for the opportunity to testify today regarding the fiscal year 2011 budget for the Department of Housing and Urban Development, Investing in People and Places.

A CHANGING ENVIRONMENT

I appear before you to discuss this budget in a far different environment from that faced by the Nation and the Department just 1 year ago. At that time, the economy was hemorrhaging over 700,000 jobs each month, housing prices were in freefall, residential investment had dropped over 40 percent in just 18 months, and credit was frozen nearly solid. Many respected economic observers warned that a second Great Depression was a real possibility, sparked of course by a crisis in the housing market. Meanwhile, communities across the country—from central cities to newly built suburbs to small town rural America—struggled to cope with neighborhoods devastated by foreclosure, even as their soaring jobless rates and eroding tax base crippled their ability to respond.

One year later, though there is clearly a long way to go, it is clear that the Nation's housing market has made significant progress toward stability. Through the combination of coordinated efforts by Treasury, HUD, and the Federal Reserve to stabilize the housing market, we are seeing real signs of optimism.

As measured by the widely referenced FHFA index, home prices have been rising more or less steadily since last April. As recently as January 2009 house prices had been projected to decline by as much as 5 percent in 2009 by leading major macroeconomic forecasters. This is all the more surprising since most forecasters had underestimated the rise in unemployment that has occurred over the past year.

Allow me to briefly explain what halting the slide in home prices and housing wealth has meant to middle-class families.

First, security. According to the Federal Reserve Board, as a result of stabilizing home prices and lower financing costs nationwide, home owner equity started to grow again in the second quarter of 2009 and by the end of September home equity had increased by over $900 billion, or $12,000 on average for the Nation's nearly 78 million homeowners.

Second, confidence. Homeowner equity is key to consumer confidence and is now helping bring new borrowers back into the market. And we all know the important role confidence plays in helping our economy grow—which it did in the last quarter of 2009 at 5.7 percent, the fastest rate in 6 years.

Third, money in families' pockets. Mortgage rates which have been at or near historic lows over the past 10 months have spurred a refinancing boom that over the past year that has helped nearly 4 million borrowers to save an average of $1,500 per year on housing costs—pumping an additional $7 billion annually into local economies and businesses, generating additional revenues for our Nation's cities, suburbs, and rural communities.

At the same time we have taken steps to reverse falling home prices, we have also worked to help families keep their homes. In partnership with the White House, the Department of Treasury, and other Federal regulatory agencies, HUD has helped develop the Making Home Affordable plan, and implement its two major initiatives—the Home Affordable Refinance Program and Home Affordable Modification Program (HAMP). These programs have helped to preserve homeownership for more than 1 million families. More than 900,000 households in participating trial modifications under HAMP currently are saving an average of over $500 per month in mortgage payments. To date, program participants have saved more than $2.2 billion.

And the Federal Housing Administration (FHA) has stepped up to fulfill its countercyclical role—to temporarily provide necessary liquidity while also working to bring private capital back to credit markets. Indeed, the FHA has in the past year alone helped more than 800,000 homeowners refinance into stable, affordable fixed-rate mortgages and deployed its loss mitigation tools to assist an additional half million families at risk of foreclosure.

Of course, just as this crisis has touched different communities in different ways, so, too, have they rebounded at different paces. As a result, some regions continue to face difficulty, even as others are moving toward recovery. That is one reason why the President recently announced $1.5 billion in funding to help families in States that have suffered an average home price drop of over 20 percent from the peak—including an innovation fund that will expand the capacity of housing finance and similar agencies in the areas hardest-hit in the wake of the housing crisis.

The President's announcement continues the administration's response to assist homeowners and stabilize neighborhoods, including through the nearly $2 billion that HUD has obligated under the Neighborhood Stabilization Program to address the problem of blighted neighborhoods, targeting hard-hit communities across the country and including major awards in Ohio, Illinois, New Jersey, Pennsylvania and other areas that have been deeply affected by the current housing problems. The administration continues to explore and refine ways to assist homeowners and stabilize neighborhoods struggling with foreclosures.

In addition, HUD has played a key role in implementing the American Recovery and Reinvestment Act (ARRA), which, according to the nonpartisan Congressional Budget Office is already responsible for putting as many as 2.4 million Americans back to work and has put the Nation on track toward a full economic recovery—and I would like to say a particular word of thanks to this subcommittee for making our role in that effort possible.

HUD has now obligated 98 percent of the $13.6 billion in ARRA funds stewarded by the Department—and disbursed $2.9 billion. I would note that a portion of HUD's ARRA funding is fully paid out, or expended, only once construction or other work is complete—just as when individual homeowners pay after they have work done on their homes. Therefore, some of HUD's obligated, but not yet expended, funds are already generating jobs in the hard hit sectors of housing renovation and construction for the purposes of modernizing and "greening" public and assisted housing, reviving stalled low-income housing tax credit projects, and stabilizing neighborhoods devastated by foreclosures. Additional HUD-administered ARRA funds are providing temporary assistance to families experiencing or at risk of homelessness in these difficult economic times.

While the economy has a long way to go to reach full recovery, and the promising indicators emerging steadily are not being experienced by all regions or communities equally, it is clear that we have pulled back from the economic abyss on which the Nation stood a year ago.

ROADMAP TO TRANSFORMATION

HUD's fiscal year 2010 budget, then, reflected a singular economic moment. During the last administration, the Department's annual budget submissions chronically underfunded core programs, and many observers came to regard the agency as slow moving, bureaucratic, and unresponsive to the needs of its partners and customers. HUD's fiscal year 2010 budget request, $43.72 billion (net of receipts generated by FHA and the Government National Mortgage Association, or "Ginnie Mae") was a 7 percent increase over the fiscal year 2009 enacted level of $40.72 billion and sent the clear message that HUD's programs merited funding at levels sufficient to address the housing and community development needs of the economic crisis. It also reflected this administration's belief that HUD could transform itself into the more nimble, results-driven organization required by its increased importance.

In response to HUD's fiscal year 2010 budget proposal, Roadmap to Transformation, Congress—with key leadership by this subcommittee, working with your counterparts in the House—provided a vote of confidence for which I want to express my deepest appreciation. The fiscal year 2010 appropriations legislation provided HUD programs $43.58 billion (net of receipts), funding needed to stabilize the Department's programs across-the-board. Critically, the budget also targeted $258.8 million to the Department's proposed Transformation Initiative, the cornerstone of the agency's efforts to change the way HUD does business. For the first time, HUD has the flexibility to make strategic, cross-cutting investments in research and evaluation, major demonstration programs, technical assistance and capacity building, and next generation technology investments to bring the agency fully into the 21st century.

I appreciate the level of trust this action showed in the new HUD leadership and look forward to updating you on the progress we are making with this new flexibility.

INVESTING IN PEOPLE AND PLACES

As a result of all this work—by Congress, HUD and across the administration—we no longer confront an economy or a Department in extreme crisis. Still, much work remains, in much changed fiscal circumstances. Now that the economic crisis has begun to recede, President Obama has committed to reducing the Federal deficit, including a 3 year freeze on domestic discretionary spending. HUD's fiscal year 2011 budget reflects that fiscal discipline. Net of $6.9 billion in projected FHA and Ginnie Mae receipts credited to HUD's appropriations accounts, this budget proposes overall funding of $41.6 billion, 5 percent below fiscal year 2010. Not including FHA and Ginnie Mae receipts, the budget proposal is $1.6 billion above the 2010 funding levels. These figures meant that we had difficult choices to make—and we chose to prioritize core rental and community development programs, fully funding section 8 tenant-based and project-based rental assistance, the public housing operating fund, and CDBG.

Indeed, at the same time, the budget cuts funding for a number of programs, including the public housing capital fund, HOME Investment Partnerships, Native American Housing Block Grants (NAHBG), the 202 Supportive Housing Program for the Elderly, and the section 811 Supportive Housing Program for Persons with Disabilities. In some instances, these are programs that received substantial ARRA funding (e.g., public housing capital and NAHBG), reducing the need for funds in fiscal year 2011. In the case of reductions to new capital grants—in public housing, section 202, and 811—the Department is recognizing that HUD's partners must increasingly access other private and public sources of capital as HUD and the Federal Government are facing severe resource constraints. During this fiscal year, we will modernize these programs to reflect changed fiscal and operational circumstances. Simultaneously, the Department has made the difficult decision to target HUD's housing investments and target them to their most crucial and catalytic uses, primarily rental and operating assistance that best enables those partners to leverage additional resources.

As such, we believe this is a bold budget, with carefully targeted investments that will enable HUD programs to: house over 2.4 million families in public and assisted housing (over 58 percent elderly or disabled); provide tenant based vouchers to more than 2.1 million households (over 47 percent elderly or disabled), an increase of 28,000 over 2009; more than double the annual rate at which HUD assistance creates new permanent supportive housing for the homeless; and create and retain over 112,000 jobs through HUD's housing and economic development investments in communities across the country. In total, by the end of fiscal year 2011, HUD expects its direct housing assistance programs to reach nearly 5.5 million households, over 200,000 more than at the end of fiscal year 2009.

And in terms of reform, this budget proposes fundamental change beyond the Department's fiscal year 2010 proposal. A year ago, urgent circumstances called for HUD's programs to be taken largely "as is" in order to pump desperately needed assistance into the economy in time to make a critical difference. With the infusion of ARRA and fiscal year 2010 funding having stabilized HUD's programs, the time has come to begin transforming them—to make HUD's housing and community development programs, and the administrative infrastructure that oversees them, more streamlined, efficient, and accountable.

This budget is a major step in that direction. Specifically, it seeks to achieve five overarching goals, drawn from an extensive strategic planning process that engaged over 1,500 internal and external stakeholders in defining the Department's high priority transformation goals and strategies.

GOAL 1.—STRENGTHEN THE NATION'S HOUSING MARKET TO BOLSTER THE ECONOMY AND PROTECT CONSUMERS

With housing still representing the largest asset for most American households, it is essential that home prices continue to stabilize in order to restore the confidence of American consumers. Americans held roughly $6.2 trillion in home equity in the third quarter of 2009, up from its lowest point of $5.3 trillion in the first quarter of 2009. The central role of housing in the U.S. economy demands that Federal agencies involved in housing policymaking rethink and restructure programs and policies to support housing as a stable component of the economy, and not as a vehicle for over-exuberant and risky investing.

With that in mind, the fiscal year 2011 budget represents a careful, calibrated balancing of FHA's three key responsibilities: providing homeownership opportunities to responsible borrowers, supporting the housing market during difficult economic times and ensuring the health of the MMI Fund.

FHA provides mortgage insurance to help lenders reduce their exposure to risk of default. This assistance allows lenders to make capital available to many borrowers who would otherwise have no access to the safe, affordable financing needed to purchase a home. As access to private capital has contracted in these difficult economic times, borrowers and lenders have flocked to FHA and the ready access it provides to the secondary market through securitization by Ginnie Mae—FHA insures approximately 30 percent of all home purchase loans today and nearly one-half of those for first-time homebuyers. The increased presence of FHA and others in the housing market, including Fannie and Freddie, has helped support liquidity in the purchase market, helping us ride through these difficult times until private capital returns to its natural levels.

Not only is FHA ensuring the availability of financing for responsible first time home purchasers, it is also helping elderly homeowners borrow money against the equity of their homes through the Home Equity Conversion Mortgage (HECM). This program has grown steadily in recent years, to a volume of $30.2 billion in fiscal year 2009.

It is also providing several outlets of relief for homeowners in distress. First, and perhaps most significantly, it is helping homeowners extricate themselves from unsustainable mortgages by refinancing into 30 year, fixed-rate FHA-insured loans at today's much lower rates. Given how important this is as a route to greater borrower stability, we are exploring additional ways to leverage the refinance option at FHA to help still more distressed homeowners. Further, FHA is continuing to assist those already in FHA-insured loans who are facing difficulty making payments to stay in their homes through a variety of aggressive loss mitigation efforts, which have assisted more than half a million homeowners at risk of foreclosure since the beginning of 2009.

And finally, FHA is playing an important role in protecting homeowners and helping prospective homeowners make informed decisions. It is providing counseling to homeowners to help them avoid falling into unsustainable loans. And it is fighting mortgage fraud vigorously on all fronts, having suspended seven lenders, including Taylor, Bean and Whitaker, and withdrawn FHA-approval for over 300 others since last summer.

To support these important efforts, the budget includes $88 million for the Housing Counseling Assistance program, which is the only dedicated source of Federal funding for the full spectrum of housing counseling services. With these funds we also plan to continue our work to expand the number of languages in which counseling is available. In addition, the budget continues FHA's Mortgage Fraud initiative ($20 million) launched in fiscal year 2010 as well as implementation of sweeping reforms to the Real Estate Settlement and Procedures Act (RESPA) beginning in January 2010 and the Secure and Fair Enforcement (SAFE) for Mortgage Licensing Act beginning in June 2010.

With this budget, HUD is projecting that FHA will continue to play a prominent role in the mortgage market in fiscal year 2011. Accordingly, it requests a combined mortgage insurance commitment limitation of $420 billion in fiscal year 2011 for new FHA loan commitments for the Mutual Mortgage Insurance (MMI) and General and Special Risk Insurance (GI/SRI) funds. The proposed total includes $400 billion under the MMI Fund, which supports insurance of single family forward home mortgages and reverse mortgages under HECM; and $20 billion under the GI/SRI Fund, which supports multifamily rental and an assortment of special purpose insurance programs for hospitals, nursing homes, and title I lending. The budget requests a direct loan limitation of $50 million for the MMI Fund and $20 million for the GI/SRI fund to facilitate the sale of HUD-owned properties acquired through insurance claims to or for use by low- and moderate-income families.

With FHA's temporarily increased role, however, comes increased risk and responsibility. That is why FHA has rolled out a series of measures over the last year to strengthen its risk and operational management. It has hired its first chief risk officer in its 75 year history and created an entire risk management organization and reporting structure, tightened its credit standards significantly and, as I mentioned, expanded its capacity to rein in or shut down lenders who commit fraud or abuse.

On January 20 of this year, Commissioner Stevens proposed taking the following steps to mitigate risk and augment the MMI Fund's capital reserves: increase the mortgage insurance premium (MIP); update the combination of FICO scores and down payments for new borrowers; reduce seller concessions to industry norms; and implement a series of significant measures aimed at increasing lender responsibility and enforcement. And to strengthen its operational capacity, FHA has begun implementing a plan to significantly upgrade its technology infrastructure and increase its personnel, to ensure that both are in keeping with the increase of its portfolio and responsibility.

These changes merit additional explanation, as they not only put FHA on firmer footing and increase reserves, but also generate additional revenues in fiscal year 2011 to contribute to deficit reduction. First, insurance revenues from single family loan guarantees will grow by increasing the upfront premium to 225 basis points across all FHA forward product types (purchase, conventional to FHA refinances, and FHA to FHA refinances). The upfront premium increase was implemented by mortgagee letter issued on January 21, 2010 and will apply to all applications received on or after April 5, 2010.

Second, FHA is also proposing a "two-step" FICO floor for FHA purchase borrowers, which would reduce both the claim rate on new insurance as well as the loss rate experienced on the claims incurred. Purchase borrowers with FICO scores of 580 and above would be required to make a minimum 3.5 percent down payment; and those with FICO scores between 500–579 would be required to make a minimum down payment of 10 percent. Applicants below 500 would be ineligible for insurance. These changes are being proposed after an exhaustive review of FHA's actual claim performance data, which demonstrates that loan performance is best predicted by a combination of credit score and downpayment—simply raising one element without recognizing the impact of the layering of risk factors is not sufficient. We are considering how these changes might be applied to refinancing borrowers as well. FHA is proposing to publish the two-step FICO proposal in the Federal Register in short order with implementation later in 2010. In combination, these reforms—which are already permitted under current law—can be expected to produce $4.2 billion in offsetting receipts in fiscal year 2011.

In addition, as noted in the proposed budget, while HUD is moving to increase the upfront premium to 225 basis points we are ultimately planning to reduce that premium to 100 basis points, offset by a proposed increase in the annual premium to 85 basis points for loans with loan-to-value ratios (LTV) up to and including 95 percent and to 90 basis points for LTVs above 95 percent. That change to the annual premium will require legislative authority, and we are looking forward to working with the authorizing committees as part of that effort. This new premium structure is sound policy. This premium structure is also more in line with GSE and private mortgage insurers' pricing, which facilitates the return of private capital to the mortgage market. Indeed, if these changes are adopted during the current fiscal year, the estimated value to the MMI Fund would be $200 million in additional funds each month, providing better underwriting for FHA loans and replenishing capital reserves.

If implemented, in combination with the two-step FICO floor, this change in the premium structure is projected to result in the $5.8 billion in offsetting FHA receipts reflected in the budget appendix. In sum, FHA has taken the kinds of steps necessary to make sure that it will remain strong and healthy enough to continue to fulfill its mission of serving the underserved and playing a vital counter-cyclical role in the housing market.

GOAL 2.—MEET THE NEED FOR QUALITY AFFORDABLE RENTAL HOMES

Several recent national indicators have pointed to increasing stress in the U.S. rental housing market. Vacancy rates are on the rise as a result of the dampened demand and additional supply repurposed from the ownership market. Spreads between asking rents and effective rents are widening. Asking rents are now $65 higher than effective rents (6.6 percent of the effective rent)—the largest gap over the past 4 years. While some new renters have been the beneficiaries of this softness, drawing concessions from distressed property owners, the budgets of many more low-income renters have been strained as household incomes fall, due to unemployment and lost hours worked.

Loss of income stemming from the recession is likely offsetting affordability gains from declining rents. Vacancies in the lower end of the market remain considerably lower than market levels overall, and the number of cost burdened low-income renters is on the rise. Based on estimates from the 2008 American Community Survey, 8.7 million renter households paid 50 percent or more of their income on housing, up from 8.3 million renter households in 2007. These figures do not include the over 664,000 people who experience homelessness on any given night.

As HUD Secretary, as well as the current chair of the Interagency Council on Homelessness under President Obama, I am committed to making real progress in reducing these tragic figures. To do so requires substantial investment even in this difficult fiscal year. For this reason, the budget provides $1 billion for capitalization of the National Housing Trust Fund, to increase development of housing affordable to the Nation's lowest income families.

In addition, HUD's rental assistance and operating subsidy programs have never been more needed, nor has the imperative to operate them efficiently been clearer. This budget takes three critical steps to meet this challenge.

Increases Investment in Core Rental Assistance and Operating Subsidy Programs

This budget invests over $2.2 billion more than in fiscal year 2010 to meet the funding needs of the Tenant-based Rental Assistance (TBRA) program, the Project-based Rental Assistance (PBRA) program, and the public housing Operating Fund.

Tenant-based Rental Assistance

The section 8 TBRA or Housing Choice Voucher (HCV) program is a cost-effective means for delivering decent, safe, and sanitary housing to low-income families in the private market, providing assistance so that participants are able to find and lease privately-owned housing. In fiscal year 2009, HUD assisted over 2 million families with this program; and, in fiscal year 2010, we plan to assist over 76,000 more families through new incremental vouchers.

This budget continues HUD's bedrock commitment to its largest program. The calendar year request for 2011 is $19.6 billion, a $1.4 billion increase over the 2010 Consolidated Appropriations Act and an amount estimated to assist 2.2 million households. This represents an increase of 34,466 families from fiscal year 2010 projections and 112,304 more than at the end of fiscal year 2009.

Of the $19.6 billion request, $17.3 billion will cover the renewal of expiring annual contribution contracts (ACC) in calendar year 2011; with $1.8 billion for administrative fees; $125 million for tenant protection vouchers; $60 million to support family self-sufficiency (FSS) activities; and up to $66 million for disaster vouchers for families affected by Hurricanes Ike and Gustav. In addition, this budget requests $85 million for incremental vouchers to help homeless individuals, at-risk families with children, and families with special needs stabilize their housing situation and improve their health status, as well as $114 million for the shift of the renewal of mainstream vouchers from the section 811 account to the TBRA account.

Through this budget, the Department reaffirms its commitment to improving the section 8 program by designing a comprehensive development strategy to improve HUD Information Technology systems to better manage and administer the voucher program; implementing an improved section 8 management assessment program (SEMAP) that will ensure strengthened oversight, quality control, and performance metrics for the voucher program; continuing the study to develop a formula to allocate administrative fees based on the cost of an efficiently managed PHA operating the voucher program; developing a study to evaluate current housing quality standards and improve the unit inspection process; and eliminating unnecessary caps on the number of families that each PHA may serve.

Project-based Rental Assistance (PBRA)

PBRA assists more than 1.3 million low- and very low-income households in obtaining decent, safe, and sanitary housing in private accommodations. This critical program serves families, elderly households, disabled households, and provides transitional housing for the homeless. Through PBRA funding, HUD renews contracts with owners of multi-family rental housing—contracts that make up the difference between what a household can afford and the approved rent for an adequate housing unit in a multi-family development.

HUD is requesting a total of $9.382 billion to meet PBRA program needs. This includes $8.982 billion to be available in fiscal year 2011 (in addition to the $394 million previously appropriated) and $400 million to be available in fiscal year 2012. For fiscal year 2011, HUD estimates a need of $8.954 billion of new budget authority for contract renewals and amendments. The need for section 8 amendment funds results from insufficient funds provided for long-term project-based contracts funded primarily in the 1970s and 1980s, when long-term contracts (up to 40 years) made estimating funding needs problematic, leading to frequent underfunding. The current practice of renewing expiring contracts for a 1-year term helps to ensure that the problem of inadequate funded contracts is not repeated. However, some older long-term contracts have not reached their termination dates and, therefore, have not yet not entered the 1-year renewal cycle and must be provided amendment funds for the projects to remain financially viable. The Department estimates that total section 8 amendment needs in 2011 will be $662 million. The budget request continues the Department's commitment to provide full 1-year funding for contract renewals and amendments.

Public Housing Operating Fund

The public housing Operating Fund provides operating subsidy payments to over 3,100 public housing authorities (PHAs) which serve 1.2 million households in public housing. The fiscal year 2011 budget requests $4.8 billion, which will fully fund the operating fund. Full funding is essential to the proper operation of public housing, provision of quality housing services to residents, and effective use of capital fund resources.

Begins to Streamline the Department's Rental Assistance Programs

It does not take a housing expert to see that HUD's rental assistance programs desperately need simplification. HUD currently provides deep rental assistance to more than 4.6 million households through 13 different programs, each with its own rules, administered by 3 operating divisions with separate field staff. Too often over time, additional programs designed to meet the needs of vulnerable populations were added without enough thought to the disjointed system that would result. This unwieldy structure ill serves the Department, our Government and private sector partners, and—most importantly—the people who live in HUD-supported housing.

In my last job, as commissioner of the New York City Department of Housing Preservation and Development, I personally experienced the challenges of working with HUD rental assistance to preserve and develop affordable housing at a large scale. While implementing the city's 165,000 unit New Housing Marketplace plan, it was a constant struggle to integrate HUD's rental assistance streams, and capital funding resources for that matter, into the local, State, and private sector housing financing that was absolutely necessary to leverage to get the job done.

But I was willing to deal with the transaction costs of engaging with HUD's less-than-ideally aligned subsidy programs for a simple reason: the engine that drives capital investment at the scale needed, in a mixed-finance environment, is typically a reliable, long-term, market-based, stream of Federal rental assistance. Historically, no other mechanism—and no other source of Government funding—has ever proven as powerful at unlocking a broad range of public and private resources to meet the capital needs of affordable housing. While highly imperfect, HUD's rental assistance programs are irreplaceable.

This said, tolerating the inefficiencies of the status quo is no longer an option. The capital needs of our Nation's affordable, Federally-assisted housing stock are too substantial and too urgent. The Public Housing program in particular has long wrestled with an old physical stock and a backlog of unmet capital needs that may exceed $20 billion. (1) To be sure, nearly two decades of concentrated efforts to demolish and redevelop the most distressed public housing projects, through HOPE VI and other initiatives, has paid off. The stock is in better shape overall than it has been in some time; and (2) the $4 billion in ARRA funds targeted to public housing capital improvements are further stabilizing the portfolio. But this very progress has created a unique—but time limited—opportunity to permanently reverse the long-term decline in the Nation's public housing portfolio and address the physical needs of an aging assisted housing stock.

My many years of experience of dealing with affordable housing on a large scale—both in New York and overseeing HUD's multi-family assisted housing programs during the 1990s—have drilled home two key lessons. First, it is far more costly to build new units than to preserve existing affordable housing. And, second, an affordable housing project can limp along for some time with piecemeal, ad hoc strategies to address its accumulating capital backlog, but eventually the building will reach a "tipping point" where its deterioration becomes rapid, irreversible and expensive. This moment in time calls for a timely, crucial Federal investment to leverage other resources to the task of maintaining the number of safe, decent public and assisted housing units available to our Nation's poor families—an objective that at some point, soon, will cost the taxpayer substantially more to achieve by other means.

Nor can we afford to sustain the disconnect between HUD's largest rental and operating assistance programs, given the disproportionate impact of the recession on the recipients of HUD assistance and the communities where much of HUD's public and assisted housing stock remains. More than ever, communities of concentrated poverty need their public and assisted housing stock—even the most distressed projects that are the targets of our proposed Choice Neighborhoods Initiative—to serve as anchors of broader neighborhood revitalization efforts. Simultaneously, in this challenging economy, tenants of HUD-subsidized projects also need the option to pursue opportunities for their families in other neighborhoods and communities as and when they arise, without losing the subsidy that is so crucial to maintaining their housing stability. Today, we lack the seamless connection that should exist between HUD's largest project-based assistance programs—PBRA and public housing—and the Housing Choice Voucher program, which leaves tenants of PBRA and public housing with limited ability to move to greater opportunity.

To address these issues and move HUD's rental housing programs into the housing market mainstream, HUD proposes to launch an ambitious, multi-year effort called the transforming rental assistance (TRA) initiative.

This initiative is anchored by four guiding principles:

First, that the complexity of HUD's programs is part of the problem—and we must streamline and simplify our programs so that they are less costly to operate and easier to use at the local level. Ultimately, TRA is intended to move properties assisted under these various programs toward a more unified funding approach, governed by an integrated, coherent set of rules and regulations that better aligns with the requirements of other of Federal, State, local and private sector financing streams.

Second, that the key to meeting the long-term capital needs of HUD's public and assisted housing lies in shifting from the Federal capital and operating subsidy funding structure we have today—which exists in a parallel universe to the rest of the housing finance world—to a Federal operating subsidy that leverages capital from other sources.

Third, that bringing market investment to all of our rental programs will also bring market discipline that drives fundamental reforms. Only when our programs are truly open to private capital will we be able to attract the mix of incomes and uses and stakeholders necessary to create the sustainable, vibrant communities we need.

And fourth, that we must combine the best features of our tenant-based and project-based programs to encourage resident choice and mobility. TRA reflects HUD's commitment to complementing tenant mobility with the benefits that a reliable, property-based, long term rental assistance subsidy can have for neighborhood revitalization efforts and as a platform for delivering social services. And in a world where the old city/suburb stereotypes are breaking down, and our metropolitan areas are emerging as engines of innovation and economic growth, we have to ensure our rental assistance programs keep up.

In 2011, the first phase of TRA will provide \$350 million to preserve approximately 300,000 units of public and assisted housing, increase administrative efficiency at all levels of program operations, leverage private capital and enhance housing choice for residents. With this request, we expect to leverage over \$7.5 billion in other public and private sector capital investment. PHAs and private owners will be offered the option of converting to long-term, market-based, property-based rental assistance contracts that include a resident mobility feature, which we are working to define in close collaboration with current residents, property owners, local governments and a wide variety of other stakeholders.

Most of the fiscal year 2011 downpayment on TRA, up to \$290 million, will be used to fill the gap between the funds otherwise available for the selected properties—in most cases the public housing Operating Fund subsidy—and the first-year cost of the new contracts. As noted above, a reliable funding stream will help place participating properties on a sustainable footing from both a physical and a financial standpoint, enabling owners to leverage private financing to address immediate and long-term capital needs, and freeing them from the need for annual capital subsidies.

Under this voluntary initiative, HUD will prioritize for conversion public housing and assisted multifamily properties owned by PHAs. Notably, in this regard, TRA delivers on the promise of over a decade's worth of movement in the field of public housing toward the private sector real-estate model known as "asset-management," by finally providing public housing authorities with the resources to successfully implement this model in the projects they will continue to own. Three types of privately-owned HUD-assisted properties will also be eligible for conversion in this first phase: section 8 moderate rehabilitation contracts administered by PHAs, and properties assisted under the Rent Supplement or Rental Assistance Programs. With this step, we can eliminate three smaller legacy programs that have become "orphans" as new housing programs have evolved. This consolidation will preserve these properties for residents, improve property management, and streamline HUD oversight to save the taxpayer money.

Much of the remaining funding, up to $50 million, will be used to promote mobility by targeting resources to encourage landlords in a broad range of communities to participate in the housing voucher program and to provide additional services to expand families' housing choices. A portion of these funds also may be used to offset the costs of combining HCV administrative functions in regions or areas where locally-designed plans propose to increase efficiency and effectiveness as part of this conversion process.

By the spring of 2010, the administration will transmit to the relevant authorizing committees in Congress proposed legislation to authorize the long-term property-based rental assistance contracts, with a resident mobility feature, that would be funded by the budget request. Enactment of a number of the provisions in the section 8 Voucher Reform Act is also an integral part of the transforming rental assistance initiative. The administration looks forward to working with Congress to finalize this vital legislation.

Without this subcommittee's work on HOPE VI and the Quality Housing and Work Responsibility Act, this opportunity would never have arisen. In fiscal year 2011, we can together begin to put both public and assisted housing on firm financial footing for decades to come, and start to meld HUD's disparate rental assistance and capital programs into a truly integrated Federal housing finance system. I hope that you will help HUD make this breakthrough by funding the TRA initiative.

Increases Investment in Proven and Restructured HUD Homeless Assistance Programs

Fiscal year 2011 also marks the first year for implementation of the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act, which—when signed by President Obama in the spring of 2009—restructured HUD's homeless assistance programs to incorporate nearly two decades of research and on-the-ground experience in confronting homelessness. To support implementation of this important legislation, the budget requests $2.055 billion for homeless assistance funding—a nearly $200 million increase compared to fiscal year 2010.

This additional investment in homeless assistance programs is called for even in a difficult fiscal environment. Culminating in the HEARTH Act, HUD's homeless programs have evolved into a more performance-driven, outcome-based system for targeting and leveraging Federal resources at the local level to combat homelessness. This subcommittee played an indispensable role in this process. In the late 1990s, when less than 20 percent of HUD homeless assistance grants were supporting permanent housing solutions for the most disabled homeless individuals and families, this subcommittee in fiscal year 1999 joined your colleagues in the House in requiring that at least 30 percent of these grants be spent annually on the evidence-based practice of permanent supportive housing, and set forth the ambitious goal of creating 150,000 units of permanent supportive housing for the chronically ill, chronically homeless. Over time, the research foundation for this targeted investment has only solidified—attached to my testimony is a summary of key studies, including several published in the Journal of the American Medical Association, demonstrating that permanent supportive housing both ends homelessness for individuals whom many thought would always live on our streets and in shelters, and saves taxpayers money by interrupting their costly cycling through shelters, emergency rooms, detox centers, prisons, and even hospitals.

As a consequence of the permanent housing set aside, maintained each year by this subcommittee, HUD's homeless assistance grants produced an average of 8,878 permanent supportive housing beds annually from fiscal year 2001 through fiscal year 2008, and a cumulative total of 71,000 beds, with an increasing percentage targeted to the chronically homeless (66 percent in fiscal year 2008 compared to 53 percent in fiscal year 2005, the first year HUD tracked such data). The impact was clear and dramatic. In the 4 years from 2005 through 2008, the number of chronically homeless individuals dropped by 30 percent, certainly one of the greatest social welfare policy achievements of the past decade.

One of the key provisions of the HEARTH Act was its codification of the 30 percent permanent housing set aside pioneered by this subcommittee. Coupled with the level of funding this budget requests, and the alignment of homeless assistance grants with other HUD rental assistance subsidies (1 year terms), this provision is projected to yield over 9,500 new units of permanent supportive housing for disabled individuals and families. This will enable continued progress toward ending chronic homelessness.

The HEARTH Act also codifies the unique competitive process, known as the continuum of care ("CoC"), in which HUD homeless assistance funding and priorities are incorporated within a robust local planning and implementation process. The CoC system provides a coordinated housing and service delivery system that enables communities to plan for and provide a comprehensive response to homeless individuals and families. Communities have worked to establish more cost-effective continuums that identify and fill the gaps in housing and services that are needed to move homeless families and individuals into permanent housing. The CoC is an inclusive process that is coordinated with non-profit organizations, State and local government agencies, service providers, private foundations, faith-based organizations, law enforcement, local businesses, and homeless or formerly homeless persons. This planning model is based on the understanding that homelessness is not merely a lack of shelter, but involves a variety of unmet needs—physical, economic, and social.

Fiscal year 2011 marks the first year for implementation of this and other key features of the HEARTH legislation including: increased investment in the evidence-based practice of homelessness prevention; improvement in the accuracy of the definition of homelessness; support for the project operation and local planning activities needed to continue the movement of the HUD-supported homeless assistance system to a more performance-based and outcome-focused orientation; and provision of assistance that better recognizes the needs of rural communities.

In this period of economic hardship, which in many respects mirrors the early 1980s when widespread homelessness reappeared for the first time since the Great Depression, communities will need all of the tools authorized by the HEARTH Act—and the additional resources requested in this budget—to meet the needs of those experiencing homelessness, including too many of our Nation's veterans. In particular, I am concerned that HUD's Annual Homeless Assessment Report data showed a 9 percent rise in family homelessness from 2007–2008 and the Department's more recent quarterly PULSE data from a small number of geographically diverse localities across the country that suggests a continued increase in homelessness.

GOAL 3.—UTILIZE HOUSING AS A PLATFORM FOR IMPROVING QUALITY OF LIFE

A growing body of evidence points to the role housing plays as an essential platform for human and community development. Stable housing is the foundation upon which all else in a family's or individual's life is built—absent a safe, affordable place to live, it is next to impossible to achieve good health, positive educational outcomes, or reach one's full economic potential. Indeed, for many persons with disabilities living in poverty, lack of stable housing leads to costly cycling through crisis-driven systems like emergency rooms, psychiatric hospitals, detox centers, and even jails. By the same token, stable housing provides an ideal launching pad for the delivery of healthcare and other social services focused on improving life outcomes for individuals and families. As noted above, a substantial level of research has established, for example, that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost savings in public health, criminal justice, and other systems—often nearly enough to fully offset the cost of providing the permanent housing and supportive services. More recently, scholars have focused on housing stability as an important ingredient for children's success in school—unsurprisingly, when children are not forced to move from place to place and school-to-school, they are more likely to succeed academically.

Capitalizing on these insights, HUD is launching efforts to connect housing to services that improve the quality of life for people and communities. The fiscal year 2011 budget proposes the following important initiatives:

Connects Formerly Homeless Tenants of HUD-housing to Mainstream Supportive Services Programs

The Department requests $85 million for incremental voucher assistance for the new Housing and Services for Homeless Persons Demonstration to support groundbreaking collaborations with the Department of Health and Human Services (HHS) and the Department of Education. This demonstration is premised on the administration's firm belief that targeted programs alone cannot end homelessness. Mainstream housing, health, and human service programs will have to be more fully engaged to prevent future homelessness and significantly reduce the number of families and individuals who are currently homeless. Two separate initiatives will be funded in an effort to demonstrate how mainstream programs can be aligned to significantly impact homelessness.

One initiative will focus on individuals with special needs who are homeless or at risk of homelessness. This initiative is designed to model ways that resources across HUD and HHS can be brought to bear to address the housing and service needs of this vulnerable population. Recently released data shows that over 42 percent of the homeless population living in shelters has a disabling condition. The demonstration would combine Housing Choice Vouchers with health, behavioral health and other support services to move and maintain up to 4,000 chronically homeless individuals with mental and substance use disorders into permanent supportive housing.

Vouchers will be targeted to single, childless adults who are homeless and who are already enrolled in Medicaid through coverage expansion under State Medicaid waivers or State only initiatives. In addition, HHS is seeking $16 million in its fiscal year 2011 budget request to provide wraparound funding through grants administered by the Substance Abuse and Mental Health Services Administration to promote housing stability and improvements in health outcomes for this population. HUD and HHS will jointly design the competitive process and conduct and evaluation to determine: (1) the cost savings in the healthcare and housing systems of the proposed approach; (2) the efficacy of replication; and (3) the appropriate cost-sharing among Federal agencies for underwriting services that increase housing stability and improve health and other outcomes.

Another initiative will establish a mechanism for HUD, HHS and Department of Education programs to be more fully engaged in stabilizing homeless families, ultimately resulting in reducing the costs associated with poor school performance and poverty. This initiative strategically targets these resources to: (1) identify families who are homeless or at risk of homelessness, (2) intervene with the appropriate array of housing assistance, income supports, and services to ensure that the family does not fall into the shelter system or onto the street (or if already homeless that the family is stably housed and does not return to homelessness), and (3) provide the tools necessary to assist the family to build on its resources to escape poverty and reach its highest possible level of economic security and self-sufficiency.

HUD will make available a minimum of 6,000 Housing Choice Vouchers on a competitive basis and jointly design the competitive process with HHS and the Department of Education. Winning proposals will have to show that the new vouchers are being targeted to communities with high concentrations of homeless families. With guidance from HHS, States will need to demonstrate how they will integrate HUD housing assistance with other supports—including TANF—these families will need to stabilize their housing situation, foster healthy child development, and prepare for, find, and retain employment. HHS will provide guidance to State TANF agencies and other relevant programs to explain this initiative and their role in both the application for the vouchers and the implementation of the program. DOE will assist with identifying at-risk families with children through their network of school based homelessness liaisons, and providing basic academic and related supports for the children. Locally, applicants will need to show that they have designed a well-coordinated and collaborative program with the TANF agency, the local public schools, and other community partners (e.g., Head Start, child welfare, substance abuse treatment, etc.).

Collectively, these initiatives represent an unprecedented, "silo-busting" alignment of Federal resources to address the needs of some of the country's most vulnerable individuals and families. At the same time, we believe they will save the taxpayer significantly in the long run. This innovative approach will also involve some collaboration across subcommittee jurisdictional lines, and we look forward to working with the members of this panel in determining how best to facilitate that joint action.

Modernizes the 202 and 811 Supportive Housing Programs for the Elderly and Disabled

As the Department begins the process of restructuring its rental assistance programs, it must also ensure that its programs providing capital grants and rental assistance that are sized to the actual costs to operate a project ("budget-based" or "operating cost-based") are well designed for the world of housing finance in the 21st century. Beyond public and assisted housing—the focus of the TRA initiative—the most prominent examples of such funding streams are the section 202 and 811 programs, which couple housing and services for the Nation's poor elderly and disabled, respectively.

Although they have provided critical housing for thousands of residents, these programs are in need of modernization. Project sponsors no longer receive enough funding per grant for the 202 and 811 programs to be a "one-stop shop" to capitalize and sustain a project, yet they are subject to a level of bureaucratic oversight that suggests they are. This regulatory structure also makes it difficult for project sponsors to work with other financing streams, such as low income housing tax credits, even as the average grant size requires accessing other capital sources. As a result, project development is slowed and, coupled with outdated geographic allocation formulae, limited resources are spread too thin to reach scale at either the project or national programmatic levels. In 2009, the 202 program produced only 3,049 units with an average project size of 44 units and the 811 program produced only 661 units with an average project size of 10 units.

Already 10 times as many units are produced under the Low Income Housing Tax Credit program. And under the status quo, the total annual production of units will continue to decrease as the cost of supporting existing 811/202 properties consumes more and more of the overall funding allocation. This threatens to make the programs increasingly marginal for the Nation's elderly and disabled.

Accordingly, HUD requests a suspension of funding for section 202 and 811 Capital Advance Grants in fiscal year 2011 in order to redesign the programs to better target their resources to meet the current housing and supportive service needs of frail elderly and disabled very low-income households. The redesigned programs will maximize HUD's financial contribution through enhanced leveraging requirements and will also encourage or require partnerships with HHS and other services funding streams to create housing that, while not medically licensed, still effectively meets the needs of very low-income elderly and disabled populations unable to live fully independently. The program reforms for both 202 and 811 will include the following: (1) new requirements to establish demand to ensure meaningful impact of dollars awarded; (2) raised threshold for sponsor eligibility to ensure the award of funds only to organizations with unique competency to achieve the program goals; (3) streamlined processing to speed development timeframes; (4) broader benefits of program dollars achieved by facilitating supportive services provided by Medicaid/Medicare Waiver programs such as the Program of All-inclusive Care for the Elderly (PACE) model services to 202 project residents, (5) encouraging better leveraging of other sources of funding, such as low income housing tax credits and (6) integrating 811 programs within larger mixed finance, mixed use projects.

GOAL 4.—BUILD INCLUSIVE AND SUSTAINABLE COMMUNITIES FREE FROM DISCRIMINATION

The Department's approach to this objective is informed by the Obama administration's landmark, Federal Government-wide review of "place-based" policies for the first time in over three decades.

Place is already at the center of every decision HUD makes. HUD's programs today reach nearly every neighborhood in America—58,000 out of the approximately 66,000 census tracts in the United States have one or more units of HUD assisted housing. But we have taken this opportunity to renew our focus on place, with the result that the proposed fiscal year 2011 budget allows HUD to better nurture sustainable, inclusive neighborhoods and communities across America's urban, suburban, and rural landscape.

One aspect of HUD's refined place-based approach involves making communities sustainable for the long-term. Sustainability includes improving building level energy efficiency, cutting carbon emissions through transit-oriented development, and taking advantage of other locational efficiencies. But sustainability also means creating "geographies of opportunity," places that effectively connect people to jobs, quality public schools, and other amenities. Today, too many HUD-assisted families are stuck in neighborhoods of concentrated poverty and segregation, where one's zip code predicts poor educational, employment, and even health outcomes. These neighborhoods are not sustainable in their present state.

This budget lays the groundwork for advancing sustainable and inclusive growth patterns at the metropolitan level, communities of choice at the neighborhood scale, and energy efficiency at the building scale. Specifically, the fiscal year 2011 budget calls for the following series of programs and funding levels.

Supports and Improves the Federal Government's Premier Community Development Program

The economic downturn and foreclosure crisis have significantly depleted resources in State and local governments while increasing demand for services. Revenue declines often turn quickly into layoffs and cuts in services for the poor. Meanwhile, community development investments have a heightened role in economic redevelopment and stabilization for neighborhoods and regions across the country. During these difficult economic times, it is critical that the administration support and enhance community development programs and to partner with grantees in developing strategies to increase economic vitality, build capacity, and build sustainable communities and neighborhoods of opportunity. Since 1974, the Community Development Block Grant (CDBG) program has provided formula grants to cities and States to catalyze economic opportunity and create suitable living environments through an extensive array of community development activities.

The fiscal year 2011 budget proposes a total of $4.380 billion for the Community Development Fund, which includes:

—$3.99 billion for CDBG formula distribution, to meet the President's campaign promise to fully fund CDBG. Simultaneously, the Department proposes a number of improvements to the CDBG program, including revamping the consolidated plans developed by State and local governments, greater accountability, and better performance metrics.

—$150 million in funding for the second year of the Sustainable Communities Initiative. The initiative has four components in 2011, described below. HUD plans to work with the relevant authorizing committees in order to refine these proposals.

—Sustainable Communities Planning Grants administered by HUD in collaboration with the Department of Transportation (DOT) and the Environmental Protection Agency (EPA). These grants will catalyze the next generation of integrated metropolitan transportation, housing, land use and energy planning using the most sophisticated data, analytics and geographic information systems. Better coordination of transportation, infrastructure and housing investments will result in more sustainable development patterns, more affordable communities, reduced greenhouse gas emissions, and more transit-accessible housing choices for residents and firms.

—Sustainable Communities Challenge Grants to help localities implement Sustainable Communities Plans they will develop. These investments would provide a local complement to the regional planning initiative, enabling local and multi-jurisdictional partnerships to put in place the policies, codes, tools and critical capital investments to achieve sustainable development patterns.

—The creation and implementation of a capacity-building program and tools clearinghouse, complementing DOT and EPA activities, designed to support both Sustainable Communities grantees and other communities interested in becoming more sustainable.

—A joint HUD–DOT–EPA research effort designed to advance transportation and housing linkages at every level our agencies work on.

—$150 million for the Catalytic Investment Competition Grants program to create jobs by providing economic development and gap financing to implement targeted economic investment for neighborhood and community revitalization. For too long, communities have lacked the kind of place-based, targeted, "game-changing" Federal capital investment program in the community and economic development arena that HOPE VI has proven to be with respect to severely distressed public housing. The Catalytic Investment Competition would rectify that imbalance by providing "gap financing" for innovative, high impact economic development projects at scale that create jobs. The program will create a competitive funding stream that is responsive to changes in market conditions, leverages other neighborhood revitalization resources (including formula CDBG funds), and ultimately increases the economic competitiveness of distressed communities and neighborhoods.

Under this proposal, my office would be permitted to consider how much and to what extent the project will complement and leverage other community development and revitalization activities such as the Choice Neighborhoods Initiative, Promise Neighborhoods, HOPE VI, Sustainable Communities, or other place-based investments in targeted neighborhoods to improve economic viability, extend neighborhood transformation efforts, and foster viable and sustainable communities. Applicants must develop a plan that includes measurable outcomes for job creation and economic activity, exhibit capacity to implement such plan, and demonstrate approval for the plan from the local jurisdiction. Applicants will be required to leverage other appropriate Federal resources, including but not limited to, Community Development Block Grant formula funding and section 108 Loan Guarantees. This will support HUD's effort to partner with grantees to more effectively target community development investments toward neighborhoods with greatest need, disinvestment, or potential for growth.

Enhances and Broadens Capacity Building for our Partners

The fiscal 2011 budget provides $60 million for a revamped Capacity Building program. HUD must embrace a 21st century vision for supporting the affordable housing and community development sector and will reframe the section 4 program, including renaming the program "Capacity Building", in order to reflect that vision. The objective is to expand HUD's funding capabilities, and encourage open competition through mainstream and consistent program funding for these activities.

Working with cities and States to readily understand how to meet the needs of their communities, leverage private and other kinds of resources, and align existing programs is fundamental to building resilience in tough economic times. Increasing capacity at the local level is critical as jurisdictions partner with the administration in implementing key initiatives such as Choice Neighborhoods, Sustainable Communities, and the Catalytic Competition and work to restore the economic vitality of their communities. This enhanced program will include local governments as technical assistance service recipients.

Takes Choice Neighborhoods to Scale

The administration will also propose authorizing legislation for Choice Neighborhoods, funded at $65 million in fiscal year 2010 on a demonstration basis, and at $250 million in the budget. I am appreciative that Congress was willing to fund Choice Neighborhoods on a demonstration basis in fiscal year 2010, and HUD is now requesting that the program be expanded to a level where its impact can be significantly broader.

This initiative will transform distressed neighborhoods where public and assisted projects are concentrated into functioning, sustainable mixed-income neighborhoods by linking housing improvements with appropriate services, schools, public assets, transportation, and access to jobs. A strong emphasis will be placed local community planning for school and educational improvements including early childhood initiatives. Choice Neighborhood grants would build upon the successes of public housing transformation under HOPE VI to provide support for the preservation and rehabilitation of public and HUD-assisted housing, within the context of a broader approach to concentrated poverty. In addition to public housing authorities, the initiative will involve local governments, non profits and for profit developers in undertaking comprehensive local planning with input from the residents and the community.

Additionally, HUD is placing a strong emphasis on coordination with other Federal agencies, with the expected result that Federal investments in education, employment, income support, and social services will be better aligned in targeted neighborhoods. To date, the Departments of Education, Justice and HHS are working with HUD to coordinate investments in neighborhoods of concentrated poverty, including those targeted by Choice Neighborhoods. Again, we will be working with the House and Senate authorizing committees on these efforts.

Protects Consumers From Discrimination in the Housing Market and Affirmatively Furthers the Goals of the Fair Housing Act

The budget proposes $61.1 million in support of the fair housing activities of HUD partners. Some sources estimate that more than 4 million acts of housing discrimination occur each year. To meaningfully address that level of discrimination, the Department, in addition to directing its own fair housing enforcement and education efforts, must engage outside partners. Therefore, this budget funds State and local government agencies to supplement HUD's enforcement role through the Fair Housing Assistance Program (FHAP) and provides funding also to nonprofit fair housing organizations that provide direct, community-based assistance to victims of discrimination through the Fair Housing Initiatives Program (FHIP). The entities participating in the two programs both help individuals seek redress for discrimination they have suffered and help eliminate more wide-scale systemic practices of discrimination in housing, lending, and other housing-related services. This budget provides $28.5 million to State and local agencies in the FHAP and $32.6 million to fair housing organizations through the FHIP.

While this budget does not continue a $10 million initiative within the FHIP program, funded in fiscal year 2010, specifically directed at mortgage lending discrimination, fair housing funding, generally, and FHIP funding, in particular, remains substantially higher than in fiscal year 2009. Overall, the $61.1 million requested this year for fair housing activities overall represents a 12 percent increase over the fiscal year 2009 enacted level of $53.5 million, and the $32.6 million requested for FHIP, in particular, is fully 18 percent above the $27.5 million in fiscal year 2009.

Since its passage in 1968, the Fair Housing Act has mandated that HUD shall "affirmatively further fair housing" in the operation of its programs. This requires that HUD and recipients of HUD funds not only prohibit and refrain from discrimination in the operation of HUD programs but also take pro-active steps to overcome effects of past discrimination and eliminate unnecessary barriers that deny some populations equal housing opportunities. To assist recipients in meeting these obligations, the Department is revising its regulations to clearly enumerate the specific activities one must undertake to "affirmatively further fair housing" and the consequences for failure to comply. To support this effort, $2 million of the FHIP budget will support a pilot program whereby fair housing organizations help HUD-funded jurisdictions comply with these regulations.

Finally, I want to emphasize that as HUD works through the Choice Neighborhoods initiative and across all of its programs to revitalize neighborhoods, as well as enable families to choose to move to other neighborhoods with lower poverty and greater economic opportunity, HUD will strive to ensure that newly revitalized neighborhoods remain affordable, inclusive places for low-income people to live.

GOAL 5.—TRANSFORM THE WAY HUD DOES BUSINESS

In light of recent natural disasters and the housing and economic crises, last year HUD saw a pressing need for adaptability and change. To become an innovative agency with the capacity to move beyond legacy programs, shape new markets and methods in the production and preservation of affordable housing, green the Nation's housing stock, and promote sustainable development in communities across America, the Department had to remake itself.

To accelerate the Department's transformation, the fiscal year 2011 budget makes the following vital reforms.

Develops a Basic Data Infrastructure and Delivers on Presidential Research and Evaluation Priorities

HUD requests $87 million for the Office of Policy Development and Research, an increase of $39 million from fiscal year 2010, to continue the transformation of PD&R into the Nation's leading housing research organization. The role of housing issues in starting the economic crisis, and the importance of housing issues to the Nation's economy, shows the urgent need for this housing research. These funds would be used for three critical activities:

Basic Data Infrastructure.—Continue the investment made in fiscal year 2010 to support the collection and dissemination of the core data needed to support effective decisionmaking about housing. HUD's request for this purpose is $55 million, which is $7 million more than the fiscal year 2010 appropriated level of $48 million. This will be used to conduct housing surveys—including full funding for the American Housing Survey—support enhanced research dissemination and clearinghouse activities, and underwrite a Young Scholars research program.

Presidential Research and Development Initiative.—As part of the administration's Research and Development initiative that is tied to the President's national goals of energy, health and sustainability, the Department proposes to administer $25 million for research on the linkages between the built environment and health, hazard risk reduction and resilience, and the development of innovative building technologies and building processes.

Presidential Evaluation Initiative.—Also for fiscal year 2011, the President is proposing to fund rigorous evaluations of critical programs to inform future policy discussions. The $7 million proposed will supplement funding from the Transformation Initiative set-aside to support rigorous evaluations of the Family Self-Sufficiency Program, potential Rent Reform strategies, and the Choice Neighborhoods program.

Maintains the Department's Existing Technology Infrastructure

HUD requests $315 million for the Working Capital Fund, to cover the steady State operations, corrective maintenance of HUD's existing technology systems, and the re-competition of HUD's infrastructure support contract. As with fiscal year 2010, this does not include the "next generation technology" development that would be funded through the Transformation Initiative, as described below. The bulk of the fiscal year 2011 request ($243.5 million) would be in the form of a direct appropriation. In addition, HUD seeks a $71.5 million transfer from FHA to pay for its share of infrastructure costs and system maintenance.

Provides Flexibility and Resources Needed to Fuel Agency Transformation

As in fiscal year 2010, the Department again seeks the authority to set-aside up to 1 percent of HUD's total budget for an agency wide Transformation Initiative.

HUD's fiscal year 2010 Transformation Initiative was intended to indeed be transformational. The resources it provides are allowing us to take long-overdue steps to upgrade and modernize our Department and allow it to function as a 21st century organization. As one example, it is helping us replace computer programs written in COBOL in the 1980s with those written in the flexible and powerful languages of 2010. In addition, HUD has not conducted a major demonstration since the 1990s, when the Moving to Opportunity study was conducted. This demonstration is still yielding important evidence on how mobility and rental assistance interact that guides policy. And local government capacity to effectively use Federal resources varies widely and leaves some communities at risk of always lagging the pack.

Further, even in the instance that efforts such as technical assistance were adequately funded, they were funded in silos—making cross-cutting initiatives that achieve the biggest bang for the buck next to impossible.

The TI approach we propose—allowing for the flexibility to take up to 1 percent of our budget and devoting it to four key areas—is similar to the approach applied by most cutting-edge institutions. This recognizes not only the need to have targeted funding to overhead—but the ability to respond to changing circumstances that may require overhead to consume an increased share of the budget, a change in the mix of activities funded and cross-cutting initiatives.

While reprogramming requests to the Appropriations Committee provide some flexibility along these lines, these are inherently limited in comparison to TI funding because of absolute caps in statutory appropriations accounts.

The flexibility inherent in this TI structure allows for the more nimble, responsive agency required in a long budget process where individual research ideas or investment proposals made in January might have been usurped by developments through the course of the year. A good example would be the $50 million in Neighborhood Stabilization technical assistance HUD made available to communities through ARRA. Full funding of the Transformation Initiative will enable HUD to take such an approach to scale and continue the delivery of a new level of technical assistance and capacity building to Federal funding recipients, recognizing that human capital, technical competence and institutional support are critical for the success of HUD's partner organizations.

And while we appreciate that the subcommittee did recognize this reality in funding this effort for fiscal year 2010 at $258 million, which has begun an important process of increasing investment and bridging silos, we renew our request for authority to use up to 1 percent. I would note that this past year we received 110 groundbreaking research, information technology and technical assistance proposals internally—but we were only able to fund a little over one-half of these requests. Further, of the demonstrations and IT projects that were funded in 2009, many were multi-year projects that we have had to plan and operate, in all but the most urgent circumstances, with single-year funding.

Salaries and Expenses Central Fund.—Building on the principle of the Transformation Initiative, the budget requests the creation of a Salaries and Expenses Central Fund, funded through a 1 percent transfer from each of HUD's salaries and expenses accounts. The Fund will provide targeted, temporary infusions of resources to any of HUD's program offices in order to increase our responsiveness to unanticipated crises and new challenges through the hiring of staff with appropriate expertise. One example of how this type of funding might be used would be in the instance of a national disaster—in response to which HUD would be expected to play a key role. Another would be FHA, which inside of 3 years has temporarily expanded from insuring 2 percent of the market to, as mentioned previously, approximately one-third.

As you know, HUD staff has been meeting with the bipartisan, bicameral appropriations staff to discuss our plans in this area, and have recently submitted a detailed report on our proposals. And so, while I appreciate the level of trust this subcommittee showed in HUD leadership for fiscal year 2010, I would hope that the progress we have demonstrated and the extraordinary need to build on these successes would warrant full funding for the coming fiscal year.

CONCLUSION

In sum, this budget continues the transformation begun with the 2010 budget—a budget I recognize simply would not have been possible absent the leadership and commitment of this subcommittee. With the housing market showing signs of stabilization, our economy beginning to recover and the need for fiscal discipline crystal clear, now is the moment to reorient HUD for the challenges of the 21st century—retooling its programs and initiatives so it can better fulfill its mission to serve American households and communities more effectively and more efficiently over decades to come. I am proud of the progress we have begun to make in these areas with this subcommittee's support, and I look forward to our continued progress through the proposals outlined in the fiscal year 2011 budget. Thank you again for the opportunity to appear before you to discuss HUD's proposed budget. And with that, Madam Chairwoman, I would be glad to answer any questions.

—HUD is currently conducting a definitive Capital Needs study of the public housing portfolio.

—Preserving Safe, High Quality Public Housing Should Be a Priority of Federal Housing Policy, Barbara Sard and Will Fischer, October 8, 2008 (noting that "90 percent of developments meet or exceed housing quality standards, although most developments are more than 30 years old, and many will need rehabilitation.").

FHA

Senator MURRAY. Thank you very much for your statement, Mr. Secretary.

Let me start because you talked a little bit about your opening statement, I did as well, that OMB and CBO differ considerably on the amount of receipts that they estimate FHA mortgages are going to generate in fiscal year 2011, a difference of about $4 billion. How would a reduction of that magnitude impact HUD programs?

Secretary DONOVAN. Obviously, that kind of reduction would be substantial. Again, let me point to the fact that CBO does agree that the changes we are proposing in legislation would have a positive impact on the fund.

My FHA Commissioner is testifying today on the House side in front of the authorizing committee on those changes. I believe it is critical that we do get the authority to increase our annual premium and that we continue to do the kind of risk management changes and others that we need. CBO fundamentally agrees that those changes will add to the receipts.

We have begun to work closely with CBO to look at the reasons for the discrepancy. We would be happy to work closely with this subcommittee, as well as the Budget Committee, to look at the reasons for that discrepancy. Obviously, as you know, while the CBO view is important, it is ultimately advisory, and the Budget Committee can make a determination on its own about which of the forecasts make the most sense and what it is going to choose as the path for the budget.

And I would further add that, as I mentioned in my testimony, we have substantially increased our capacity at FHA to monitor the health of the fund, made numerous changes and improvements in the way we project it. And in fact, thus far this year, we are running ahead of our projections in terms of losses and receipts to the FHA Fund.

I would also add that to ensure that we were being conservative in the President's budget we did use a relatively conservative house price forecast that has been below what has actually happened in the housing market since then.

So for all of those reasons, I continue to be confident in our projections, and we would be happy to provide whatever information you and the Budget Committee might need to make a final determination about the path of the budget.

Senator MURRAY. And are you working with the Budget Committee on that?

Secretary DONOVAN. We have been working closely with OMB on it, and they have been leading discussions with the Budget Committee.

Senator MURRAY. Okay. Well, one of the paths that you just talked about had to do with increasing the premiums on the FHA mortgages, those premiums that are used to cover any claims on mortgages. But the losses in recent years have caused the capital reserve for the FHA to fall below that mandatory 2 percent. In order to recapitalize that, you are planning on increasing the premiums.

Under existing authority, FHA will increase up front, I think, 2.25 percent in April. But you also are saying you need authorizing language to do that. How is your progress going with the authorizing language, with the authorizing committees on that?

INCREASE IN ANNUAL PREMIUM

Secretary DONOVAN. So we have proposed and we do have the current authority to raise the upfront premium to 2.25 percent. We believe, and I think there is broad agreement, however, that it is a better approach, both safer for homeowners and ultimately better for the health of the FHA Fund, to have a combination of an increased upfront premium, as well as an increase in the annual premium. And we currently do not have the authority to raise the annual premium. That is the authority that we are seeking through legislation.

We have had numerous meetings with both sides of the aisle on the authorizing committees; have heard a lot of support. In fact, Ranking Member Capito introduced her own bill yesterday that included a broad range of the proposals that we have. And so, I am encouraged by the progress that we are making with the authorizing committees on that.

I would make two other notes. One is that not only is increasing the premiums something that is important for the health of the fund, but in addition to that, increasing the premiums, I think, is the single most important thing FHA can do to encourage the private market to return. We are already hearing, once we announced the increase in our upfront premiums, a number of private mortgage insurers and others beginning to move back into the market. And so, I think it——

Senator MURRAY. Once you announced the 2.25 percent?

Secretary DONOVAN. The 2.25 percent. And so, I believe it is important, given that we believe FHA's current role is a temporary role, that we want to see the private market return, that raising the premiums sends the right signal to the broader market and will help others return to the market.

The last thing I would note is that we do have the current authority to raise the upfront premium even further. So increased receipts along the lines proposed in the budget are not completely dependent on the legislation.

Senator MURRAY. Increase above the 2.25?

Secretary DONOVAN. Above the 2.25.

Senator MURRAY. Do you have authority to do that without——

Secretary DONOVAN. We do have the ability to go up to 3 percent currently. However, and again, there is wide agreement on this, it is a better path not to raise the upfront premium that far or even to keep it at the 2.25 that we have already proposed to raise it to, but to increase the annual premium further in order to provide more security for homeowners as well and a better deal for homeowners and to build the fund more quickly.

Senator MURRAY. Are you making any progress in the Senate Banking Committee?

Secretary DONOVAN. We have had very good discussions with them on it as well. The House has taken the lead with their own bill, but we have heard bipartisan support around many of the changes that we have proposed.

Senator MURRAY. If we were to get that kind of legislation passed, when would you anticipate the capital reserve funds will be at or above the required 2 percent? How long would it take?

Secretary DONOVAN. Based on our numbers, we believe that the 2 percent is achievable by 2012 or 2013, based on conservative assumptions in house prices.

Senator MURRAY. When would the legislation have to be enacted in order to have that date?

Secretary DONOVAN. One of the keys about getting the legislation enacted as quickly as possible is that our estimates are that every month sooner we get the legislation is another $300 million in net receipts to the FHA Fund. So every month that we get that either later or earlier has a $300 million impact on those funds.

STATE OF THE HOUSING MARKET

Senator MURRAY. Okay, all right. Well, let me move on.

It seems that every day there is a new report out there on the state of the housing market. But the reality is that economists often arrive at completely different conclusions from the same housing market data.

You have testified that housing prices have held steady or risen since last April, which provides reason for optimism. However, in January, new home sales plummeted to the lowest level in 50 years, and many regions in my State continued to experience some severe home value losses.

Do the reductions in home sales that we saw in January make you concerned about the stability of the market, and when do you expect that we may see home prices stabilize?

Secretary DONOVAN. What I would say about that data, widely expected with the original expiration of the home buyer tax credit that there would be a decline in sales during December and January. I would say that the decline in January was somewhat worse than expected. Part of that was weather driven, frankly. But even beyond that, there were, I think, notes of concern that we took from those numbers.

I think what it highlights most of all is that the levels of prices in home sales continue to be fragile. They are still above where they were a year earlier, which is, I think, an important benchmark. But one of the reasons we supported the extension of the home buyers tax credit, as well as we continue to support the importance of FHA, the GSEs, and other interventions keeping interest rates low is that we are concerned about the fragility of the housing market.

Overall, again—and this goes to your point earlier—when we came into office, widely predicted economists on both sides of the aisle, and more broadly across the spectrum, expected on average another decline of 5 percent in home prices last year. That did not happen with the support of the administration. Home prices were basically level during last year.

So I think we have had the impact of stabilizing the market. But it is fragile, and we need to continue to focus and do more to ensure that we are on the right path with home prices.

Senator MURRAY. One of the programs that the Federal Reserve is going to end is the purchase of mortgage-backed securities that has helped quite a bit, and the home buyer tax credit is going to expire here shortly. Are you concerned that if we don't extend those important initiatives, we are going to add to that fragility?

Secretary DONOVAN. Typically, the home buying season is slowest during these winter months, and we will all be watching very closely the sales numbers as we move into the spring and as we get closer to the expiration of the tax credit. I would say that it is too early to decide that.

My strong belief based on the indicators that we have seen is that the Federal Reserve is taking a very measured approach to stepping back that program and will be watching the market very closely. We will be doing the same.

But I think it highlights the fact that with FHA, while we have significantly stepped up our risk management, increased underwriting requirements, down payments, raising premiums, that we must take a balanced approach and not go too far to exclude buyers that can be successful in the market. And so, that balanced approach, I think, is critical, as well as watching the numbers over the next few months in the spring buying season very, very closely.

Senator MURRAY. Okay. Senator Bond?

Senator BOND. Do you want to continue your questions and do those, and then let me do mine? Then go on, go to E&W, and let me—I will, if you trust him to my tender mercies?

MAKING HOME AFFORDABLE PROGRAM

Senator MURRAY. All, Mr. Secretary, we have reached a gentleman's agreement here. I am going to finish the question that I need to ask you right now and then turn the gavel over to Senator Bond, who is going to ask his questions and then come to the Energy Committee, if that is okay with you?

So I wanted to ask you about the Making Home Affordable Program. One of the programs in that, the Home Affordable Modification Program, HAMP, reduces a homeowner's monthly payments by lowering interest rates or spreading a mortgage out over a longer period of time.

That program was supposed to help about 3 million to 4 million families by 2012. But as of January, only about 116,000 homeowners have received permanent modifications under that. We are hearing that servicers have been struggling with burdensome changing rules, and borrowers are confused. And wondered what changes you were looking at on that program?

Secretary DONOVAN. So, first of all, I would say that there is no question that there were early implementation problems with servicers who did not have the capacity to be able to reach borrowers and that there has needed to be, and there has begun to be, a significant increase in focus, as well as resources, at the servicers. We have also taken a number of steps to streamline the process, streamline documentation, and simplify the process.

One of the most important changes is that we have announced that we will be requiring all documentation to be gathered up front, rather than at two different points—at the beginning of the trial modification and before permanent. That should greatly simplify the process.

And we have also done an enormous amount of outreach in locations around the country to bring homeowners and servicers together with fairs and a whole range of other events and direct connections. We have folks under the direction of the servicers literally going door-to-door to try to get homeowners qualified.

What I would point out is that based on all of those efforts, we were able to reach just 1 year after the creation of the program—just 1 year after the creation of the program more than 1 million homeowners with trial modifications. And I think it is very important to point out that those trial modifications are having a significant positive impact for those families, average savings per month of over $500 and significant benefits to them.

So, based on that, we are on track to reach the 3 million to 4 million homeowners that we originally committed to. We are concerned that the permanent modifications have not been moving quickly enough. We have significantly increased the pace of that. And we today are seeing about 50,000 new permanent modifications a month, based on our recent experience. And so, I do believe while we still have some improvements to go, that we are making significant progress in terms of home affordable modification.

I would finally just say that—and by the way, we have almost 20,000 of those in the State of Washington. I would be happy to share more detailed information with you on that.

Finally, I would say that that is only a part of the broader strategy. And with the announcement the President made that you referenced in Nevada just 2 weeks ago, as well as a number of other steps that we are taking, I believe we are——

Senator MURRAY. Yes. Let me ask you about that. You announced this program to help these five States that—in Nevada a few weeks ago. What is the specific timetable for implementing that program, and when would we start seeing results on that?

Secretary DONOVAN. So, on that program, what we determined is that we have a number of national efforts. We continue to examine new national efforts, but that the challenges facing those places are quite different depending on the State. For example, Michigan's challenges are very different from Nevada's or California's.

And so, what we did was to ask the five States, their State housing finance agencies, to come in and propose tailored programs for those States that would most effectively target the problems that they are seeing. We have seen very effective State programs in a number of places, Pennsylvania and others, along these lines, particularly targeted at unemployed homeowners and underwater homeowners.

We have asked the States to come in and propose to us within the next few weeks plans. We will then review those plans, and we hope to be able to approve them within the next month to 6 weeks and then to be able to start implementing those programs immediately at that point. Again, many of these State agencies already have programs up and operational that we could enhance or change that could get going very quickly.

Senator MURRAY. Okay. Are you looking at expanding that all? In my home State, we have about a quarter of a million Washington State homeowners today who are underwater, representing about 16 percent of our homes, especially in two of our counties, Pierce and Clark Counties. Are you looking at expanding this to any of the other States?

Secretary DONOVAN. What we are looking at, Madam Chair, is broader national efforts around negative equity and unemployment that could target the issues that you are talking about in your State.

One of the reasons we wanted to take the approach on the program that the President announced in Nevada is to test models that then potentially could be used in other States. So we don't have any immediate plans to expand it until we have begun to see the results. But we are working on other efforts, which I would be happy to follow up with you on, and talk more about, that would nationally target the negative equity issue and unemployment that could have real benefits in Washington.

BACKLOG IN PUBLIC HOUSING CAPITAL IMPROVEMENTS

Senator MURRAY. Okay. We would like to hear more about that.

I wanted to ask you about the backlog in capital improvements needs in public housing now estimated at over $20 billion. The President's budget proposes the first phase of an ambitious plan designed to leverage significant private sector resources to tackle that backlog and preserve those assets.

I agree. We have got to find a long-term solution on this, but I am concerned about the absence of detail in the proposal so far and its cost.

For 2011, the administration is looking for $290 million in additional subsidies in order to leverage those private sector dollars. When fully implemented, I understand the program is going to cost about $1.4 billion each year. How would you accommodate this major new requirement, given the President's commitment to freeze discretionary spending over the next 3 years?

PUBLIC HOUSING CAPITAL FUND

Secretary DONOVAN. I think one of the important points to make about this initiative is that the fundamental change that we are talking about is shifting from an operating and capital approach to one which has only an operating stream. So while there are increases that we are proposing in operating subsidies in the budget, we will have, particularly over the longer term, significant savings and, ultimately, not require any capital funding for public housing in a separate account. And so, that is one way that we have offsetting savings that come from the way that we are proposing this.

A number of other points, though. That does not account for efficiencies that this will achieve. I talked in my testimony about the enormous complexity of the current range of programs and how difficult it is to achieve mixed financing and other things. Part of that are operational costs at the Department, which we have the potential to do significant savings on. We have begun to estimate those. Those are not simple to estimate.

Senator MURRAY. Sure. Are you going to put forward proposals to cut the operating stream side of it, expenses?

Secretary DONOVAN. The capital?

Senator MURRAY. Yes.

Secretary DONOVAN. Yes. There will be offsetting reductions possible in the public housing capital stream as a result because we will be moving to a system where there would only be operating subsidy going to those developments. And they would use—just as is currently done in almost every other program that we have, funding could be raised privately or from tax credits or other sources to pay for the capital needs.

And so, that we would go from this more complex two-subsidy system that we have today with public housing to a one-subsidy stream. It would require the operating subsidy to be higher, but it allows us to offset to a great extent that increased cost to the operating subsidy with reductions and, ultimately, elimination of the capital stream.

There will also be significant savings in terms of reduced complexity for the developments themselves. The management, oversight, the soft costs of hiring lawyers, and all kinds of other things around transactions that——

Senator MURRAY. It sounds really good. I just want to see how it works on paper so we have accountability in the system and we know it works.

Secretary DONOVAN. And I know that we have been working with your staff to try to get more details about the long-term costs and savings around the proposal.

TRANSFORMING RENTAL ASSISTANCE

Senator MURRAY. We will need to see those. Okay, good.

One of your proposals is to transform rental assistance to make sure that tenants have mobility options, even though from what I see, the funding is going to be tied to a particular unit. Now I understand that you are modeling this proposal on one of the provisions of the section 8 Tenant Based Rental Assistance Program.

Under the existing program, PHAs are allowed to commit or project-base a voucher to a particular unit.

Secretary DONOVAN. That is right.

Senator MURRAY. This enables the PHAs to leverage private resources to finance the construction or rehabilitation of those units. But with project-based vouchers, PHAs are able to make sure residents have mobility by providing them with another tenant-based voucher from their existing supply if a person decides to move.

However, your proposal would allow participation by entities that don't have voucher programs, whether they are public housing authorities or owners of other HUD-assisted housing. The lack of vouchers would appear to be a barrier to mobility in these systems. In these cases, how do you provide residents living in this type of housing with mobility options?

Secretary DONOVAN. It is an excellent question. And mechanically working out the operations of linking those housing developments with vouchers is a very important part of the proposal. And I would just say broadly, we have been spending a lot of time working with stakeholders, talking with OMB, within the administration, and also reaching out to the authorizers, as well as your staff, to discuss a lot of these issues. And we expect not only to have authorizing language, but also far more detail based on the input that we are getting from stakeholder meetings and others that we are doing.

On this mobility point specifically, first of all, what we are looking to do is to make sure that if a housing authority or another entity does not have control of a voucher program themselves, that we link them with a voucher program in the area where the project is located to ensure that there are vouchers available for those families that would move. What we are looking at is sizing exactly how big that pool would be and to ensure that we are not creating too much of a need for additional vouchers to be able to do that because, as you rightly said, the cost of that and the potential pressure on the voucher program overall is important.

We believe based on our latest modeling that we can achieve significant mobility, if not complete mobility, with the existing resources that we have. But we want to come back to you with a number of options on that that would say if we want to do this amount of mobility, here is what we could do.

Senator MURRAY. This is what it would cost.

Secretary DONOVAN. If we wanted to do further mobility among a broader population, here is what the cost would be, and here is how we might be able to work it. So we are working through a lot of detail on that and look forward to sitting down with you.

Senator MURRAY. Okay. We want to be continually updated on where you are with that.

Secretary DONOVAN. As always, you have hit on a very important piece of this, an important point about how we achieve that mobility.

HUD–VASH PROGRAM

Senator MURRAY. Okay. And lastly, I wanted to ask you about the HUD–VASH program. You know this is really important to both Senator Bond and I. We have worked very hard to include it in our budgets and appropriations over the last several years.

I have heard wonderful stories from veterans in my home State, in Walla Walla, Washington, that have gotten jobs, gotten healthcare, and gained sobriety because they have these vouchers. There are similar stories across the country. But I know this program has faced some challenges in implementation in some parts of the country, and the VA is, as you know, struggling to quickly hire case managers and adapt to this new model of permanent supportive housing.

Based on the most recent data, it appears that now only about half of the vouchers that we provided in fiscal years 2008 and 2009 are actually being used. Can you tell me what HUD and VA are doing to overcome these problems and make it successful? Because we know when it gets out there and people are using it, it makes a huge difference for our veterans. But having administrative challenges at any level here on the ground is a disservice to the veterans.

If you can talk to me about what HUD and VA are doing?

Secretary DONOVAN. Absolutely. And let me just start by saying your support and championing of this program has been absolutely critical, and we believe it is having a tremendous impact on veterans, despite some of the challenges that you talked about.

I also would put it in the context of the commitment that the President and Secretary Shinseki have made to end veterans' homelessness. VA has included a $265 million increase in funding for veterans homelessness in its proposal for 2011. So this is in the context of broad support for the intent of the program and, more broadly, ending veterans homelessness.

The way I would characterize the challenges largely are that VA is an expert in healthcare. What has been required in order to make the program effective and to fully utilize the vouchers has been building a capacity beyond healthcare that includes community-based outreach and the ability to connect the healthcare and other services available at VA hospitals with the housing and other support services that may be necessary.

Where we have seen great success is where VA hospitals have built that capacity, and we have begun to connect them with our continuums of care, community-based providers where they can form links to ensure they are finding veterans where they are, whether it is on the streets or in shelters, as well as helping to build their capacity and understanding about the latest techniques of whether it is housing first, supported housing, and others.

And so, whether it is in Washington, DC or in many other places, we are seeing significant increases in utilization of those vouchers with those targeted strategies. And we have now developed with VA a plan to try to more broadly spread those. We have spoken about this, and you had a number of good points the last time we spoke about this that we are incorporating into that thinking, and we want to come back with you with a response on that.

Senator MURRAY. Okay. Well, my subcommittee really wants to work with both you and the VA to get this out. I was really disappointed the President's budget didn't include any funding for

2011. We can't let administrative lack of dialogue or lack of working on problems keep these vouchers from going to our vets.

So we want to keep working with you on the implementation, and clearly, that remains a high priority for this subcommittee, and I thank you for being committed to that and working with the VA on that.

Secretary DONOVAN. Thank you.

Senator MURRAY. Senator Leahy has joined us. Senator Leahy, I will just let you know I have to run to the Energy and Water Committee really quickly. Senator Bond is on his way back. I am going to, without asking you, turn the gavel over to you and allow you to go ahead and question the Secretary.

Senator HUD will be—Senator HUD, he would love that.

Senator Bond will be back shortly. And if you finish before he gets back, if you could just put it in temporary recess, he will be here within——

RURAL AMERICA

Senator LEAHY [presiding]. Of course, and I am going back to a mark-up in Judiciary. But I was able to get permission to leave the Judiciary meeting, funny how that works.

Thank you, Madam Chair. And thank you for the tremendous job you do on this and other appropriation matters.

Secretary, it is good to see you, and I appreciate having you here to discuss the administration's budget request. So many of the programs in your Department have served my State very well, you have got one heck of a portfolio, and there are probably days when you wish it wasn't quite as much. But I would welcome you up to Vermont sometime to see the good things HUD has done to provide affordable housing, especially in our rural communities.

We always think of housing in urban settings, but my home State has only 660,000 people, and a lot of it is very rural. But something that works in rural Vermont could also work in rural California, or New York, or Texas, or elsewhere.

Now I know others have asked you about the Department's proposal to cut the budgets of the 811 and 202 programs and the HOME program. I worry about this because as I look at the budget, I am afraid there is a shift of priorities from rural areas, rural America to urban areas, and I remind everybody that rural America still is a third or more of America's population.

Of course, back at the time of Franklin Roosevelt, they were concerned about rural America, and we had rural electrification, a number of other programs that made an enormous difference in society. I know it did with my grandparents in Vermont and others.

But Vermont and other rural States rely on these programs to build affordable housing for low-income, elderly, and disabled residents. So if Congress agrees with your budget proposals, how are you going to deal with the problems of rural America?

Secretary DONOVAN. Senator, thank you for the question. I look forward to visiting you in Vermont. It is, I probably shouldn't say this in a Senate hearing, one of my favorite States. I spent a lot of time there——

Senator LEAHY. Mine, too.

Secretary DONOVAN [continuing]. Growing up, and just a beautiful, beautiful place.

So let me say a couple things about this. First of all, we had to make some very difficult choices in the budget this year, given the broader outlines of the Federal budget deficit, and we made a fundamental choice to focus on existing households that we serve and ensuring that we were fully funding our major rental assistance programs. That required capital cuts in a number of different areas. Just to be clear, those rental assistance programs are critical in rural areas of the country as well, and we would be happy to get you more detail on how they support rural areas.

I would also say that, today, the single most important way that we fund housing for the elderly and disabled in rural areas and other areas is through the tax credit program. Eight times more senior housing is developed through tax credits than through 202 and over 10 times more for people with disabilities. And so——

Senator LEAHY. But I still come back to my basic point. I worry about the way this is set up, that we are seeing a shift from rural to urban, and that is what I am going to be most concerned about. Because there is no way I could support—I could support an appropriation that did that.

Secretary DONOVAN. And I believe that that is, in fact, not the case. Section 202 and 811 are equally available in a range of areas. But let me point to a few things that I think are particularly targeted to rural areas in the 2011 budget proposal.

SUSTAINABLE COMMUNITIES

First of all, we will, for the first time ever, be establishing a program specifically targeted to rural homelessness in 2011. That has never been done before. We have—because of the work of this subcommittee, in our 2010 budget, we will be making Sustainable Communities funding available for the first time with a specific 25 percent set-aside for smaller communities, and that is a critical effort. We are also building on our experience in investing in rural economic development through a proposed catalytic investment fund, which will be an important resource available in rural areas as well.

So not only do I believe that we have housing resources specifically for constructing senior housing and housing for people with disabilities in rural areas, but that we are actually increasing our focus on rural areas with a number of different proposals in the budget.

SHARED EQUITY PROGRAMS

Senator LEAHY. Thank you. I look at some of the different things you have done—the administration has done and Congress has supported to promote home ownership. In HUD's previous budget request, the Department expressed interest in an innovative home ownership model known as shared equity. It is typically run by nonprofits.

They promote home ownership among low- and middle-income families by providing down payment assistance. The affordability of the home is retained. When the buyer eventually sells the home, the nonprofit recoups what they put for the down payment and also part of the appreciation. They also usually have the right of first refusal to buy the property. If Congress included funding for a pilot program to increase shared equity programs, is that something your Department would support?

Secretary DONOVAN. We certainly not only believe in shared equity models, but there are a number of ways that we have begun to support those. What I would suggest is that we would love to sit down with your staff and explain what we are already doing around shared equity and see if there is a way we could get to a pilot of the kind that you are talking about, even under existing authority, and then describe, be able to figure out what additional authority might be needed to achieve what you are——

MAKING HOME AFFORDABLE PROGRAM

Senator LEAHY. Thank you. And we will. Whenever you would like, we will make sure we have our folks ready.

And in your prepared remarks that were read earlier, you spoke about the housing market. You noted that a lot has been done by the administration to right the ship, and I am pleased that many Americans have been helped by the Making Home Affordable Program. I think we all know the societal value of home ownership and community value and everything else, to say nothing about the economic well-being of the country.

I am concerned about some who have slipped through the cracks. One of the concerns I hear most often on housing when I am home in Vermont is that some of the lenders in the program aren't abiding by the rules. The homeowner has been having a hard time getting straight answers, and it is frustrating because I will hear questions, whether walking down the street or at the grocery store or wherever. They say, "We can't get a straight answer."

Is your Department and Treasury looking at this issue of whether this is happening in States? Because it is to all our benefit if people can be homeowners, but they are going to have to have—they are going to have to be able to get the answers they need.

Secretary DONOVAN. There is no question that particularly in the early months of the program, servicers—there were significant problems with servicers. There continue to be significant problems in some cases.

We have both pushed servicers to create better communication, more resources, and more people in their call centers, going door-to-door to do that. But we have also created very specific standards for exactly what the timelines need to be for servicers to get back to homeowners with a clear response on whether they are eligible or not. We did that just a month or so ago.

And in addition to that, we have begun to impose penalties on servicers who are not following those guidelines. So, yes, we are hearing those issues, and we are taking action on them.

Senator LEAHY. Good. I must admit, and as Senator Bond knows, when somebody corners you in the grocery store and they have got a concern, they have got a concern. And I sometimes find those—actually, I like that. In a small State like ours, everybody knows everybody. And nobody hesitates to come up and ask you the questions. And this thing is occurring too often to make me think it is just a random issue.

Senator Bond is here, who knows these issues as well as anybody, and I am going to turn the gavel over to him.

Senator BOND. Well, I appreciate getting the gavel back from my good friend. Senator Leahy has outlined the concerns we have in rural America. I had raised those earlier, Pat, before you came, and they had—we had one little $25 million rural housing program for HUD to work with USDA, and that was gone.

So I was interested to know that the Secretary had said while they have zero budgeted, that something new is going to spring full-blown out of somewhere. And I can assure you that those of us who live in places where we don't have a rush hour, we have a rush minute, there are—they can't even—radio stations can't even sell drive time advertising because nobody is in the car that long unless they are driving to another city. And then that is——

Senator LEAHY. If the Senator would yield? Last week, Marcelle and I were in Vermont, and I got in the car. We were driving somewhere. And as I go out of the driveway, I started to reach for the radio to hear the traffic report, as I do when I am driving back and forth in Washington. And I am like, "What am I doing? There is no traffic."

But I have been in some of the rural areas of your State, which is so beautiful, it made me think of home. But the needs are the same. And with that, now that we have done our bit——

Senator BOND. A little soft shoe there.

Senator LEAHY [continuing]. To show you that we care about rural America, but Secretary Donovan, I know you do, too. So thank you.

RURAL HOMELESSNESS

Senator BOND. Thank you, Pat.

And Mr. Secretary, maybe you would want to comment on that? You have got a new rural housing initiative to replace rural housing?

Secretary DONOVAN. Well, I mentioned as you were coming in, a range of efforts in the budget. That is an issue I know you care a lot about. We will be implementing the first-ever rural homelessness effort specifically in the budget and that is something that, particularly given that we have seen a 56 percent increase in rural and suburban family homelessness over the last year, absolutely critical.

We are expanding efforts for economic development. The $25 million that you talked about was targeted to economic development, and we are proposing a $150 million fund in the budget, which would have a portion of it specifically targeted for rural areas. So I don't believe that we are not going to have the kind of effort——

Senator BOND. I will just ask the question. Are you going to work with the USDA on rural development?

Secretary DONOVAN. Absolutely.

TRANSPARENCY IN HUD PROGRAMS

Senator BOND. That is one of the secrets because you need the housing. You need what USDA can bring. And I think it is important that you maintain that collaboration. If you are talking about moving 25 to 150, I am happy with that. But I just—I want to work with you to make sure that it continues to work because, as Senator Leahy said and I know, there are problems there.

Let me go to the issue of transparency, and I mentioned to you before I sat down that I am concerned that HUD decisionmaking is open and objective. Are there political decisions which enter into that? Do you get directives from either the top of the administration or Congress on how you make those? Are those transparent?

Secretary DONOVAN. Absolutely.

Senator BOND. And to what extent are those involved in the decisionmaking?

Secretary DONOVAN. Let me be very clear. My "absolutely" was to the transparency. We make our decisions, particularly on competitive grants, in a highly transparent way. We publish the criteria for those as we did with NSP2. We have—with every single Recovery Act grant, have made those available on recovery.gov, our Web site, with detailed information about where the money is going, how it is being used.

We have every applicant who wants to sit down with us and go through the details of how their application was reviewed and scored, we respond to those requests. We would be happy to sit down with you about any specifics around that.

As you know, whether it is HOPE VI or a range of others, we run competitions, and we follow very, very strict guidelines in terms of how they are evaluated and——

Senator BOND. Is there any notification or transparency as to those who apply? We hear about some, but we don't even know if we know all of the ones that are coming from our State so we can follow them. Is there a posting of the applications?

Secretary DONOVAN. We notify members in advance of making those announcements.

Senator BOND. Yes. But when you get the applications, do you notify? Is there any public notice of the application? Who is in there? Do you advise the representatives in Congress of those in advance of the process?

Secretary DONOVAN. I will say I am not sure if we have a standard process for notifying members about applications in advance. We can certainly get back to you with more detail on the process we do follow.

Senator BOND. My staff has some questions about that, and we are a little concerned. We look forward to working with you on that.

Secretary DONOVAN. Okay.

SUSTAINABLE COMMUNITIES INITIATIVE

Senator BOND. Because I think most members, certainly over on the Senate side and, I would assume, on the House side, would like to know if there are 3, 10, 15, or 20 coming in from our State. Because we want to work with them, and we may be able to shed some light on community support because we are out there. We are listening to the people. We know some of the challenges they face, what the State and local priorities are as well, and we want to see those taken into account.

If the State is putting money into it and the locality has some skin in the game, to me, that is a very good indicator that this is something the Feds should look at carefully.

Let me ask some questions about—a major question about sustainability. Your DOT friends call it "livability." I don't know if that debate has been going on for a long time. But I want to make sure, once again, that the Federal Government is not forcing conclusions on local communities.

How do you make these sustainability decisions? Do you do it with DOT and EPA? How much involvement do the State and the local governments have in working with you to make those sustainability determinations?

Secretary DONOVAN. Let me say two things about that. First of all, we here—the fundamental issue here is that more and more American families are spending a huge portion of their budgets—the average family today spends 52 percent of their budget on housing and transportation combined. And not only that, they are sick of sitting in traffic rather than seeing their family or having long commutes in rural areas in some cases to get to jobs. There is a whole range of challenges that we see.

And so, we feel we are responding to local needs and choices on that front. But the problem has always been that housing and transportation investments haven't been coordinated at the Federal level because there wasn't the kind of partnership that we are talking about.

So we have begun to coordinate very closely with the Department of Transportation, with DOE—Department of Energy—and Environmental Protection Administration, just to give you an example. On the recent TIGER grants that were awarded as part of the Recovery Act, we had HUD staff and EPA staff actively involved in the process, first time it has ever happened, of evaluating TIGER grants, to look at the connection of those to housing. So that is an example of that.

On the State and local piece of this, we believe very strongly that this is not a one-size-fits-all. And so, the very first initiative we are undertaking in our Sustainable Communities initiative is to provide, thanks to the subcommittee's leadership, planning grants for local communities to be able to decide how they want to coordinate housing and transportation. This is not about us telling them. This is us providing help to them so that they can do the kind of planning and coordination, provide technical assistance. What are the best practices?

And in fact, I don't know if you were here, 25 percent of that planning money is specifically directed to smaller places to ensure that this isn't just an urban or even suburban investment, but that we are doing planning. Tom Vilsack is very eloquent about this. We have worked a lot with him and his Department.

Is how do we ensure in rural areas, whether it is main street where stores are leaving, that main street, whether it is figuring out what to do with upper floors of buildings along those main streets in small towns, whether it is connecting seniors to the services that they need, with kinds of transit that you wouldn't see in larger urban areas. A whole range of ways that we can work together and those planning grants are the key first step, funded by our 2010 budget, to be able to help local communities decide how they want to meet these challenges.

STAFFING FOR INITIATIVE

Senator BOND. Well, I think that is very important that you have a right to ask of the local communities or regional areas what their plans are, and that is something I have worked on for about 40 years. And making sure they have it all together and know what they are doing is important. And we would hope that the Federal agencies would make sure there are good plans that support the plans.

Now, how many FTEs at HUD are working on this? Are you adding people? Are you reallocating people from other areas? How many folks do you have working on that?

Secretary DONOVAN. I just asked my folks to get me the precise details. We have established an Office of Sustainable Housing and Communities. It is a small office. And the idea of that office is to coordinate, as I just talked about, with other departments that are working on this, as well as within the agency.

So, for example, where we are retrofitting public housing, what we want to make sure of is we don't have three different standards or different approaches to our multifamily programs, our public housing programs. So we are creating unified best practice standards that we would apply across the Department. And so, that is the nature of that office.

For 2010, and this was a discussion I believe we had in some significant detail with your staff on the subcommittee, we have 20 FTEs in total for 2010. And we expect for 2011 to have 23 FTEs. So it is a relatively small office, again coordinating just policy and programs across—between the departments, as well as across different silos within HUD.

Senator BOND. I know the coordination is very good. You ought to decide with DOT whether it is sustainability or livability would be helpful. If you could at least agree on a title, that would be a good—a good start.

On the FTEs, our big deal is are you dealing with the overall staff problems, making sure you have enough in FHA while you are moving people around? We know you need help, but do you have the FTEs you need?

Secretary DONOVAN. Thanks to both the investments you made in the 2009 budget, as well as the investments in 2010 and some flexibility that you gave us in 2010, one of the concerns that I had when I came in—and we have worked very collaboratively with you—is that we had created very specific restrictions across nine different pieces of HUD in terms of FTEs. And the flexibility that you have given us has allowed us to increase hiring substantially.

In FHA, we have literally hundreds of additional staff that we are bringing on to do that while trying to make sure that we are not overall increasing the size of the staff of the Department beyond what is necessary.

SECTIONS 202 AND 811 PROGRAMS

Senator BOND. Now I have—as I indicated, I have some concerns about if there is a cutback in the 2012 budget based on problems with the deficit. I would like to know how HUD plans to deal with it, and when you have put funding on hold for 202 and 811. Are you going to make sure that those programs—we will not overlook the people who are served by 202 and 811 while you push the current priorities. How are we going to make sure that those people are covered?

Secretary DONOVAN. So, first of all, I think one of the most important things to recognize is that the vast majority of housing for seniors and people with disabilities today gets produced not by 202 and 811, but by the tax credit and other funding sources.

The issue—and I will tell you very honestly, I dealt with this very directly in my prior work, both in the private and public sector. It is very, very difficult, close to impossible in some communities to develop new 202 and 811s because the program is really designed, frankly, for the 20th century, not the 21st century.

And because of the amount of funding that is available, the way that it is distributed, the rules that apply there is almost no case where a community can develop a 202 or an 811 without finding tax credits and a range of other sources to complement it. And yet, at the same time, the rules are not built so that you can combine those funding sources.

So what we are proposing, just to be very clear, is not that we eliminate the program. We believe the intent of the program is absolutely critical. But what we need to do is reform the program so that it works efficiently with today's way of producing affordable housing for seniors and people with disabilities.

There is a reform bill that is being discussed on the House side where we agree with a large number of those changes. In addition, we believe there are other steps that could be taken, for example, to link up with the health funding streams at HHS that are often necessary, like PACE, for seniors as they age in 202s. And we need to make sure that we get the program right, we believe, before we continue to build new units under 202.

Senator BOND. What I am worried about, I guess we are letting loose of the trapeze bar, and I want to see a trapeze bar there to hang onto. And the other thing is to manage, to continue the services and providing services in many of these target populations is critical.

That is why Senator Murray and I promoted the VASH program to bring the VA and HUD together because the homeless veterans are very near and dear to my heart. They have some very serious problems that cannot be fixed with housing alone. I want to make sure that we continue those services.

Certainly, you will have no argument from me on a need to clarify, consolidate, and simplify the HUD programs. That has been—that has been the thicket that every HUD Secretary I have known has found to be unmanageable. At the same time, as Senator Murray referred to it, I personally have a minimum amount of high confidence in the authorizing committees' ability to deal successfully with these legislative changes in time to ensure there is not a gap.

And we are going to have to work with you on that because anybody who looks at the legislative calendar in the United States Congress knows that even getting our appropriations bills done is going to be a challenge. And we are going to have to have some discussion because the banking committees are trying to bite off financial regulation and that one is not going to be a simple markup in 2 days on the floor, at least in the Senate. And man, there is not enough time to do it.

TRANSFORMING RENTAL ASSISTANCE

So we need to work with you on that. The TRA program, it is very optimistic. I would just ask you, what do you see as the key elements and the advantages of the TRA program over current programs?

Secretary DONOVAN. So, today, given the way particularly let us take public housing as an example operates. Because it functions with both an operating subsidy and a capital subsidy, it is essentially 100 percent Government funded. And because of that, it is almost impossible, short of HOPE VI, to create with public housing the kind of mixed income, mixed use, 21st century housing that I believe our residents deserve and that our communities deserve.

And so, fundamentally, what TRA is trying to achieve, beyond the simplification and all the benefits that come with that, is to bring public housing and our other programs into the mainstream, to stop having them be in some ways a parallel universe, if you will, from the way the rest of our housing market operates.

And if you look at whether it is tax credits or the new ways that we develop affordable housing, they have all of those benefits public housing has not been able to get. At the same time, public housing has been underinvested in because it hasn't been able to access, whether it is tax credits or, more broadly, private capital or other forms of public capital.

The fundamental reason for that is because we have this dual system of operating subsidy and capital subsidy. So what may seem deceptively simple at one level, but I think has very, very powerful benefits is not just consolidating all these programs, but shifting to a system where we have one operating stream that allows public housing to leverage private debt, mix uses, mix incomes. All of the things that we do in the best public—best affordable housing today, we can achieve by shifting from this.

And the last thing I would say is the fact that a low-income family has to make a choice between keeping their subsidy or moving, whether it is to get a job in a different community or a different neighborhood, to follow family, or for whatever reason they may choose to move, that fundamental choice that they have to make today, I believe, isn't fair. And so, one of the key areas of the program would try to change that is to say let us give families more choices for mobility as we do in certain of our programs today but, at the same time, ensure that we keep the project-based, long-term stream of funding available for that property that I know you believe, and I agree, is so important to our efforts to keep communities strong.

Senator BOND. I think when TRA was promised, was proposed—the legislation was promised this month—it is clearly a big and controversial effort, had lots of questions with it. And I think we need to have discussions with you about it and debate, I hope, sometime. I don't know when we can ever get floor debate, but have it brought up for thorough congressional debate.

So when are we going to see it, and how much legislation is needed? My staff is saying that perhaps 90 percent of it can be done by regulation. What do you see as the process? When will we see the product? When will we get to start on the process?

Secretary DONOVAN. So, first of all, let me just say I completely agree with you that this is an ambitious, large-scale effort, and I want to be clear, this will not be achieved in 1 year or one budget cycle. And so, what we have proposed is to begin it in 2011, focused on 300,000 units out of a much broader stock that is probably 10 times that size.

So we don't believe that it is achievable, I think this aligns with what you just said, that all of this cannot be done in 1 year. It is going to take some time. Having said that, we will—we have been working very closely within the Department with stakeholders, begun discussions with the authorizing committees as well about legislation.

We are committed to meeting the timeline that we laid out to get draft legislation put forward, and I would suggest that we would be happy to sit down as soon as possible with you and your staff to begin to answer any questions that you have and go through the details.

Senator BOND. Well, we want to see what needs to be done. And if you are focusing on 300,000 units, that goes back to my initial concern. All the other programs that are being zeroed out, what is going to happen to those needs in areas that are not covered by the 300,000 units?

So, I mean, there are a lot of questions, and I think we will have to—we will know the scope of the questions when we see your proposal.

So we need to have that soon, and at least in the appropriations process, we need to have that and to deal with it where we can and see what regulations need to be done, what has to be fixed legislatively or by appropriations or by regulation.

Secretary DONOVAN. Yes.

CHOICE NEIGHBORHOODS PROGRAM

Senator BOND. And the other thing, I appreciate you mentioning my old friend, HOPE VI again. How is Choice Neighborhoods better, bigger, longer, stronger an improvement, and what is going to be different about Choice Neighborhoods?

Secretary DONOVAN. So let me try and be as specific as possible in terms of some of those changes.

Senator BOND. Capsulize it, if you can.

Secretary DONOVAN. I go to places all the time and hear how great HOPE VI is. And I want to be very clear; this program is building on HOPE VI, not doing away with it in any means.

One of the constant issues I hear is we have done this wonderful HOPE VI redevelopment. But across the street is a project that is assisted with a different HUD program that we have no tool to be able to redevelop. And specifically, what I mean is our multifamily programs don't have that same option.

Or there are 10 or 20 foreclosed homes on the next block that are the real problem in that neighborhood. They are creating crime. They are bringing down values. And yet we don't have the flexibility in HOPE VI today to be able to include that kind of housing as well.

So what we want to do with Choice Neighborhoods is to say it has been so effective on public housing, let us allow it to be used for our privately owned assisted housing or for other housing in a community. And that could be combined with public housing.

In other words, the housing authority could come in and say, "We are going to do this public housing development, but we are also going to do the assisted housing across the street." We have got many examples where they are in the very same neighborhood or even across the street.

Or if the most challenging thing that you have in St. Louis or any other community is not a public housing development—and I know a number of them in St. Louis, for example, or Kansas City. But it is, in fact, a privately owned housing development that is the real problem. This would be a tool available to redevelop that housing.

So I think that, in some ways, is the most fundamental change is that it takes what has been so successful in HOPE VI and expands it to our broader program. It just doesn't make sense to me, frankly, Senator, that if simply because we fund something with a different program at HUD—and this is a little bit the theory behind TRA—that we ought to have totally different rules and programs available to them. This is trying to spread the lessons and broaden HOPE VI to other forms of housing.

Senator BOND. Is that something, what you are talking about in needing to reach out and deal with others; is this something that should be fixed? Can it be fixed by the HOME funds that are given to localities?

Secretary DONOVAN. I don't believe, fundamentally, that it can be fixed by the HOME funds. Because traditionally, the way HOME funds are used is either in moderate rehabilitation or new construction. These are much more complex, really neighborhood revitalization schemes and redevelopments. And so——

Senator BOND. We want to know how—I mean, are we wasting money on HOME. I thought that HOME was going to do that. So we have a limited pot of money available, and I want to work with you to make sure we use those dollars the best way we can.

Secretary DONOVAN. You know HOPE VI as well as anybody, and I think you know that what has been the secret of it is that it goes beyond just the bricks and mortar. HOME is a bricks and mortar program. And so, I think the fundamental difference is that whether it is HOPE VI or Choice Neighborhoods allows you to build in, whether it is a community room that has computer services available, whether it is the services that are available for literacy or other things for families, educational programs—all of those pieces that have really made HOPE VI so successful because it is about more than the bricks and mortar is something that Choice Neighborhoods would allow us to do. HOME is a bricks and mortar program.

FHA MORTGAGE REFORM

Senator BOND. As you know, I have worked long and hard to get child care centers and education centers and community centers. But when you are talking about a bunch of foreclosed houses, you have got a bricks and mortar problem in the community.

Well, anyhow, this is a lot more discussion to be had later. Let me ask a final question on FHA mortgage insurance reform. How are you dealing with the mortgage default problems, especially in light of the proposed FHA reforms?

How will the reforms impact the homeowners who are seeking help with mortgage defaults? Are these defaults primarily a GSE problem, or is FHA going to get in and start and put more taxpayer credit cards on the line explicitly rather than the implicit situation we have now?

Secretary DONOVAN. So, going forward, we clearly believe—and this is why we have proposed the legislation and the changes that we have—that there are things we need to be doing to tighten to avoid future defaults. It is why we have suspended over 170 lenders last year, to say we would no longer do business with them.

We have taken a number of steps that we are proposing legislatively to allow us to have greater powers to get rid of not just lenders, but the principles of those lenders from our programs. So we have a range of things we need to do more strongly.

What I would say, though, is if you look at what has happened over the last year, defaults in FHA have certainly risen, but they have risen much more slowly than subprime and even prime mortgages at the GSEs to the point where, today, subprime defaults are triple what we see in FHA.

So there is definitely more that we can do, but I think our full underwriting, fixed rate, no liar loan, all of the things that we have done traditionally and that we are strengthening to ensure we don't make the same mistakes that were made in the subprime movement have helped us not have the same level of defaults.

The only other thing I would say is we have the most extensive, most aggressive loss mitigation set of tools that exist. They allowed us to help about a half a million homeowners, last year, stay in their homes, despite the fact that they were struggling to make their payments.

And so, that, along with the Home Affordable Modification Program and other new options that we have introduced, I believe allow us not just to avoid future defaults, but also to ensure that existing families that are struggling with unemployment remain in their homes where possible. We are not going to stop every foreclosure, nor should we. But I think we have taken very aggressive actions to do that.

Senator BOND. I appreciate knowing about that. In Missouri, we had a very aggressive U.S. attorney who files a number of criminal indictments, and some of these are not just people who should be disbarred. But I hope where you find the requisite potential criminal intent, you refer them for criminal prosecution because some of this is shoddy, but in some instances, it is criminal.

Obviously, there is much more to discuss. But the good news is I am being advised that I am running late for a whole bunch of things that are stacked up. So we will have to let you go with thanks. We look forward to continuing to work on many of these things. We have just started the discussion.

ADDITIONAL COMMITTEE QUESTIONS

The hearing record will remain open for 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

AFFORDABLE HOUSING FOR SENIORS

Question. Thank you for your testimony Mr. Donovan. The Nation's shortage of affordable housing for seniors is significant. Currently, there are at least 10 seniors vying for every available section 202 unit. By 2020, an additional 730,000 senior housing units will be needed to address the growing housing needs of low-income seniors. Yet, the administration has proposed to eliminate construction funding for new 202 developments in order to redesign the 202 program. While I support efforts to reform the section 202 program, there is no doubt redesigning the program will be a lengthy process. How long does HUD propose to continue this funding freeze?

Answer. HUD intends to return back to Congress in June with a legislative proposal. In addition, HUD will be working concurrently to implement a range of administrative reforms. While the goal is to effect the reform of the program as quickly as possible, at this point it is too soon to forecast how long this implementation process will take.

Question. Why is HUD not able to work on redesigning the program while continuing to fund new projects?

Answer. HUD is currently working on developing a roadmap for reform of the section 202 and 811 programs. This reform and redesign will increase the programs' cost effectiveness. While this redesign effort is underway, given overall budgetary constraints, HUD must focus its limited resources on its core rental and operating assistance programs (including renewals for existing section 202 programs). It is these programs that can best leverage additional private and public resources.

Question. What is the administration's interim plan to address the growing demand for affordable senior housing while the redesigning process takes place?

Answer. The administration's fiscal year 2011 budget preserves critical resources for the elderly by maintaining full funding of core rental assistance programs such as section 202 operating renewals, Project Based Rental Assistance, the Public Housing Operating Fund, and Housing Choice Vouchers. In addition, new units will continue to come on line through the low-income housing tax credit program which produces approximately 10 times the number of affordable senior housing units as section 202. In addition, approximately 5,800 units of section 202 will become available to for the elderly in fiscal years 2011 and 2012 as a result of prior year funding commitments.

SUPPORTIVE HOUSING FOR THE ELDERLY ACT

Question. As you may know, Senator Schumer and I have introduced the section 202 Supportive Housing for the Elderly Act (S. 118), which would promote new construction, preservation, and conversion of section 202 housing by streamlining and simplifying administrative processes. Is it possible for HUD to make any of the suggested reforms to the section 202 program through report language or bill language included in S. 118?

Answer. HUD generally supports the direction that S. 118 takes the section 202 program. S. 118 includes facilitation of mixed finance structures, enhances preservation of existing projects, and refines the geographic allocation issues. However, a number of further items are currently being reviewed by HUD staff which are not fully addressed in S. 118. For example, we need more work to be done on building synergies with Health and Human Services and State Medicaid and Medicare programs to make sure that we bring into our section 202 projects elderly residents who can best take advantage of PACE and other Medicaid home and community based waiver programs. Staff will be looking at all of the items contained within S. 118 and can certainly work with the Congress to determine whether the reform plan can best be effected as stand alone legislation or as part of a revised S. 118 bill.

SECTION 202 SUPPORTIVE HOUSING FOR THE ELDERLY ACT

Question. Alternatively, can HUD implement any of the proposed changes administratively through the processing of applications or in the notices of funding availability (NOFAs)?

Answer. Yes. HUD anticipates implementing a wide range of administrative changes, in addition to proposing statutory changes, to affect a comprehensive reform of the section 202 program.

SECTION 202 AND LOW-INCOME HOUSING TAX CREDITS

Question. Based on your testimony, HUD will make it easier to take advantage of low-income housing tax credits (LIHTCs). While I am supportive of this effort, I want to be clear that the neediest seniors, such as those eligible for section 202 housing, may not benefit from this change given that section 202 units must be affordable to tenants at or below 30 percent of area median income, as opposed to LIHTCs, which require that housing be affordable to those at or below 60 percent of area median income. Can you expand on this initiative? Specifically: How does HUD plan to account for the housing needs of the most vulnerable seniors, such as the 202-eligible population, through increased use of LIHTCs?

Answer. As part of the overall reform vision, HUD anticipates modernizing the section 202 program to make it easier for sponsors to work with other funding sources, such as the Low-Income Housing Tax Credit program (LIHTC). This reflects the fact that the section 202 program is no longer a "one-stop shop" to capitalize and sustain a project but rather serves as the critical final piece of an overall financing structure. Layering LIHTC with section 202 funding does not reduce affordability relative to section 202 program requirements; rather it makes LIHTC work to support a lower-income population. By leveraging LIHTC, which in recent years produced 10 times as many units of low-income housing for the elderly as the section 202 program, more projects can be made financially feasible and the reach of the section 202 program can be effectively expanded.

Question. Current law allows section 202 developers to use LIHTCs in conjunction with HUD funding. How will HUD specifically make this a more streamlined and accessible process?

Answer. The level of regulatory oversight associated with section 202 is commensurate with that which would be associated with full Federal funding of the development costs of construction. Yet even today, the program is expected to leverage a range of funding sources, often including low income housing tax credits. These other sources of funds bring with them important oversight, whether through State Housing Finance Agencies or local municipal lenders or from the involvement of tax credit investors and commercial lenders. These parties provide layers of accountability which HUD should generally not need to duplicate. As part of HUD's ongoing review of the program, HUD will be looking to simplify its processing and oversight to better reflect its expected role in these kinds of projects.

LOW-INCOME HOUSING TAX CREDITS

Question. Does HUD envision using 202 and 811 project rental assistance contract (PRAC) to subsidize LIHTC units as is currently done with tenant-based section 8 assistance?

Answer. For sponsors who are able to bring other sources of funds to a project such that they don't require any capital advance funds from HUD, but otherwise are able to comply with the requirement of the section 202 or section 811 programs, HUD may consider the option of providing them with operating assistance only. Under this scenario, these projects would still serve the same populations, but at a much lower upfront cost to HUD. It's not clear at this time that this scenario would have significant utilization given the challenges sponsors generally face in identifying capital funds.

SECTION 202

Question. Lastly, I want to applaud HUDs proposed changes to make section 202 a platform for the delivery of supportive services so that seniors can age in place. However, section 202 housing must serve a varied senior population, not just frail elders that qualify for nursing home-level care. In your testimony and budget submission you mention the Program of All Inclusive Care for the Elderly (PACE). Is it HUD's intent to limit the section 202 program to seniors who are frail and/or participants in the PACE program?

Answer. HUD is working with stakeholders and its counterparts at the Department of Health and Humans Services to answer that question. It's HUD's understanding that PACE must be considered only one of a number of programs serving frail or near frail elderly in the community, particularly because PACE is only available in 30 States. Medicaid Home and Community-Based Service (HCBS) waivers is another program that has applicability to the section 202 program; HCBS waivers are found in 49 States. The section 202 program is an independent living program which does not require licensure, so it is unlikely that it would make sense for HUD to require all residents in a given building to be frail. Today, estimates suggest that 38 percent of current section 202 residents are frail or near-frail.

SELF-HELP HOUSING PROGRAM

Question. The Housing Assistance Council, as authorized by Public Law 110–246, receives funding to help support housing efforts in rural communities through the Self-Help Housing program. The HUD budget removed the funding for the Self-Help Housing program and instead merged it with the Capacity Building program in HUD. Unfortunately, the Capacity Building program as proposed by HUD is only funded at $60 million for fiscal year 2011, a decrease of $12 million from last year. I am deeply concerned about cutting funding to this program. Self-help housing and, more specifically the Housing Assistance Council have helped create affordable housing for rural communities across the country. These cuts may defer much needed resources to rural communities and limit housing options for rural residents. How is HUD going to ensure that rural communities will be able to access funds as the programs are merged together?

Answer. The Self-help Homeownership Opportunity Program (SHOP) is not proposed for merger into the Capacity Building program. In the fiscal year 2011 budget request, HUD proposed to merge SHOP into the HOME Investment Partnerships Program (HOME). Self-help housing, including activity costs for land acquisition and infrastructure improvements, is already eligible under both HOME and the Community Development Block Grant Program (CDBG). Significant amounts of HOME and CDBG funding are already available to State and local grantees to fund self-help housing opportunities for low-income households, including in rural areas. In fact, the State CDBG program provides funding exclusively to all non-metropolitan areas of the State, including rural areas, far exceeding the coverage area, and funding level, of all of the SHOP grantees combined. It is true that self-help housing will be competing with other eligible activities for State or local HOME or CDBG funding, but Housing Assistance Council and other SHOP providers should be able to make a case for a share of the funding based on their past successful performance in SHOP.

In addition, HUD has requested increased funding for a newly designed Capacity Building program totaling $60 million, $10 million more than the $50 million appropriated to the current section 4 Capacity Building program within HUD's SHOP account.

Finally, $25 million of fiscal year 2010 funding is being made available for competition in HUD's Rural Housing Innovation program specifically targeted to rural communities.

Question. How will HUD split the funding between self-help housing and the capacity building entities such as LISC and Enterprise Community Partners?

Answer. In the fiscal year 2011 budget request, the Self-help Homeownership Opportunity Program (SHOP) is proposed to be merged into the HOME Investment Partnerships Program (HOME). Self-help housing, including activity costs for land acquisition and infrastructure improvements, is already eligible under both the HOME and the Community Development Block Grant Programs (CDBG). Significant amounts of HOME and CDBG funding are available to State and local grantees to fund self-help housing opportunities for low-income households, in both urban and rural areas.

The fiscal year 2011 budget HUD has requested increased funding for a newly designed Capacity Building program totaling $60 million, $10 million more than the $50 million appropriated to the current section 4 Capacity Building program within HUD's SHOP account. These funds would be made available for competition through a Notice of Funding Availability.

Recipients will include national and regional intermediaries with local affiliates and partnerships, and consortia of intermediaries with demonstrated expertise. Funding for assistance will support organization and core skills of line staff and management so they can be partners with the administration as they implement key initiatives such as Choice Neighborhoods, Sustainable Communities, and the Catalytic Competition and work to restore the economic vitality of communities with significant needs.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

SECTION 811

Question. The Final Rule for the HUD 811 program published in the Federal Register on September 13, 2005 section 891.809 lists a number of limitations on capital advances under that program including: (c) facilities currently owned and operated by the sponsor as housing for persons with disabilities, except with rehabilitation as defined in 24 CFR 891.105. However, recent HUD NOFAs for the 811 program essentially precludes funding applications involving such rehabilitation by stating that the refinancing of any Federal funded or assisted project or any project insured or guaranteed by a Federal agency is not permissible under section 811 and also that if the housing already serves persons with disabilities it can be rehabilitated as long as it hasn't operated as housing for persons with disabilities for longer than 1 year prior to the application deadline. Recognizing the importance of supportive housing to prevent homelessness and the fact that it is at least half as expensive to preserve existing units as to create new ones, would HUD consider allowing in the next NOFA the possibility of funding capital advances when rehabilitation is occurring as defined in 24 CFR 891.105? If not, would HUD entertain an 811 pilot in Vermont in which rehabilitation of units housing people with disabilities takes place?

Answer. Section 891.809 is in subpart F of the regulations and these regulations govern the mixed finance feature of the section 811 Program. HUD's understanding is that the intent of this mixed finance feature was to encourage the construction of additional units. The Department believes that it is important to use its limited resources to increase the supply of affordable housing for this population of very low-income households. Various policy changes for the overall program are currently under review.

SECTION 202

Question. In Vermont, as well as in other rural and urban areas of the country, section 202 housing serves a varied senior population, including a substantial number of very frail elders. In my home State we are developing a service delivery model that would layer very nicely onto HUD 202 housing and meet the wide range of needs our seniors have—needs that no single existing program can meet. In the Department's budget submission to Congress, the rational for zeroing out the 202 was program is that it needs improvement. I understand that most of the reforms to the section 202 program can be made administratively in your processing of applications or in the NOFAs. What is HUD's timeline for the internal process of reform and is it possible to finish these reforms in time for the fiscal year 2011 funding round if Congress provides funding for section 202 this year? Can we help implement any of those changes through report language or bill language included in the subcommittee's bill?

Answer. We plan to return back to Congress in June with a legislative proposal. Our proposal will be based on analysis of the section 202 program by HUD staff as well as feedback solicited from stakeholder groups. We look forward to working with Congress to determine the best way to implement these recommended changes.

QUESTIONS SUBMITTED BY SENATOR DIANNE FEINSTEIN

NEIGHBORHOOD STABILIZATION PROGRAM FUNDING DISTRIBUTION

Question. California is at the center of the home foreclosure crisis. The California metro areas of Stockton, Merced, San Bernardino and Riverside in particular have among the highest foreclosure rates in the country. And while the national annual increase in foreclosures appears to be leveling off, nearly 140,000 foreclosures were filed in California this year—one of the highest rates in the country.

It is concerning to me that some of the hardest-hit areas of the country, such as Fresno, Merced, and Stockton, have been entirely left out for funding under the Neighborhood Stabilization Program (NSP) under the American Recovery and Reinvestment Act.

On January 14, 2010 the Department announced the second round of NSP awards totaling $318 million in investment for California, yet nearly all applications submitted by projects in the Central Valley were rejected, despite a foreclosure rate of 13 percent in that area. This raises serious concerns to me that a Federal program designed to stabilize and rehabilitate the hardest-hit communities could have completely overlooked the Nation's epicenter for foreclosures.

Why are areas with the highest foreclosure rates being denied NSP funding?

Answer. The Neighborhood Stabilization Program 2 (NSP2) funds were distributed on a competitive basis as required by the Recovery Act. The Department reviewed 482 applications that requested, in aggregate, more than $15 billion, more than 7½ times the available funding. The Department established a thorough process to review applications and was ultimately able to fund 56 applications, less than 12 percent of total. Of the funded applications, 31 received less than the amount requested in order to increase the total number of applications receiving funding.

NSP2 applicants had to respond to six factors: Need in Target Geography; Demonstrated Capacity; Soundness of Approach; Leveraging of Other Funds or Removal of Substantial Negative Effects; Energy Efficiency Improvement and Sustainable Development Factors; and Neighborhood Transformation. Every applicant for NSP2 funding had to demonstrate a high level of need in order to be eligible to apply for assistance but this was only one aspect of the competition. The bottom line is that NSP2 was a competition and some grantees responded in a more comprehensive manner than others. Ultimately, HUD's review process awarded funds to the highest rated applications and need represented only one aspect of that competition.

Question. What specific measures is the Department using to determine the funding distribution for NSP?

Answer. The Neighborhood Stabilization Program 1 funding was distributed through a formula, and the criteria for that formula were identified in the Housing and Economic Recovery Act (HERA) of 2008. The criteria included: number and percent of foreclosures; number and percent of subprime mortgages; and number and percent of mortgages at risk of default.

Neighborhood Stabilization Program 2 funding was distributed through a competitive program, using 6 factors: Level of need in Target Geography; Demonstrated Capacity; Soundness of Approach; Leveraging of Other Funds or Removal of Substantial Negative Effects; Energy Efficiency Improvement and Sustainable Development Factors; and Neighborhood Transformation. Further detail on the factors can be found in the Notice of Funding Availability (NOFA) issued on May 4, 2009. This NOFA can be viewed on the HUD Web site at: http://www.hud.gov/offices/cpd/communitydevelopment/programs/neighborhoodspg/pdf/nsp2.nofa.pdf.

Question. What is main rationale for not including additional funding for this important program in the fiscal year 2011 budget?

Answer. While the Department did not request NSP funding as part of the fiscal year 2011 budget, Secretary Donovan has announced his support for an additional $2.1 billion for NSP funding to continue efforts already in place and to help address foreclosure and abandonment problems in communities that have not been reached via NSP1 or NSP2.

The administration also announced plans to reallocate funds awarded through NSP1 that have not yet been committed to specific projects in order to drive more funding to the hardest hit communities. HUD has already awarded nearly $6 billion in NSP grants to help State and local governments respond to rising foreclosures and falling home values. Nearly $4 billion funded NSP1 through the Housing and Economic Recovery Act of 2008 (HERA) and an additional $2 billion funded NSP2 through the American Recovery and Reinvestment Act of 2009 (Recovery Act). The initial NSP1 funds provided each State government with a "base allocation" of $19.6 million without regard to varying degrees of need. Eighteen months later, the Department will recapture money from communities that have not yet committed NSP1 funding, and reallocate it to city and county governments with very high foreclosure and/or vacancy rates and their jurisdiction, based on the most recent data. HUD estimates that 70 percent of the $3.9 billion in NSP1 funds would be obligated by the 18-month deadline this Fall, in September and October 2010, for a recapture of approximately $1 billion.

Through the recapturing process, HUD is working to use the resources we have already received and build on the success and lessons from NSP1 and NSP2, ideally with additional funding for a third round, to best target the recovery in hard hit areas based on their foreclosure and delinquency rates, vacancy problems and unemployment. We also want to go a step further by providing funds to help homeowners avoid foreclosure.

COMMUNITY DEVELOPMENT FUND CATALYTIC INVESTMENT COMPETITION GRANT DISTRIBUTION

Question. The new Catalytic Investment Competition Grant program proposed under the Community Development Fund in the administration's budget request would provide economic development and gap financing to implement targeted investments for neighborhood revitalization. I am encouraged to see HUD further its efforts to help communities with the greatest need and potential for growth. How would the proposed $150 million grant program take into account areas that are high-cost, such as California, to ensure they are not left out?

Answer. The Catalytic Investment Competition will use the authorities of CDBG to provide capital for high impact, innovative economic development projects and to capitalize meaningful investments for neighborhood and community revitalization. Unlike CDBG, consortia including high capacity non-governmental entities may apply along with governmental entities.

While HUD has not fully developed the competition framework, please be assured any program design will provide a level playing field for all applicants including those in high cost areas. Applicants will be required to develop a plan that includes measurable outcomes for job creation and economic activity and exhibit capacity to implement the plan. They will be encouraged to leverage other public and private community development and revitalization programs and to augment other place-based strategies, such as Choice Neighborhoods, Promise Neighborhoods, HOPE VI, and Sustainable Communities to help strengthen existing and planned investments in targeted neighborhoods to improve economic viability, extend neighborhood transformation efforts, and foster viable and sustainable communities.

SECTION 202 HOUSING FOR LOW-INCOME SENIORS

Question. The administration's budget proposes to reduce funding to support the construction of housing for very low-income elderly. The Department's section 202 housing program was funded at nearly $825 million in fiscal year 2010, but the administration has requested $274 million for fiscal year 2011. This is a cut of nearly 67 percent to a program that many elderly Californians rely on for affordable housing. How will the Department continue to offer affordable rental housing to low-income seniors despite such a major budget cut?

Answer. The $274 million requested for section 202 in fiscal year 2011 will cover the cost of project renewals only; no new production funds are being requested. These renewal funds will support the nearly 400,000 elderly residents who currently live in section 202 housing. In addition, in fiscal year 2011, HUD expects to house over 2.4 million families in public and assisted housing of which 58 percent are elderly or disabled and provide tenant based vouchers to more than 2.1 million households of which 47 percent are elderly or disabled. As well, HUD anticipates approximately 5,800 new units of section 202 will come on line during fiscal years 2011 and 2012 because of prior year funding commitments. The Department will submit a section 202/811 legislative proposal in June that will address these issues.

SELF-HELP HOME OWNERSHIP PROGRAM (SHOP) FUNDING

Question. The administration's proposed budget does not request funding for the Self-help Home Ownership Program, which helps non-profit organizations leverage funds from outside private organizations to assist home buyers.

The budget request proposes that the HOME Investment Partnerships Program could instead fund SHOP projects, yet the funding for HOME is also proposed to be cut from $1.82 billion in fiscal year 2010 to $1.64 billion in fiscal year 2011.

It is my understanding that SHOP makes revolving funds available to non-profit organizations for future land development. In many urban areas, there are local funds that work in cooperation with HOME. In small and rural communities, however, there are seldom such funds available, making SHOP particularly important for these communities.

How will the Department help support non-profit organizations that assist low income families despite eliminating the SHOP program and reducing funding for the HOME program?

Answer. HOME funds are distributed by a needs based formula and all States, including those with significant rural area, are guaranteed a minimum HOME formula allocation. By statute, HOME funding for housing programs must be used for low-income families, including those that live in rural areas. In addition to HOME funds, a significant amount of State Community Development Block Grant funding is made available to local communities that are rural in nature.

Most current affiliates of SHOP grantees (non-profit organizations) already qualify, or can easily qualify, as a Community Housing Development Opportunity (CHDOs) in the HOME program. This would make them eligible for funding for self-help home ownership activities from the 15 percent minimum set-aside of HOME funds specifically for qualified CHDOs, giving them an advantage over other groups competing for funds. In addition, CHDOs are eligible to retain proceeds from development activities, and annual funds for CHDO operating expenses. The CDBG program may also be used to create revolving loan funds at the State and local level for community development and housing activities in rural areas. The State CDBG program provides funding for these activities exclusively to jurisdictions in non-metropolitan areas.

SHOP funding is structured as direct funding to grantees for immediate use—it does not provide funding specifically for revolving loan funds. Two current SHOP grantees, the Housing Assistance Council and Habitat for Humanity, are national organizations that require their local affiliate organizations to repay 20 and 25 percent of the SHOP funds distributed to them for local self help home ownership programs back to these national organizations for deposit in their revolving loan funds. However, these loan funds are not necessarily used for self-help housing, but for a variety of other community development activities.

QUESTIONS SUBMITTED BY SENATOR FRANK R. LAUTENBERG

PUBLIC HOUSING CAPITAL FUND

Question. The President's budget request proposes a $456 million cut in the Public Housing Capital Fund. The $4 billion provided for the fund in last year's economic recovery act was meant to supplement regular appropriations, not replace them.

Given the substantial backlog of capital needs—estimated by your own agency to be as high as $24 billion—what is the justification for cutting funding that is so critical for the long-term sustainability of public housing?

Answer. The Department agrees that there is a substantial backlog of deferred capital needs in the public housing program. Given fiscal constraints, the Department cannot realistically request enough funding to solve the backlog of capital needs through annual Capital Fund appropriations. For this reason, the Department is proposing to launch a multiyear effort called Transforming Rental Assistance (TRA). This initiative will preserve HUD-funded public and assisted housing, stem the loss of affordable units, enhance housing choice for residents and streamline the administration of HUD's rental assistance programs. In 2011, the first phase of this initiative would provide $350 million to preserve approximately 300,000 units of public and assisted housing by leveraging over $7 billion in private investment.

At this point, PHAs have access to post transfers for operating purposes from Recovery Act formula funding ($3 billion), Recovery Act competitive funding ($1 billion) and Capital Funds allocated pursuant to the standard annual appropriation for 2009 ($2.2 billion). In June, the Department will post transfers for operating purposes ($2.3 billion) from the Capital Funds pursuant to the 2010 appropriation. PHAs, therefore, will have access to more Capital Funds in 2011 because of the large amount of Capital Funding made available in 2009 and 2010.

In previous years, PHAs have funded 8–11 percent of their Capital Funds to operations in order to make up for a shortfall in Operating Funds. The Department's fiscal year 2011 budget request for the Operating Fund is for 100 percent of the eligible costs. Given the higher level of funding for the Operating Fund, PHAs will be able to keep an extra 8–11 percent in the Capital Fund account rather than funding it and will, therefore, be able to address more Capital Fund needs.

Furthermore, PHAs continue to be able to obtain private financing through the Capital Fund Financing Program (CFFP) and through mixed finance transactions. PIH anticipates that PHAs will be able to borrow over $100 million in CFFP financing alone in 2011 (not including amounts leveraged in mixed finance transactions).

Ultimately the Department believes that PHAs will have their best opportunity to address the backlog in capital need through participation in the Transforming Rental Assistance (TRA) initiative. PHAs that convert properties from the public housing program to a project based contract model under TRA can expect to position those properties to take advantage of private sector financing and leveraging to address capital needs backlog in a way that is not possible under the conventional public housing program.

DRUG ELIMINATION PROGRAM

Question. Public housing authorities in New Jersey and around the country continue to face safety and security issues as a result of drugs and criminal activity. Prior to fiscal year 2002, public housing authorities were able to fund safety, security, and drug- and gang-prevention activities through the Public Housing Drug Elimination Program (PHDEP). Since that program has been eliminated, public housing authorities have struggled to find the funding they need to keep their properties free of drugs and crime. Does HUD have any plans to reinstate PHDEP? Is your agency willing to work with this subcommittee to get this program restored this year?

Answer. Safety and security of the public housing residents is part of the overall mission of the Department. Any capital improvements that improve the safety and security of public housing developments are an eligible use of the Capital Fund. However, some PHAs face greater needs stemming from unanticipated immediate needs that increase the threats to the safety and security of their residents. Emergency Capital Need in the amount of $5 million of the 2009 funding had been made available to address the needs for 2009 and $2 million of the 2010 funding is being made available to address the needs in 2010. The 2010 amount may be increased depending on the demand for funds from other types of emergencies and non-presidentially declared disasters. The Department is issuing a notice in June 2010 that defines the safety and security emergencies that will be covered by this funding and details the application process. The Department is always willing to discuss any ideas that will effectively improve the safety and security of our program recipients.

EMERGENCY CAPITAL NEEDS

Question. In both fiscal year 2009 and fiscal year 2010, 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." As of February of this year, no applications had been received for this funding, largely because HUD had not issued any notices or guidance. Last December, I sent you a letter requesting that you make this guidance available as soon as possible. In your response dated February 5, 2010, you stated that you intended to "make this information available to PHAs in the near future."

Has HUD provided public housing authorities with a formal notification of this funding?

When do you expect eligibility guidelines, especially as they relate to the safety and security portion of this funding, to be made available to public housing authorities?

Answer. Safety and security of the public housing residents is part of the overall mission of the Department. Any capital improvements that improve the safety and security of public housing developments are an eligible use of the Capital Fund. However, some PHAs face greater needs stemming from unanticipated immediate needs that increase the threats to the safety and security of their residents. Five million dollars of the 2009 funding had been made available to address the needs for 2009, and $2 million of the 2010 funding is being made available to address the needs in 2010. The 2010 amount may be increased depending on the demand for funds from other types of emergencies and non-presidentially declared disasters. The Department is issuing a notice in June 2010 that defines the safety and security emergencies that will be covered by this funding and details the application process.

SECTION 202 SUPPORTIVE HOUSING FOR THE ELDERLY

Question. The President's budget request includes a drastic cut to the section 202 Supportive Housing for the Elderly program. Although I understand the need to redesign and modernize this program, demand for section 202 housing remains high and I am concerned about the effect this proposal will have on the Nation's stock of senior housing. Why is it necessary to suspend funding in order to reauthorize and modernize section 202?

Answer. In the context of severe resource constraints, the administration's fiscal year 2011 budget targets housing investments to their most crucial and catalytic uses, primarily rental and operating assistance that best enable HUD's partners to leverage additional resources. HUD requested the suspension of sections 202 and 811 Capital Advance Grants in fiscal year 2011 in order to put both programs through a thorough review. Both programs have suffered from a lack of updating and an overhaul was needed to better target HUD's resources to more cost-effectively meet the current housing and supportive service needs of frail elderly and disabled very low-income households. The Department will submit a section 202/811 legislative proposal in June that will address these issues.

QUESTION SUBMITTED BY SENATOR SUSAN COLLINS

HOUSING FIRST

Question. Housing First is an approach to ending homelessness that centers on providing homeless people with housing quickly and then providing services as needed. Maine has one Housing First model called Logan Place, a low income housing property serving 30 chronically homeless people. A second Housing First model, Florence House, is expected to open at the end of this month and will serve 25 chronically homeless women.

Studies have shown that the Housing First model is highly effective at helping people maintain housing stability when they have a history of homelessness and disabilities. The Housing First approach does not require tenants to be sober or engage in services at the time of entry; rather, they are moved directly from the streets or emergency shelters and the services required to help them remain housed are provided to them.

An in-depth study was performed in Maine on the cost of housing people vs. their remaining homeless, which assessed 99 participants, including most of the residents at Logan Place. The study concluded that housing people cost less than allowing people to remain homeless, and services were delivered in a more cost-effective manner.

Is the administration considering the advantages of a Housing First approach to help address the growing number of homeless people?

Answer. HUD's McKinney-Vento funded Permanent Supportive Housing (PSH) program grantees are given flexibility to design programs that meet the community's needs—including PSH programs that use the Housing First model. New HEARTH Act legislation allows this flexibility to continue for PSH programs. In general, communities have moved away from offering shelter-only alternatives, into service-based interventions such as safe havens, outreach, housing first and permanent supportive housing. By encouraging Continuum of Care (CoC's) to shift from funding services to housing activities, HUD shifted millions of dollars from services funding into funding for housing activities. Persons with disabilities, including the Housing First target population of primarily chronically homeless persons, will continue to be targeted with 30 percent of annual homeless assistance awards. In the past, HUD has met and exceeded the Congressional requirement of 30 percent for permanent housing for persons with disabilities, which remains a requirement under HEARTH.

Questions Submitted by Senator Thad Cochran

MANUFACTURED HOUSING

Question. Mr. Secretary, manufactured housing production has dropped to an annual rate of fewer than 50,000 homes, compared to nearly 400,000 units in 1998. Can you explain why the new FHA title I program rules for manufactured housing, which were authorized by Congress in the Housing and Economic Recovery Act of 2008, have not been issued?

Answer. The new Federal Housing Administration (FHA) title I program rules for the Manufactured Home Loan Program were issued on April 14, 2009, by title I letter, TI–481.

The Housing and Economic Recovery Act of 2008 (HERA) provided for several changes to FHA programs to be initially implemented by notice in order to facilitate implementation of long-desired changes to FHA programs without having to wait for the often 12-month period it takes for a formal rule to be issued. On this basis, HUD implemented the HERA changes to FHA title I Manufactured Home Loan Program by title I letter. Although HUD implemented the new requirements by letter, HUD solicited comment on HUD's implementation of these requirements through an April 21, 2009 Federal Register publication.

HUD is currently developing the final rule, which takes into consideration the 7 public comments received in response to the April 21, 2009 solicitation of comments. HUD believed that it was prudent to ensure sufficient public comment and did not rush to codify new regulations based on the title I letter, TI–481, issued April 14, 2009. HUD believed that before codifying these requirements, it would benefit by seeing how the new requirements worked in practice, and whether clarifications or modifications would be needed before formal codification. HUD believes that it has benefitted from the year-long experience it has had in seeing how the rules in the title I letter have worked. HUD is developing the rule for codification, and will not only take into consideration the 7 public comments received, but also the experience to date of HUD and industry operating under the new requirements for the past year. However, until that rule is issued, title I Letter, TI–481, dated April 14, 2009, remains the rule implementing document.

Question. You say in your statement that "the Federal Housing Administration (FHA) has stepped up to fulfill its countercyclical roll—to temporarily provide necessary liquidity while also working to bring private capital back to credit markets", but this has not been the case for manufactured housing. Do you believe that a non-career administrator for the manufactured housing program would address this disparity?

Answer. The FHA Commissioner has taken the leadership to address this disparity by responding to an invitation from Representative Donnelly of Indiana. Both the Congressman and the Commissioner will be meeting on June 2 in Elkhart, Indiana with key lenders along with Ginnie Mae, Fannie Mae, Freddie Mac and manufacturers to identify the issues for which these parties are seeking further clarification and information regarding the complex financial problems in both the primary and secondary markets.

Question. Manufactured housing plays an important role in the housing market by providing families, often with a limited income, an opportunity for home ownership. What is HUD doing to help promote the manufactured housing marketplace, including international opportunities?

Answer. HUD has worked to highlight the home ownership and community opportunities available with manufactured housing. This has included reports to help builders understand how manufactured housing could be used in their construction efforts. It is HUD's general position that factory built construction (including manufactured, modular, and panelized) provides many opportunities and can contribute to local development activities. In addition, HUD provides Federal insurance through the FHA for loans to finance the purchase of manufactured homes.

Also as noted in the response to question No. 4, HUD is working closely with the State Department and USAID on a variety of international housing development and urban policy issues. In meeting with representatives of other governments, HUD officials will take advantage of these new opportunities to highlight the benefits of U.S. factory built housing and related construction materials and products.

Moreover, many housing products produced in the United States can be used internationally. HUD has worked with builders and manufacturers to help them understand how they might take advantage of opportunities for international sales. The manufactured housing building code (the HUD-code) is unique to the Unites States and may not be accepted in other countries. Therefore, manufacturers of HUD-code homes may elect to offer similar products produced on the same production line or produce other types of factory-built housing that can be more easily shipped such as panelized housing. In many cases, the manufactured housing production line could be used for many similar products.

Question. I understand that you will be attending the United Nations World Urban Forum. This is especially unusual as HUD seldom, if ever, plays a role in international housing issues. Nevertheless, this is an opportunity to note the potentially inexpensive cost and housing opportunities represented by manufactured housing in many parts of the world. I urge you to use this opportunity to highlight the benefits and promote the use of manufactured housing to the international audience.

Answer. HUD has engaged in international exchange programs for several decades. However, under the Obama administration, HUD has considerably expanded the scope and nature of its contacts with other governments and international organizations. The administration believes that many lessons can be learned from experience of other countries, and has seen value in these relationships. HUD is working closely with the State Department and USAID on a variety of international housing development and urban policy issues. In meeting with representatives of other governments, HUD officials will take advantage of these new opportunities to highlight the benefits of U.S. factory built housing and related construction materials and products.

Moreover, many housing products produced in the United States can be used internationally. HUD has worked with builders and manufacturers to help them understand how they might take advantage of opportunities for international sales. The manufactured housing building code (the HUD-code) is unique to the Unites States and may not be accepted in other countries. Manufacturers of HUD-code homes may elect to offer similar products produced on the same production line or produce other types of factory-built housing that can be more easily shipped such as panelized housing. In many cases, the manufactured housing production line could be used for many similar products.

Question. There have been a number of articles recently regarding the sale of thousands of manufactured housing units by FEMA into the marketplace. People have raised serious concerns about environmental and cost issues regarding these units. As the housing regulator for the Nation, what is your opinion on the potential impact on the marketplace for new manufactured units? What is HUD's role in the resale of units, especially since another Federal agency is involved? If there are environmental issues, who is looking at those issues, and who is responsible for any related decisions?

Answer. HUD has no role in GSA's resale of the temporary housing units as HUD's regulatory role is limited to new sales and not resale. HUD regulates only how the home was designed, the compliance of the home when the manufacturer provided it to the first purchaser, and the first installation of the home. A small fraction of the units FEMA is selling through GSA are HUD-code manufactured housing. These manufactured housing units were produced to the same standards as all manufactured housing and have received periodic inspections and maintenance during their use. The small size of the FEMA manufactured homes is in stark contrast with the size of most of the manufactured housing units available in the United States. It appears unlikely a home buyer interested in a larger home would purchase one of these units instead of a new manufactured home. We anticipate the FEMA manufactured homes entering the resale market will be less expensive than new units, a result of the units being used and the smaller, single wide form. This could provide to some degree, increased home ownership opportunities for families of modest means. Following Hurricane Katrina, many manufacturers in the region produced units under contract to FEMA that are now available for resale. It is reasonable to expect that local retailers would be involved in the purchase, inspection, resale and installation of the units. HUD is not involved in the safety aspects of the units being sold through GSA and these issues rest with FEMA and questions should be addressed to FEMA.

SUBCOMMITTEE RECESS

Senator BOND. The subcommittee will hold the next hearing on Thursday, March 25, at 9:30 a.m., on the Federal Housing Administration.

Thank you very much, Mr. Secretary.

Secretary DONOVAN. Thank you, Senator. And let me just recognize the great work and partnership that we have with Ken Donohue, who is our inspector general, around a lot of these fraud issues. I don't want to let the record close without recognizing his partnership.

Senator BOND. A very important additional tool that you and we have and we appreciate his good work.

Thank you.

Secretary DONOVAN. Thank you.

[Whereupon, at 11:20 a.m., Thursday, March 11, the subcommittee was recessed, to reconvene at 9:30 a.m., Thursday, March 25.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2011

THURSDAY, APRIL 29, 2010

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, Dorgan, Lautenberg, and Bond.

DEPARTMENT OF TRANSPORTATION

FEDERAL RAILROAD ADMINISTRATION

STATEMENT OF HON. JOSEPH C. SZABO, ADMINISTRATOR

OPENING STATEMENT OF SENATOR PATTY MURRAY

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

This morning, we are going to 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.

We're going to be hearing testimony from two panels this morning. The first panel will include the Administrator of the Federal Railroad Administration, Mr. Joseph Szabo. The second panel will consist of three witnesses: Amtrak's President and CEO, Mr. Joe Boardman; Amtrak's inspector general (IG), Ted Alves; and the deputy inspector general for the Department of Transportation, Ms. Ann Calvaresi-Barr.

I want to welcome all of our witnesses at this time and thank you for being here this morning. I look forward to hearing all of your testimony.

Efficient rail transportation in America ties our community together. It creates jobs and boosts the economy and reduces the prices of goods being shipped. And it helps commuters around the country get to work. That's why I'm so glad this administration has expressed a level of interest in rail transportation we haven't seen in a long time. They understand the important role railroads play in our transportation system.

This subcommittee has seen too many budget requests from previous administrations that would have guaranteed the bankruptcy of Amtrak, which would have been devastating to commuters and communities across the country.

I know families in my home State of Washington deeply value our Amtrak service. The Cascade line has set a new record for ridership this year. And I've personally heard from a lot of people who depend on it.

I know that communities around the country value their rail service, as well. That's why I'm so glad that this year the administration's request for grants to Amtrak would support the railroad, although it does not meet all the needs identified by Amtrak itself.

In addition, the administration is again requesting $1 billion for grants to support intercity and high-speed rail. This funding builds on the $10.5 billion provided for these purposes through the fiscal year 2010 appropriations act and the American Recovery and Reinvestment Act, including $590 million to improve high-speed rail in Washington State.

And finally, rail transportation is being included with roads and mass transit in discussions about the Nation's larger network of surface transportation.

In the Recovery Act, we were able to provide States with the flexibility to invest their formula grants in freight and passenger rail. Rail transportation has also played an important part in the Department's Transportation Investment Generating Economic Recovery [TIGER] grant program that I fought to include.

But, we still need to recognize that all of this work, as well as recent proposals for additional funding, are happening at a time when financial constraints are increasing and likely to become even greater. As families across the country look for ways to tighten their belts, leaders here in Washington, DC need to redouble our efforts to get Federal spending under control and reduce our debts and deficit. That's why the budget President Obama sent to Congress freezes domestic discretionary spending, and the budget resolution recently passed in the Senate Budget Committee goes a step further by reducing the spending by an additional $4 billion.

We owe it to future generations to not burden them with debt. But, we also owe it to them to continue making the investments we know will strengthen our economy and make our country more competitive in the long term. That's why I'm looking carefully for areas to cut spending. But, I also know that lower spending levels will make it more difficult for Congress, and for this subcommittee, in particular, to find ways to pay for important infrastructure programs.

I know many people think the answer to this problem lies in funding—finding a source of funding outside of the annual appropriations process. The Highway Program and the Highway Trust Fund offer an easy example of a dedicated, and what has historically been a stable source of funding for transportation infrastructure. But, we should all understand that the financial constraints are just as real outside of the appropriations process. The Highway Trust Fund has been threatened with insolvency for more than 2 years, and we still have not seen any realistic proposals to stabilize the Trust Fund throughout the next authorization period.

This subcommittee has turned to appropriating funds directly from the general fund in order to provide additional investments in our Nation's roads and transportation infrastructure during the current fiscal year.

So, there is no silver bullet and there's no way to avoid making difficult decisions in setting priorities. And while I believe that the administration's budget request would make important investments in rail transportation, there are still significant concerns that this subcommittee will have to consider for fiscal year 2011.

The administration has failed to request any funding for positive train control, an important new technology for preventing rail collisions and derailments. And the administration's budget request for grants to Amtrak does not address the railroad's need to modernize its aging fleet.

During this hearing, we will have the opportunity to look at those important issues. In addition, we'll be able to get additional details on the administration's effort to improve rail safety, and specifically its progress in implementing a risk-based safety program.

However, one of the biggest questions is how well the new leadership at the Federal Railroad Administration and at Amtrak can manage our investments in rail transportation over the long term. In the very beginning of the Obama administration, the FRA was tasked with awarding $8 billion in grants for intercity and high-speed rail. The program was brand new and, as part of the Recovery Act, it needed to be set up immediately.

Adding to these challenges, the FRA had never before administered such a significant grant program. Recent rail legislation has also added significantly to the agency's workload. FRA needs to manage its new responsibilities and build a workforce that has the skills necessary to successfully complete all of that work.

Amtrak also has new leadership, and there's a new level of cooperation between its board and management team. They've worked aggressively to complete a new strategic plan, build the system for prioritizing capital needs, and develop a plan for modernizing its fleet. But, the real test of Amtrak's new leadership team will be as the railroad implements its new plans.

This subcommittee needs to see that the leadership at the FRA and at Amtrak administer their programs and manage their funding effectively and responsibly. Both organizations face significant challenges in the years ahead, but we cannot afford to waste taxpayer dollars or squander this unique opportunity to make our railroads work better for commuters, businesses, and communities across the country.

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

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you very much, Madam Chair.

And I join you in welcoming all of our witnesses today.

And I thank you for outlining the tremendous budget squeeze we're going to be facing this year. And it is going to take a great deal of work to deal with the challenges we have and the limits on—which are placed on us.

And as the Chair said, making an already bad situation worse, the Congressional Budget Office projects that the national debt will balloon to 90 percent of the economy by 2020. If interest payments on the debt remain at this same interest-rate level, we'll have to pay $800 billion. Nobody who knows anything about finance thinks we won't have a significant increase in interest rates when our debt gets that high.

In other words, we're drowning in debt. And the situation is going to get worse. The decisions we make on the budget and appropriations will be critical to the future economic health of our Nation. And we have to find the right balance, spending to fund critical national priorities.

And, Madam Chair, as you've—as you have already described, our general revenue programs compete against one another. It's transportation versus housing. Both programs have strong proponents, as well as very compelling needs. And they seek to maximize funding for their priorities. High-speed rail, Amtrak capital assistance, and fleet are all in direct competition for funding with other transportation priorities, as well as critical housing and community development programs for the poor.

HUD is also in this same pool—is seeking significant funding for the coming year: $250 million for Choice Neighborhoods, $350 million for transforming rental assistance. In addition, these programs, in total, are likely to cost several billion dollars more in each subsequent fiscal year.

At the same time, HUD is proposing the elimination of dedicated funding for housing programs that help the elderly and disabled. These are very important programs. There is great need, and obviously there's great support in Congress for them. How we balance those funding needs, both old and new programs in HUD, are difficult, under whatever allocation we receive for the year, let alone in competition with substantial old and new transportation funding requests, and especially rail, which are likely to require not just significant, but huge increases in the subsequent fiscal years.

Personally, I grew up as a railroad fan. I always loved trains. First time I got a chance to ride on a train, I loved it. I rode on a train. When I got to be Governor, I started State funding for Amtrak. And there was nothing greater than taking my very young son from Jefferson City to Kansas City, or to the State fair at Sedalia. So, I come here as a rail fan.

But, at the same time, if we increase funds for transportation projects like Amtrak, when we have these other needs, we are, in a very real way, in danger of railroading the poor, using limited general revenues to pay for rail, rather than housing programs. And housing programs are not optional. We have people who depend on housing. And we can't walk away from them.

I think it's important, first, to take a look at the unprecedented amount of money rail projects have already received. No one can deny that there's a lot of money going to fund the rail these days, following the passage of the American Recovery and Reinvestment Act of 2009 [ARRA]. In fact, the biggest winner within the Department of Transportation, government-wide, has been the FRA. They are trying to manage grants, beyond their wildest dreams, when the Passenger Rail and Investment Improvement Act of 2008 was signed into law. Who would have anticipated the rail would be the beneficiary of so much general revenue paid for by the American taxpayer? These are not dedicated funds, as the chair has pointed out, paid for by users of passenger rail or freight. These are general funds paid by all our taxpayers.

Amtrak received a record $1.3 billion in 2009 for capital grants, while high-speed rail received $8 billion, with an additional $2.5 billion in 2010. FRA had some experience in managing Amtrak grants, but a whole new $10.5 billion program on top of Amtrak and all of the safety programs they are responsible for overseeing has to be a work in progress for any modal administration.

With this sudden new influx of billions of taxpayers' dollars, I want to ensure American taxpayers that not only are they getting what they are paying for, but also know what they're paying for. With billions more taxpayer dollars poured into Amtrak, which has—let's be honest—has had management problems in the past, I want to ensure that these dollars are not victims of waste, fraud, and abuse.

To ensure that taxpayers get the oversight and transparency they deserve, I've asked the Government Accountability Office to review the first $8 billion awarded for high-speed rail grants. I believe the American taxpayers need to know how the administration chooses the projects to fund with their money. That includes how projects are reviewed, ranked, and scored within the Department.

Taxpayers also deserve to know how the Department applied its criteria for selection and the process used in evaluating awardees. They need to know how the score is given to each of these projects selected, and those which were rejected for funding in the first round. It's critical for our subcommittee to understand the nature of the projects funded and to what extent they represent a departure from, or a continuation of, existing rail service and networks, and how they will fit in to the National Rail Plan due to the subcommittee on September 15 of this year.

What's the future of rail in America? What does the unprecedented amount of new funding mean? This, to me, is a very important question. The American public and the private sector are unclear on if the recent funding for rail in America is just a blip or if rail is here to stay. Are we looking to fund beyond the $1 billion proposed, per year, by the administration, for high-speed rail? Are we supportive of Amtrak's new fleet proposal, which, over the period of 2040, will cost approximately $23 billion, in 2009 dollars? When taxpayer dollars are already scarce, where's the money coming from? Will it come at the expense of critical programs under HUD or the fund—the funding needs of traditional transportation programs, like highways, roads, and bridges?

Last year, $1 billion in the budget for high-speed rail turned into $2.5 billion when we went to conference with the House. This was due, in part, to artificially inflated budgets for transportation without any details or plans for a National Infrastructure Bank. When the National Infrastructure Bank failed to get—garner needed congressional support, we had general fund money on the table that, in my view, should have gone to critical programs to help struggling families or deficit reductions, rather than the rail industry.

If Congress goes even further to fund high-speed rail this year, we're definitely railroading the poor to pay for passenger rail. Especially true this year, when there's not a unified National Rail Plan that includes passenger rail, high-speed rail, Amtrak, State rail plans, freight rail, and a cost-to-complete estimate.

Right now, when it comes to rail, no one has a complete picture—we're looking—of what we're looking to build; a map of the plan; how we're going to pay for it, or how much it will cost us.

Under last year's appropriations bill, we're supposed to get the plan on September 15. That plan should contain a map—which corridors have been identified as high-speed rail investment priorities for the administration. We need cost estimates for these corridors, and we should have benchmarks, an idea of how incremental improvements along existing rail networks will benefit the traveling public. And they have to be fully integrated with State rail plans and Amtrak existing lines.

We should know the full cost of the equipment necessary to run the system. Today, to be quite honest, despite our inquiries, we don't know what we're building, how much it will cost, and whether or not rail investment in America is here to stay, without dedicated funds, because the cost seems to be going out the roof.

The proposals, so far, have been just a handout of general revenue, with no funding source attributed to it, when our country, as I have indicated earlier, is going further and further into debt.

The worst part is, under the Recovery Act and grants in 2010, we don't even know what they're building and whether the use of taxpayer dollars for this purpose is an appropriate use of funds, because, as I said, we don't have the plan.

In March, Secretary LaHood testified before us on the budget, and claimed that, quote, "When President Eisenhower signed the Interstate Highway bill nobody knew how we were going to pay for all of it. So, I'm not going to sit here and tell you that I know where all the money's going to come from for high-speed rail".

Well, I was impressed with that statement. It turned out—but, it turns out that statement is simply false. According to research done by Transportation Weekly, the national interstate map predated the Interstate Act—the map predated the act by 10 years. The 1944 Highway Act directed 48 States to designate, jointly, a map for a national system of interstates, up to 40,000 miles. The State—the States designated 37,700 miles. And a map was approved by Congress in August 1947. The map remained pretty much unchanged, although added miles have been designated and constructed, throughout the years.

On the cost of the map, Congress did have an idea of the cost, because Congress asked the Department of Commerce to conduct a comprehensive highway study—a cost study—and submit it by February 1995. And Congress required an updated State-by-State cost estimate of the interstate system every 4 years.

Will your National Rail Plan due to us September 15 include a detailed map, a cost-to-complete estimate? I'm afraid I must assume the answer to those questions is "no."

For that reason, in this year's appropriations bill, I asked that you provide us with a description of the funds necessary for you to complete a true cost—add a true cost-to-complete study map. We have to have that.

In addition, I'd like your input, Mr. Administrator, on how much you believe a study would cost, and how this could be worked into you current plans for completion of the National Rail Plan. Until we have this information, in my view, it would be irresponsible for the subcommittee to give the high-speed rail program any additional funds.

Along with the high-speed rail plan, we have Amtrak, which should be included in the National Rail Plan. And I think you would agree. I think the Department would include Amtrak's capital needs and fleet requirements in the plan.

I'm pleased that, for the first time, Amtrak submitted a 5-year capital budget plan along with its annual appropriations request. However, as soon as we get a comprehensive plan, we find an addendum to the plan, which is a sizable investment of $446 million in the Amtrak fleet. Is Amtrak going to amend this year's capital budget request to include fleet where we can see what priority new fleet plays, versus Amtrak traditional capital requirements and Americans with Disability Act requirements? When we're dealing with general fund appropriations, I think we need the answer to these questions before we provide the resources.

Amtrak sent our subcommittee its addendum to their budget submission on March 22 of this year. It's not been cleared by OMB, and is not part of Amtrak's regular 5-year capital plan. These are additional capital funds Amtrak's seeking for its aging fleet. It's not included in all of the planning and included in the budget on which—with which we have to work.

I'm thankful that—don't get me wrong—they've finally submitted a fleet plan. At least there's a plan and a cost-to-complete estimate, unlike our National Rail Plan and high-speed rail plan. But, once again, there are no funding sources identified other than general funds and loans paid with paid interest by the general fund. In other words, these loans are going to be a burden on future general revenue.

Once again, Amtrak is competing with HUD and, potentially, other forms of transportation and, potentially, railroading the poor, if this subcommittee agrees to pay $446 million in additional capital for a fleet or agrees to incur additional debt service using general funds for loans they may take out on fleet in 2011 and beyond.

All of these resources should be contained in one comprehensive National Rail Plan. If you agree with Amtrak's fleet plan, Congress will agree, over the next 30 years, to pay $23 billion, in 2009 dollars—$46 billion in escalated dollars—or more, to provide replacement fleet to Amtrak's system by 2040. Whichever approach is taken, it will be a very costly endeavor to acquire the fleet replacement at the same time that we're attempting to build high-speed rail and, in the mind of the administration, enhance State service of passenger rail.

What's the priority? We've got to establish some priorities. Rail supporters have to know that there are limits, even in the best of times, to these pie-in-the-sky requests and to those of us who are rail fans, or who used to be, I'd have to say. Given our current deficit, you have to admit, the initial request of $446 million outside of the budget and capital plan is inappropriate. Why is Amtrak asking for replacement of locomotives on the Northeast corridor and single-level long-distance cars?

Now, replacing aging locomotives along the Northeast corridor might be acceptable, because at least they're operating on a much lower cost per mile and per passenger subsidy than other routes for Amtrak. But, long-distance service last year only had 1.7 million riders, with a cost-per-passenger subsidy of $153. Replacement of long-distance cars in Amtrak's fleet, in 2009 dollars, is $4 billion. These are the most costly routes on the current Amtrak system. And Amtrak is proposing to ask for some of these cars first.

Where's the proposed money supposed to come from? Who's going to pay? Will it be the taxpayer paying for rail once again, at the expense of the poor? If Amtrak chooses to go the loan route for the fleet, this subcommittee would have to pay for debt service far into the future. We're really bilking the poor in the future to pay for rail. Long after I have stepped aside, general funds would be needed to pay for out-year budgets for funding decisions that would be made now.

My closing note is that all this doesn't even touch the safety side and unmet funding needs for positive train control by 2015. Last year, our subcommittee provided $50 million in grants for positive train control. The new regulation is estimated to cost upwards of $13 billion to $15 billion for the rail industry alone, and $2 billion for the transit industry, and there's nothing in the budget for the safety program. With a $12-trillion-and-growing Federal budget, we just can't throw Federal funds at projects willy-nilly. We need to answer these tough questions. We need a roadmap for the future. And we need to balance scarce taxpayer dollars.

I apologize, Madam Chair, for the time, but I think the magnitude of the problems—of the prioritizing problems we face deserve some answers.

With that, I look forward to the testimony of the Administrator.

Senator MURRAY. Thank you very much, Senator Bond. I appreciate it.

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

STATEMENT OF HON. JOSEPH C. SZABO

Mr. SZABO. Very good. Thank you, Madam Chair, Ranking Member Bond, and members of the subcommittee.

Appreciate the opportunity to appear before you today to discuss FRA's fiscal year 2011 budget request.

Our $2.9 billion request reflects the administration's commitment to keeping the national rail transportation system safe and supports the administration's pledge to provide the traveling public with sound transportation alternatives to flying or driving.

Without question, this is a transformational time at FRA. The impact of the Rail Safety Improvement Act, which requires more than 40 rulemaking studies and reports, the passenger—the passage of the Passenger Rail Improvement and Investment Act and its new initiatives in bringing the States in as partners if the development of passenger rail, and then, of course the American Recovery and Reinvestment Act has just set about an unprecedented time at our agency.

Over the past year, FRA has executed its rail safety regulatory mission while simultaneously implementing an entirely new line of business, the design and management of a multibillion-dollar high-speed rail grant program. And transformation does not come without obstacles, challenges, and lessons learned.

Considering FRA's fiscal year 2011 budget request, I hope the subcommittee recognizes the care that was taken to present a request that supports our key mission—rail safety—while also enhancing our capacity to manage high-speed rail programs.

And I want to emphasize that when we put this budget together, we didn't just take last year's budget and start making adjustments to it; we sat down with a blank sheet of paper and started from scratch, taking a look at all of our new requirements, all of our priorities, and from there, developing a fresh budget.

For fiscal year 2011, we're proposing a strong blend of safety program enhancements and technical budget changes. Currently, all of FRA's administrative and operational expenditures and several safety-related programs are funded under a single account entitled "safety and operations."

In fiscal year 2011, we propose to eliminate this account and break it into two new accounts: Railroad Safety and Federal Railroad Operations. The proposed new account structure is more transparent and will provide greater insight into the cost of FRA's safety-specific program activities and internal administrative operations.

Programmatically, under the new Rail Safety account, a total of $49.5 million is requested to carry out FRA's mission-critical railroad safety functions and activities. A total of $153.8 million and 948 full-time equivalents [FTEs] are requested under the new Federal Railroad Operations account to fund FRA's administrative activities, such as payroll, information technology infrastructure, and other shared costs, and provide the necessary human resources to ensure sound stewardship of our FRA safety programs. This includes 62 new positions that will enable FRA to make measured progress on the responsibilities mandated by the Rail Safety Improvement Act, PRIIA, and the administration's high-speed rail initiative.

Finally, FRA's 2011 budget activities include a rail safety user fee, which is modeled after the FRA-administered fee between 1991 and 1995. FRA estimates that $50 million could be generated for defraying the salaries and benefit costs of up to 330 of our rail safety inspectors across the country.

A total of $40 million is requested to support FRA's Railroad Research and Development Program. Specifically, in fiscal year 2011, FRA will focus added resources on railroad system safety, train control testing and evaluations, and the newly authorized Rail Cooperative Research Program.

Although the foundation for a Federal-State partnership began with the passage of the Passenger Rail Investment and Improvement Act [PRIIA], it was the $8 billion provided in ARRA that has truly advanced the high-speed rail initiative. This year's $1 billion request continues funding to advance passenger rail infrastructure and includes up to $50 million for program administration and oversight activities, $50 million for planning grants, and $30 million for high-speed rail research and development.

FRA and Amtrak have shared a strong partnership for decades. The fiscal year 2011 budget request for Amtrak, which totals

$1.637 billion, is a reflection of this administration's continuing support of this relationship. Within the overall request, $563 million is requested for Amtrak operations and to support their ongoing efforts to reshape the company by undertaking meaningful reforms.

A total of $1.052 billion is requested for Amtrak's capital needs and debt service. And this includes $281 million to finance Amtrak's ADA requirements.

Finally, $22 million is requested for a direct grant to the Amtrak Office of Inspector General.

PREPARED STATEMENT

The past 18 months have just been filled with exciting but challenges at FRA. But, it's been a great challenge. And it's—even though it's been a challenge, it's been fun. And we're continuing to enhance the safety of our Nation's freight and passenger rail systems, while also driving forward this vision of investment in high-speed passenger rail.

So, with that, I look forward to the subcommittee's questions.

[The statement follows:]

PREPARED STATEMENT OF HON. JOSEPH C. SZABO

Chairwoman Murray, Ranking Member Bond, and members of the subcommittee: Thank you for the opportunity to appear before you today to discuss the Federal Railroad Administration's (FRA) fiscal year 2011 budget request.

This request, which totals $2.9 billion, reflects the administration's commitment toward keeping the Nation's rail transportation systems safe, secure, and efficient. In addition, this request supports the administration's pledge to provide the traveling public with a practical, energy efficient, and environmentally sound alternative to flying or driving, particularly where there is congestion in the air or on the roads, through strategic investments in high-speed rail.

As you know, in April 2009, I was appointed as the FRA Administrator. I arrived to find FRA in the midst of a grand realignment. The entire organization was focused not only on the effective implementation of the Rail Safety Improvement Act (RSIA) and the Passenger Rail Improvement and Investment Act (PRIIA) that were enacted in October 2008, but on the requirements of the American Reinvestment and Recovery Act (ARRA), which was passed in February 2009. The impact of these mandates on FRA has been significant. RSIA and PRIIA mandated new and expanded safety mission responsibilities and programs, while ARRA appropriated an unprecedented $9.3 billion in resources for intercity passenger rail programs.

Over the past year, FRA has executed its rail safety regulatory mission, while simultaneously implementing an entirely new line of business—the design and management of a multibillion-dollar, discretionary high-speed rail grant program. As expected, this transformation has not come without obstacles, challenges, and lessons learned. However, the support this subcommittee has given to FRA has enabled our agency to acquire the staff and resources to fortify our continued success. In fact, we are making good progress in building our workforce. We have hired and/or made offers to nearly one-half of the 20 new positions that were funded in fiscal year 2010 and have active recruitments for the remaining positions. I expect within a few months, FRA will have the majority of the new staff in place.

In considering FRA's fiscal year 2011 budget request, I hope the subcommittee recognizes the great care that was taken to present a request that fully supports the heart of our mission—rail safety—while continuing to enhance our capacity to manage the comprehensive management and oversight requirements of the high-speed rail grant program.

RAILROAD SAFETY

For fiscal year 2011, we are proposing a strong blend of safety program enhancements and technical budget changes.

Currently, all of FRA's administrative and operational expenditures (i.e., salaries, benefits, GSA rent, Working Capital Fund contributions, etc.) and several safety-related programs (Automated Track Inspection Program (ATIP) and Railroad Safety Information System (RSIS)) are funded under a single account titled "Safety and Operations." In fiscal year 2011, the major technical change proposed is the elimination of the overarching Safety and Operations account and the establishment of two new, more targeted accounts: (1) Railroad Safety; and (2) Federal Railroad Operations. The proposed new account structure is more transparent and provides insight into the cost of FRA's safety-specific program activities, as well as FRA's internal administrative operations. The new structure will allow FRA to be more precise in its reporting and accountability and directly supports the administration's transparency initiatives.

Programmatically, under the new Railroad Safety account, a total of $49.5 million is requested to carry out FRA's mission-critical railroad safety functions and activities. This new account captures the costs associated with FRA's major rail safety program activities, which were previously funded under Safety and Operations. Activities proposed to be funded under the new Railroad Safety account include: Automated Track Inspection Program (ATIP), the Risk Reduction Program (RRP), and FRA's safety inspector-related travel.

FRA MANAGEMENT AND ADMINISTRATION

A total of $153.8 million and 948 full-time equivalents (FTE)/979 positions are requested under the new Federal Railroad Operations account to fund: (1) FRA's administrative activities such as, payroll, information technology infrastructure, and other shared costs; and (2) provide the necessary human resources needed to accomplish a myriad of priorities and to ensure the sound stewardship of FRA rail safety compliance, research and development, and financial assistance programs.

Included in this request are 62 new positions that will enable FRA to continue to make measured progress on accomplishing the responsibilities mandated by RSIA, PRIIA, and the administration's high-speed rail initiative. These new positions minimize FRA's operational risk and will allow the agency to hire additional staff with the specialized skills and experience (e.g., civil and mechanical engineers, environmental specialists, and financial analysts) necessary to fully support FRA expanding programs and mission-essential activities.

Finally, FRA's fiscal year 2011 budget includes a rail safety user fee. The rationale for this fee is consistent with that of other DOT Modal Administrations that have a fee structure to help finance, in whole or in part, costs associated with safety mission programs and activities. This user fee is modeled after a rail safety user fee FRA administered between 1991 and 1995. As proposed, in fiscal year 2011, FRA estimates $50 million in collections could be generated for use in defraying the salary and benefit costs of up to 330 rail safety inspectors across the country.

RAIL RESEARCH AND DEVELOPMENT

A total of $40 million is requested to support FRA's railroad research and development program and agenda. Specifically in fiscal year 2011, FRA will focus added resources in the areas of railroad systems safety, train control testing and evaluations, and the newly authorized "Rail Cooperative Research Program." This new initiative will enable FRA to efficiently gather input from stakeholders to identify and validate rail research priorities and accelerate the real-world impact of FRA's research and development program by strengthening the academic and industrial railroad technical communities.

HIGH-SPEED RAIL

In less than 2 years, we have witnessed the notion of intercity transportation change across the county. Although the foundation for a Federal-State partnership to focus on the development of high-speed rail began with the passage of PRIIA, it was the $8 billion provided in the ARRA that has truly advanced this initiative. Delivering on the administration's vision and realizing the benefits of high-speed rail requires a long-term commitment at both the Federal and State levels. For this reason, last year, the administration proposed a multiyear initiative to invest $5 billion over the next 5 years to leverage resources at the State and local levels, as well as in the private sector. This initiative will fund strategic investments that yield tangible benefits to intercity rail infrastructure, equipment, performance, and intermodal connections over the next several years, while building capacity for future corridor development. This particular program is also expected to have a positive impact on the Nation's rail-related manufacturing sector, which has declined over the past two to three decades. As the major corridor projects are awarded, the steel and rolling stock necessary to build and operate the infrastructure can be supported by our country's factories and a talented workforce.

The $1 billion requested in the 2011 budget is the second year of the administration's 5-year high-speed rail initiative. These resources will continue support of the administration's vision to provide a sustainable 21st-century rail transportation solution that is energy-efficient, environmentally sound, and leverages State, local, and private sector resources and partnerships. This request continues funding to advance the high-speed rail infrastructure capacity across the Nation and includes up to $50 million for program administration and oversight activities, $50 million for planning grants and activities, and $30 million for high-speed rail research and development activities.

NATIONAL PASSENGER RAIL CORPORATION (AMTRAK)

FRA and Amtrak have shared a strong partnership for decades, and we continue to successfully collaborate on critical issues such as: (1) ensuring rail safety; (2) promoting environmental quality; and (3) addressing national passenger rail transportation priorities and policies. The fiscal year 2011 budget request for Amtrak, which totals $1.637 billion, is a reflection of this administration's continuing support of this partnership.

Within the overall request, $563 million is requested for Amtrak operations and to support Amtrak's ongoing efforts to advance its mandate to reshape the company by undertaking meaningful reforms and controlling spending. This Federal assistance will supplement Amtrak's traditional corporate revenues, which are generated through passenger revenue (ticket, food and beverage sales), State-supported revenues (State contracts related to route performance), and its ancillary business revenue.

A total of $1.052 billion is requested for Amtrak's capital needs and debt service. Included in this funding level is $281 million to finance Amtrak's fiscal year 2011 Americans with Disabilities Act (ADA) requirements. Finally, $22 million is requested for a direct grant to the Amtrak Office of Inspector General.

CONCLUSION

The past 18 months have been filled with exciting challenges for FRA. We have continued to enhance the safety of our citizens and communities that live and use the Nation's freight and passenger rail systems, while designing the policies, programs, and infrastructure necessary to advance the vision and investment of high-speed passenger rail across our country. With this, I am happy to respond to your questions and concerns.

AMTRAK FLEET

Senator MURRAY. Well, thank you very much, Mr. Szabo, for your testimony.

Let me start by mentioning that, last February, Amtrak published its plan for replacing its aging fleet of locomotives and rail cars. And as part of that plan, they requested $446 million to fund the fleet plan in fiscal year 2011. Can you explain to the subcommittee why the Department's request had no additional funding for replacing Amtrak's fleet?

Mr. SZABO. Well, I think, as you know, that anytime you're putting a budget together, there are a lot of very, very hard and very difficult choices that have to be made. But, clearly, we think that that fleet plan is a—you know, it's an excellent plan. And it's a good vision. It has the opportunity to invigorate domestic manufacturing. And we're sitting down with Amtrak and trying to discuss some financing alternatives.

Senator MURRAY. Well, they have structured their fleet plan so that it could support a domestic industry for manufacturing rail equipment by spreading the orders over a 30-year period. Their demand for rail equipment may be large enough and reliable enough to actually support a domestic industry. Right now, we don't have any domestic manufacturers of rail equipment, but that could help revitalize a very important sector of American manufacturing, and support the kinds of jobs we all want to see to get our economy back on track.

But, for this plan to work, manufacturers have to believe that Amtrak really is going to be a reliable source of funding for its rail orders. I know they're looking at a variety of ways to pay for the fleet plan, and have requested funding from this subcommittee, and understand that it may apply for a loan through the FRA's Railroad Rehabilitation and Improvement Financing (RRIF) program.

Can you share with us what kind of financing you think would help give our domestic manufacturers the kind of assurance they need to be confident that Amtrak will actually be able to purchase rail equipment well into the future?

Mr. SZABO. Yes. Let me say, first, Madam Chair, that I think you're absolutely on the mark, that, in order to reinvigorate domestic manufacturing, there needs to be the belief that this is going to be sustainable.

You know, the Secretary pulled in all of the foreign manufacturers, domestic manufacturers, all rail manufacturers into a summit over at the DOT, back in December. And if we heard one thing, it was, they, you know, clearly articulated the need to ensure that these orders can be smoothed out over a period of time. And so, you're not constantly going through these peaks and valleys, and that, if the orders were truly smoothed out over a period of time, and they believed it was sustainable, that this would be what it would take to truly make the investment, as a businessman, that they would need to make in the plant and equipment, you know, and sink these costs into establishing these types of facilities here in the United States.

As far as the financing solutions—again, we're at the table with Amtrak, and I think it's going to have to take a blend. I'm not sure that there's this one single silver bullet that's going to just solve all the problems for financing the other plan. But, you know, certainly there's the potential for possibly a RRIF loan, commercial lending, direct appropriations. I mean, I think we need to take a look at all of the alternatives and make sure that we come up with a sound financing plan.

Senator MURRAY. Well, this is really important. This subcommittee is a strong supporter of infrastructure spending. That's what we do, and we believe in it. But, we have to have consistent priorities and know that that funding is going to be consistently there, if we want domestic manufacturers to begin to develop that. And if we get a request this year, and we fund it, but we don't know what's going to happen next year, I don't think that is going to be enough for a domestic manufacturer to make a decision to make that kind of investment. Wouldn't you agree?

Mr. SZABO. Yes. I would agree. I mean, again, your remarks directly align with what we heard from the manufacturers back in December. They need to know that there is stability.

Senator MURRAY. So, what I'm saying to you is, we all need to have a concrete plan, not just for an appropriation here or there, but for how we're going to do this, long into the future, if we want to really achieve the goal I think some of us want to achieve.

Mr. SZABO. Yes, I would agree that there needs—again, there needs to be the appropriate mix. We need to find what that appropriate mix is.

POSITIVE TRAIN CONTROL

Senator MURRAY. Okay.

Well, let me turn to another issue, because, under the Rail Safety Improvement Act, railroads are supposed to deploy the positive train controls (PTC) by 2015. Senator Bond mentioned it in his opening statement. We know that's an important safety technology designed to prevent train collisions and derailments. But, this is going to cost billions of dollars. Now, you announced, I think, $50 million in the 2010 appropriations request for Rail Safety Technology grants. I want to know what you hope to accomplish with that funding, and what are some of the additional challenges that need to be resolved so we can deploy the PTC?

Mr. SZABO. Well, what we intend to do with this initial $50 million is, instead of giving grants out to a single railroad or a small combination of railroads, using it for those kind of things that can be broadly shared; those initial costs that, in essence, would benefit the industry as a whole.

And so, I—frankly, that was part of the reason why we didn't make an additional request for 2011. We wanted the opportunity to roll out the initial $50 million in 2010, kind of test the waters with that. And then the opportunity exists for these broader-based funding programs that the DOT—whether it's the TIGER grants, whether it's through the high-speed rail program, or whether it's through the proposed Infrastructure Bank for the—you know, for the funding of positive train control.

Senator MURRAY. Well, as Senator Bond mentioned, we're talking about billions of dollars. Do you have a plan for how to get there?

Mr. SZABO. Well, at this point, those funding requirements belong to the railroads. And, you know, certainly we're looking at those alternatives that might offer some help. But, again, the responsibility, at this point, belongs to those rail carriers that the regulation applies to.

Senator MURRAY. Well, according to FRA's regulations, railroads have to deploy positive train control on any line that carried passengers or certain hazardous materials in 2008. But, for a lot of reasons, these routes shift before the 2015 deadline that's coming at us. In that case, the original rationale for deploying positive train control on those lines may no longer exist. Now, railroads will be given the opportunity, I understand, to apply for an exemption to the PTC requirement along those rail lines. But, can you share with the subcommittee what criteria you will use to determine whether or not to grant an exception?

Mr. SZABO. The key is that it's all about safety. And there has to be a baseline from where you start. And so, we believe that the regulation that we've drafted has a sufficient level of flexibility that we start with where we're at today. But, as those routes change, there's the ability to come in and verify—you know, they—the carriers would need to verify to us the fact that the routes have changed. And it allows for the appropriate level of checks and balances that—as modifications are made, for us to ensure that they're the appropriate modifications and that public safety is maintained.

Senator MURRAY. Okay. Thank you very much.

Senator Bond.

ALTERNATIVE FUNDING SOURCES/GRANTS

Senator BOND. Thank you very much, Mr. Administrator.

I am concerned that you talked about, "We need to find some alternatives. We don't know what they are. We have a request for $446 billion—million out of the—outside of the budget for—OMB's budget—for Amtrak. And yet, we don't know how that's going to be paid for." We don't have our budget allocation. And I can guarantee you that we're going to have to start making some hard choices, because there are a whole lot of wonderful things out there for railroad, but we need some specifics to know what your priorities are.

No. 1, if you have plans for the alternative source of funding, what are they? I mean, don't just tell us "alternatives," because we're appropriating what we have. If you're going to get us more money, how are you going to get us more money?

Mr. SZABO. Well, I'd say we've just recently sat down and started those discussions with Amtrak. So, you know, again, we need to flesh out what those alternatives are and get you——

Senator BOND. Yes.

Mr. SZABO [continuing]. The answers.

Senator BOND. I can't approve any dollars that haven't been flushed out—or fleshed out—whichever way you put it—sorry. On, you know, ARA—ARRA gave Amtrak $1.3 billion, and apparently the inspector general of Amtrak is going to tell us that these programs are, perhaps, not meeting—going to meet the February 17, 2011, timeline. Would you comment on the oversight that FRA provided in making this grant—making these grants to Amtrak?

Mr. SZABO. Well, let me say this. First off, I had a sitdown with the Amtrak inspector general just this week, and we discussed some of his findings in the report. And we welcome that. You know, that's the purpose of the inspector general, is to uncover potential areas of problems, whether the problems exist today or whether it's the potential of developing. And they did identify one that they have a concern with, you know, regarding the extraordinary measures that FRA is requiring——

Senator BOND. Paying double overtime, I understand, on some of——

Mr. SZABO. Yes.

Senator BOND [continuing]. Those projects?

Mr. SZABO. And I think the key is—what they said was, it has the "potential." We're comfortable that, through our discussion with Amtrak and through the oversight that we're providing, that we're going to achieve that appropriate balance between the need to quickly create jobs—because that was the intent of these projects—while also ensuring that there isn't any waste. So——

Senator BOND. But, what did you do in advance? You're talking about the IG looking at the—have you ever turned down—denied a grant to Amtrak?

Mr. SZABO. I don't know, but I can get you that answer.

Senator BOND. What criteria——

Mr. SZABO. I mean, have I, in the past year? I have not. But, we can get an answer of what FRA's history is on that.

Senator BOND. Maybe you can tell us what criteria you used, what judgment you excised in making that money available. If you'd provide that for the record, what criteria do you go through before making those grants to Amtrak, to make sure they were shovel-ready?

Mr. SZABO. Definitely.

5-YEAR CAPITAL PLAN

Senator BOND. And, in your view, should the 5-year capital plan include fleet, other rail assets, and the ADA requirements in one comprehensive fleet plan? Is that part of—is that going to be part for the plan?

Mr. SZABO. Well, let me say this. One of the challenges, historically, in preparing our budget request is that, historically, there has been a mismatched cycle between FRA's budget request and the budget that Amtrak has prepared. And the good news is that, under Joe Boardman's leadership, and D.J. Stadtler, their Chief Financial Officer, that's changing, which means their budget cycle will be more in sync with ours. So, in the future, when FRA makes its budget application to this subcommittee, it'll be based on more sound facts, rather than us trying to estimate what we believe Amtrak might need, and then, their budget being developed a month or two later. And——

Senator BOND. Yes. Well, Mr. Administrator, I suggest that's your problem, not ours. But, when you pass that——

Mr. SZABO. Well, and—like I say——

Senator BOND [continuing]. Off onto to us——

Mr. SZABO [continuing]. And the good news is——

Senator BOND [continuing]. We're up against——

Mr. SZABO [continuing]. It's being addressed.

Senator BOND [continuing]. We're up against the wall now.

Mr. SZABO. Right.

Senator BOND. And should we——

Mr. SZABO. But, it's being addressed.

Senator BOND. Are there things in your budget request that you have submitted that you would like to reduce, to offset, and to cover some of the $446 million fleet request for Amtrak?

Mr. SZABO. We believe that we have a very sound budget request that appropriately——

Senator BOND. Okay.

Mr. SZABO [continuing]. Directs——

Senator BOND. So, we should absolutely ignore the $446 million request for Amtrak.

Mr. SZABO. I don't think you ever ignore any information that——

Senator BOND. Well, unless the——

Mr. SZABO [continuing]. Somebody brings——

Senator BOND [continuing]. Unless——

Mr. SZABO [continuing]. To this subcommittee.

Senator BOND [continuing]. Unless——

Mr. SZABO. Well, sir? No, wait a minute, please, please.

Senator BOND. Yes.

Mr. SZABO. Please allow me to answer.

You know, as I said, when we develop our budget, there's always difficult choices that we have to make. And so, we make some decisions, and we present our vision to you. But, that doesn't mean that you should ever ignore new information or additional information or different information that somebody else brings to you.

Senator BOND. I assure you, Mr. Administrator, we will have to do that. But, what we want to have, going in, is your best assessment. If you think the budget should be amended to take account of the $446 million request from Amtrak, or some part of it, we would ask you to provide that to us, because, at least we would have some grounds to know. We need to look at your budget request as a whole. And I—this coming in over the transom gives us mixed signals on what the administration's priorities are. And based on what you've said, and what we've seen in the past, I would have to say that this subcommittee is being asked by the administration to fund other things, but not—at—to the exclusion of the Amtrak request. So, that's something you're going to have to resolve, is whether you think that some of the requests for locomotives on the Northeast corridor should be included, and other projects that you've requested should be eliminated to make room for them.

And finally, you're telling me that positive train control and all that is totally the freight rail—the $13 billion to $15 billion—is the freight rail's responsibility, and you're not going to recommend money for it.

Mr. SZABO. No, that's not what I said. What I said was, we do have other funding alternatives that are available through these broadbased transportation programs, whether it's the TIGER grant process for passenger rail, potentially through the high-speed rail program, through the proposed Infrastructure Bank, or even through RRIF loans. So, we do have some alternatives. But, again, the responsibility—now, we can give some help—we can give some help—but, the responsibility does remain with those rail carriers.

Senator BOND. Well, I'd be—I hope we will see that in the plan. And I'm sure the rail carriers will want to know how much they're going to be expected to pick up.

Thank you, Madam Chair.

Senator MURRAY. Thank you, Senator Bond.

Senator Lautenberg.

EQUIPMENT REFRESH

Senator LAUTENBERG. Yes. Thanks, Madam Chairman.

One thing, I think, that's generally acknowledged, and that is that Amtrak is critical for our society to function—critical. And, you know, when you see a disaster, like September 11 or Hurricane Katrina, it's Amtrak that is called upon to move Americans out of harm's way.

And in the Northeast corridor, Amtrak operates the only high-speed rail service in the country. And, as a matter of fact, if we didn't have Amtrak running there, be in the Northeast corridor, you'd have to run 243 more flights every day, with the densely congested airspace in our country. You'd also have to add, as an after-thought, 30,000 more cars on highway I–95. Amtrak offers so many positive additions to our well-being.

And included in that is the commitment that all of us have made here, and that is to create jobs in this society. And you're not going to build the rail cars overnight. You're going to—how long does it take, do you think, Mr. Szabo, to—from the time equipment's ordered until the time that it's delivered?

Mr. SZABO. Well, actually, Mr. Boardman could probably give you a more accurate line on that.

Senator LAUTENBERG. Do you——

Mr. SZABO. But, certainly——

Senator LAUTENBERG. You don't know——

Mr. SZABO. I'd say, roughly—Mark, what are we talking about—a year—from order to delivery. Roughly 3 years.

Senator LAUTENBERG. Roughly 3 years. And the fact of the matter is, that as we look at what Amtrak adds—reduces our dependence on foreign oil, reduces the cost of—reduces pollution. It adds so many things and also says, "You can get there on time." Surprise, you can get where you're going on time, if—98 percent of the time—if you take Amtrak.

I took an airplane flight the other day, Madam Chairman. It was a 45-minute flight up to LaGuardia Airport, but it took us an hour and a half to take off. So, that made the 45-minute flight a heck of a lot longer.

Amtrak's fleet of cars is rapidly deteriorating. The average age of an Amtrak passenger car is over 24 years old. And some are more than 60 years old. The fact that I regard that as young has nothing to do with—what we've—with what happens in a railcar. And I ask you, do we—how essential is it, in your judgment, for us to get replacements for the cars that we have on the railroad right now in order for Amtrak to be the functioning railroad we'd like to see? Is it important?

Mr. SZABO. It's important, I would say, from both a safety standpoint, as well as a reliability standpoint.

Senator LAUTENBERG. Is it critical, would you say?

Mr. SZABO. It's getting very close to critical.

Senator LAUTENBERG. You mean it's—we're not yet at criticality?

Mr. SZABO. It's close.

Senator LAUTENBERG. Mr. Szabo, you're too well informed not to be able to say yes to that.

Ride the railroad. I don't—do you ever take the railroad?

Mr. SZABO. Every chance I can get.

Senator LAUTENBERG. How often is that?

Mr. SZABO. I would say at least a couple of times a month. You know, when I——

Senator LAUTENBERG. Well, I——

Mr. SZABO [continuing]. Lived in Chicago, several times a month; now that I'm out here in the District of Columbia——

Senator LAUTENBERG. Yes.

Mr. SZABO [continuing]. A couple of times a month, whether it's to go to——

Senator LAUTENBERG. I do it——

Mr. SZABO [continuing].—New York.

Senator LAUTENBERG. I do it every week. And I can tell you—my handwriting was never my best skill, but when I get off of the Amtrak train, and I try to write some things that I have to take care of, it's barely readable, because it shakes, rattles, and rolls. And it is ridiculous. If we want to make this railroad the thing that America should be proud of, invest like China or Spain or the countries that are far less able to do these things than we. And we're like a third, or even a fourth-rate country, in terms of railroading. It's shameful what happens with us.

So, I agree with my colleagues here when we talk about replacing equipment. We need that $400-plus million for new equipment. And we've got to get those orders out there.

How much cash does it require on the barrelhead in order to get these orders going?

Mr. SZABO. For——

Senator LAUTENBERG. For when you pay a deposit—you know, like if you want to buy a car, you pay a deposit.

Mr. SZABO. It would be roughly $70 million.

Senator LAUTENBERG. Okay. So, that sounds like a start to me, and we ought to work like the devil. And I—I've heard you say that it was—that there's no silver bullets and it's—then these are difficult decisions. All of that, those tales of woe, Mr. Szabo, they're interesting, but they don't get the job done.

And so, when we looked further—I wrote a rail safety law that mandated that railroads install positive train control on certain routes by the end of 2015. And it created a grant program to help railroads meet this safety requirement. However, the President's budget eliminates funding for this critical grant program. What's the administration going to do—I think, Senator Bond, that—to help public and private railroads meet this deadline? Are they going to do anything about it?

Mr. SZABO. Yes. Again, we would have funding available through, potentially, the TIGER Program for the passenger railroads, possibly the high-speed rail program, the proposed Infrastructure Bank, and potentially through RRIF loans. So, we do believe that there are some options out there.

Senator LAUTENBERG. Do you have any idea as to the amount of resource or funding that might be available?

Mr. SZABO. Well, again, that would—it would depend on the amount of TIGER money that is made available. You know, these different pools—it would vary over time.

Senator LAUTENBERG. Everything depends on something else. We know that.

In my State, New Jersey, we have a rail bridge known as the "Portal Bridge." It's over 100 years old, in critical need of being replaced. One of the biggest factors is—in delays on the Northeast corridor—is the Portal Bridge. What's FRA's plan to replace this bridge so that high-speed rail service on the Northeast corridor can be seriously developed?

Mr. SZABO. Well, as I think you're aware, we, through our high-speed rail program, have already allocated $38.5 million, which is also being matched by $16.5 million from the State of New Jersey to fund the final design of the replacement to the bridge. And we'll continue to work with the State DOT to see what alternatives are appropriate.

Senator LAUTENBERG. The—if I might, Madam Chairman, just one last thing.

The last environmental impact statement for the Northeast corridor was completed in 1978, in order for the corridor to receive this kind of high-speed rail investment that it needs, this assessment will need to be updated. Last year, Congress provided $50 million to the Department of Transportation to move forward on this assessment. Do you know what the status of this review is and when it will be complete?

Mr. SZABO. Yes. The Secretary has asked for submissions from the Governors to establish the Northeast Corridor Commission, the study commission. That's been established and we'll be putting together the appropriate plans to bring the corridor to the—you know, to the next step, to the next level. So, we're committed to that.

Senator LAUTENBERG. Madam Chairman, thank you very much.

I assume that we'll have the record open so that we can submit questions for the record.

RAIL SAFETY

Senator MURRAY. Absolutely. Thank you.

Mr. Szabo, funding for high-speed rail has dramatically changed the workload at the FRA. We can't forget that the FRA is a safety organization. You are requesting 26 new positions for rail inspectors and rail safety staff. Can you describe for us your workforce strategy for those new positions?

Mr. SZABO. Roughly one-half of those will be field inspectors, and then the remaining will be at headquarters, being utilized to make this shift away—you know, we have to always maintain a strong inspection program while we also shift to the more creative approaches through our risk reduction programs and the direction that the Congress sent us on, under the Rail Safety Improvement Act. And so, the remaining half would be the bench strength that we need to put together our new rail safety initiatives.

Senator MURRAY. Okay. Well, you've proposed covering part of that with the $50 million in user fees from the industry. That's a lot of money, especially when we're asking them to also do positive train control. Can you explain to us the rational for charging user fees?

Mr. SZABO. Well, it's not unprecedented, when it comes to safety inside the DOT. Not only is it utilized in a couple of other modes at DOT, but there's some history of using it at FRA. As I—as you might be aware, we had such a user fee through the mid-1990s—roughly from, I think, 1990 to 1995. And so, again, there's a basis for doing this. And we believe it's appropriate to try and come up with revenue sources and that, in some way, we try and supplement the cost of the railroad safety program. Again, it's about public safety. It's about ensuring that we have the resources and the inspectors that we need to keep the Nation's railroads safe.

HIGH-SPEED RAIL

Senator MURRAY. Okay. In another arena—before the Recovery Act, States didn't expect the Federal Government to provide a significant amount of money for high-speed rail; and in less than 2 years, the Federal Government has now committed $10.5 billion to intercity and high-speed rail. That is an important long-term investment. We all know it's not realistic to expect high-speed rail corridors to begin operations in the next year. But, can you give us an idea of what timeframe you think will be necessary to see the development of high-speed rail corridors, and the beginning of service?

Mr. SZABO. Well, I think you need to keep in mind that Congress developed this program as a State-driven process. And so, it's the States and the regions that develop their vision for their service, and then they apply to the Federal Government for capital money to construct. And I would say each of those States and regions are in a different maturity level, as far as where they're at with their plans.

You know, in the case of those that got some of the early awards, these are State DOTs that have been investing and planning in rail, through their State programs, for many years. In the case of California, the case of your State, Washington State, in the Midwest, North Carolina—these States have been at this for almost a decade.

You know, true 200-mile-an-hour service like California is going to take a long time to build out. Now, there can be small pieces that can be up and running and carrying passengers much more quickly. But, frankly, it's going to be projects more like the Midwest plan, the Midwest Regional Rail Initiative that can have service at 110-mile-an-hour quickly in the next couple of years, as it continues to build out and develop. And Washington State, too.

Senator MURRAY. Well, you've requested a billion dollars. Can you tell us how much you expect to use for intercity projects and how much for high-speed rail corridors?

Mr. SZABO. Well, under the $2.5 billion that we rolled out this year, we allocated, roughly, about 85 percent of that to high-speed rail and, roughly, about 15 percent more toward the intercity projects. And if you take a look at the percentages on the $8 billion that we put out, you know, roughly—I want to say, roughly, about 45 percent was in that category of true high-speed rail of over 150 miles per hour. Roughly, another 40 percent went to what I would call "emerging high-speed rail," you know, those in that 110- to 125-mile-an-hour category, and then, roughly, about 15 percent into the smaller projects and conventional service. So, that seems to be, you know, a good balance, a good match.

Senator MURRAY. Okay. Well, in order to decide which projects you're going to fund through this program, you're going to have to rely on forecasts of ridership levels and revenues and public benefits, projects costs. And, so far, we haven't seen you develop these strong requirements. And I know the Department's inspector general is starting to investigate best practices. Can you tell us what you're doing to make sure that the grant awards are based on sound forecasts of projects based on costs and benefits?

Mr. SZABO. Yes. I mean, clearly, it has been, from day one, a merit-driven process. And we do make these types of analyses. But, again, there has to be an acknowledgment that this is a brand new program. You know, it's in its infancy. In less than a year's time, we've just——

Senator MURRAY. Well, are you——

Mr. SZABO [continuing]. Given birth to the program.

Senator MURRAY [continuing]. Developing those?

Mr. SZABO. Precisely.

Senator MURRAY. And when will we——

Mr. SZABO. Precisely. And that's kind of why I go back to its—a lot of it is about the lessons learned. You know, when it comes to ridership forecasts——

Senator MURRAY. Well, will we see this in writing?

Mr. SZABO. Well, I think ultimately, we will be developing rules. But, again, we're just going through——

Senator MURRAY. Do you have a timeframe for that?

Mr. SZABO [continuing]. Utilizing the grant guidance. We really need to get this first round under our belt, you know, and experience the—you know, the—we have to execute the first round before we can start taking a look at those tweaks that need to be made in future rounds.

AMERICANS WITH DISABILITIES ACT

Senator MURRAY. Okay. Well, I have one more question. Under the Americans with Disabilities Act (ADA), all Amtrak stations are supposed to be accessible by July 26 this year. Amtrak has already admitted that it will not be able to meet that deadline, and started a 5-year effort to invest in station improvements and come into compliance. Do you believe that, over the years, Amtrak did everything it could have done to comply with ADA?

Mr. SZABO. Well, I think, as this subcommittee is probably aware, historically, no administration has ever made an ADA request on behalf——

Senator MURRAY. Right.

Mr. SZABO [continuing]. Of Amtrak. And so, I mean, it really put them behind the eight ball. You know, and that is one of the reasons why we came forward this year and have, in fact, made the $281 million request to start funding those legitimate needs.

Senator MURRAY. Okay, all right. Thank you.

Senator Bond.

Senator BOND. Thank you, Madam Chair.

I would just note one thing. As a former Governor, I can tell you that looking to the States to make massive investments in high-speed rail is not going to happen anytime soon, until the States get out of the holes they're in. And California, you've mentioned, probably is in—somewhere up there between Greece and Spain in having budget problems.

But, Madam Chair, I'm going to submit questions in writing for the record, and I need to have a lot more specifics—firm priorities, amounts—not just, "We're going to work on a plan," but a plan, criteria, priorities—before I can support any of these requests. I need to know how they fit in our overall budget.

So, thank you for your testimony, Mr. Administrator. And we have other witnesses. And we'll be communicating with you.

Thank you.

Senator MURRAY. Thank you very much, Senator Bond.

Mr. Szabo, that would—will conclude our questions at this time. There will be questions from the subcommittee that we will need responses from you in writing.

Thank you very much for your testimony today.

And with that, I'd like the second panel to come forward.

Mr. SZABO. Thank you.

NATIONAL RAILROAD PASSENGER CORPORATION (AMTRAK)

STATEMENT OF HON. JOSEPH H. BOARDMAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Senator MURRAY. All right. I'd like to welcome our second panel today.

And, Mr. Boardman, we'll begin with you.

You want to turn your microphone on, please.

Mr. BOARDMAN. Okay. Thank you, Madam Chair.

And I appreciate the opportunity to speak with you today.

Before I begin the discussion about Amtrak's funding needs, I'd like to share with the subcommittee some good news that was announced on April 8. Amtrak is on pace to break its annual ridership record, carrying a best-ever 13.6 million passengers during the first 6 months of fiscal year 2010. And with the historically busier summer travel season ahead, comparing March 2010 to 2009, ridership increased by 13½ percent to a record 2.4 million passengers for the month. In addition, every single Amtrak route carried more passengers, with several experiencing double-digit growth.

Furthermore, one of the, I think, important things to see today is that we've had other wins. A win with Moody's—Moody's has upgraded the rating for Amtrak from an A2 to an A1 just this last month. There have been no material weaknesses found in our audits. This is the first time since 2004 that that's occurred. And ridership on long-distance trains increased by 16 percent in March, and is up 5.2 percent for the first two quarters of 2010.

In every one of the services, whether the Missouri River Runner, where Senator Bond is, it's up by 24.2 percent for March, to—and 15.8 percent for the first half of Amtrak year. Cascade's increased by 11.4 percent. And March saw a 16.7 percent increase for the first 6 months of the fiscal year.

These numbers reinforce what so many of us know about passenger rail; if you provide a safe, reliable, user-friendly system, the traveling public will use it.

What I'd like to do, though, is spend time talking about what I think is the most important piece of what we're asking for. And I know, in the last hearing, there were several questions on it. And it's the "Amtrak Equipment Plan and Needs," which is by your table right now.

And just as an introduction, the fleet truly is the key for customer perception and willingness to use our system. The operating reliability is particularly important. And the cost of maintaining a fleet is critical for us for the future.

The railroad belongs to you. It belongs to the United States. It belongs to the administration and the Congress, and it has for the last 40 years. We cover 80 percent of our operating costs from revenue. We are the most efficient railroad in the United States. We cover none of our capital costs. Just like highways, capital support comes from the Federal Government. And the payment on debt comes from the Federal Government. And that will continue to be that way for as long as you, the owners of this railroad, decide to operate a railroad.

Amtrak has suffered insufficient Federal capital investment over the full 40 years that it's been here. ADA has been around for 20 years, and every administration has failed, and every Congress has failed, to deliver what it passed as a law to fund the ADA requirements for Amtrak. And that is not the case with highway. It is not the case in the rest of the modes. These modes are not pitted against the poor. These modes are pitted against highways and aviation and rail. Nowhere is that more evident in the railcar fleet and locomotive fleet.

AMTRAK'S AGING FLEET

The fleet needs to be recapitalized. The average age of the fleet was already said to be 25 years old—or "more than 24" are, I think, the words that were used. Domestic production is needed both for employment and to secure a Nation as we enter a much higher cost of energy for the future. We need railroads and passenger railroads.

In the first table, just to identify for you the planned car locomotive procurement, you can see as red and yellow lines. The yellow lines are the cars, and the red lines are the locomotives. And the two high marks on the yellow lines are when you replace train sets, like the Acela services, and that's why they're higher.

In the second table, what you see is the average annual miles, in thousands, that the cars operate for Amtrak. And on the far right of this table, what you find is that all of the Amtrak cars are operating, in some cases, 180,000 miles a year, in comparison to all the transit operators, which are on this side of the table, Tri-Rail being the most, at 66,000 miles a year. And the utilization, then, for Amtrak—all of these Amtrak cars—is much higher than any other operation in the United States, period. And they're all older.

If you look at the third page, you find the same kind of information for the average annual mile—locomotive mileage. And what you see is, the closest competitor—and they aren't a competitor, they're a host—is BNSF, which has an 83,000 mile annual locomotive use, where Amtrak is 160,000 mile—almost double what the mileage is by our private railroads.

But, I think perhaps the most compelling slide in the deck that you have in front of you is the last one, because it's a snapshot of the present. It is the locomotives that we're talking about replacing, which is the electric locomotive on the Northeast corridor. It's the AEM–7—from the 1980s category in utilization you saw a couple of minutes ago. It's the Heritage baggage car that was built in the 1950s. It is the Viewliner sleeper cars, which are the newest ones on this fleet. The Heritage diner, which is the same age I am. I was born in 1948, and this diner was born in 1948.

PREPARED STATEMENT

And it's one of the things that keep our speed down on the Northeast corridor. You can only operate 177 kilometers per hour;

that's 110 miles an hour. And when we replace these, we'll be able to immediately go to 200 kilometers per hour, or 125 miles an hour, by replacing these older cars, which then reduces the time it takes to travel on the Northeast corridor. And then the Amfleet coaches and the lounge cars, from 1981 to 1983. This is the Florida-bound Silver Star, at Seabrook, Maryland, and I think it really demonstrates what we need for fleet for the future.

Thank you for the opportunity to speak.

[The statement follows:]

PREPARED STATEMENT OF HON. JOSEPH H. BOARDMAN

Good morning, Madam Chair, Ranking Member Bond, and members of the subcommittee. Today is my first time appearing before this subcommittee as President of Amtrak, and I thank you for the opportunity to testify on Amtrak's fiscal year 2011 operating and capital needs. I took this position in November 2008; prior to that I was the Federal Railroad Administrator.

Before I begin the discussion about Amtrak's fiscal year 2011 funding needs, I would like to share with the subcommittee some very good news that was announced April 8. Amtrak has posted the best first half in its history, carrying 13.6 million passengers during the first 6 months of fiscal year 2010. Comparing March 2010 to March 2009, ridership increased by 13.5 percent to a record 2.47 million passengers for the month. In addition, every single Amtrak route carried more passengers, with several experiencing double-digit growth.

Ridership on long-distance trains increased by 16 percent in March and is up 5.2 percent for the first two quarters of fiscal year 2010. In the Chicago hub, ridership on the *Lincoln Service* (Chicago to St. Louis) showed significant growth with an 18 percent jump in March and 11.6 percent for the 6 month period. The *Hiawatha Service* (Chicago—Milwaukee) continues to grow with a 14.3 percent increase in March over the previous year and a 4.8 percent increase for the fiscal year to date. Elsewhere in the Midwest, the *Missouri River Runner* (Kansas City—St. Louis) is up 24.2 percent for March and 15.8 percent for the first half of the Amtrak fiscal year, while the *Blue Water* (Chicago—Port Huron) increased by 21.7 percent in March and 5.2 percent for fiscal year to date. In the West, Amtrak *Cascades* (Eugene, Oregon—Vancouver, B.C.) increased by 11.4 percent in March and saw a 16.7 percent increase for the first 6 months of the fiscal year.

These numbers reinforce what so many of us know about passenger rail. If you provide a safe, reliable, and user-friendly system, the traveling public will use it. I want to personally thank Chairwoman Murray and this subcommittee for the funding that has helped make this growth possible and helped prove our belief in this system and mode to be well founded. Between the funding provided by this subcommittee to Amtrak and the Federal Railroad Administration's (FRA) High Speed and Intercity Passenger Rail Grant Program through the fiscal year 2010 appropriations bill and the Recovery Act, you have truly ushered in a new era of intercity passenger rail development in the United States.

With the funding you have provided Amtrak, we have rededicated ourselves to our mission of developing the Nation's intercity passenger and high speed passenger rail system, aiming to grow the quality, utility, and breadth of our network. We are also working intensely on this year's capital investment program, split-funded with $420 million in General Capital Funds and $590 million in Recovery Act funds. Equally important, we are also working with our State partners and the FRA to implement the first round of grants awarded under the High Speed and Intercity Passenger Rail grant program and are in the midst of collaborating with State for second-round applications due this spring and summer. Together with the Northeast Corridor States, we have also just completed the first phase of our 3 year Northeast Corridor Master Planning Process, and will be transmitting the final version of the Master Plan document to Congress and the administration in mid-May. Supplementing this effort, we have also just begun an initial phase of our Northeast Corridor Next Generation High Speed Rail Study, led by our new High Speed Rail department, to look at the feasibility of a new dedicated high speed system in the NEC to serve as successor to the Acela service, with greatly reduced trip times, increased frequencies, and top speeds of 200 mph or more for our high speed express trains.

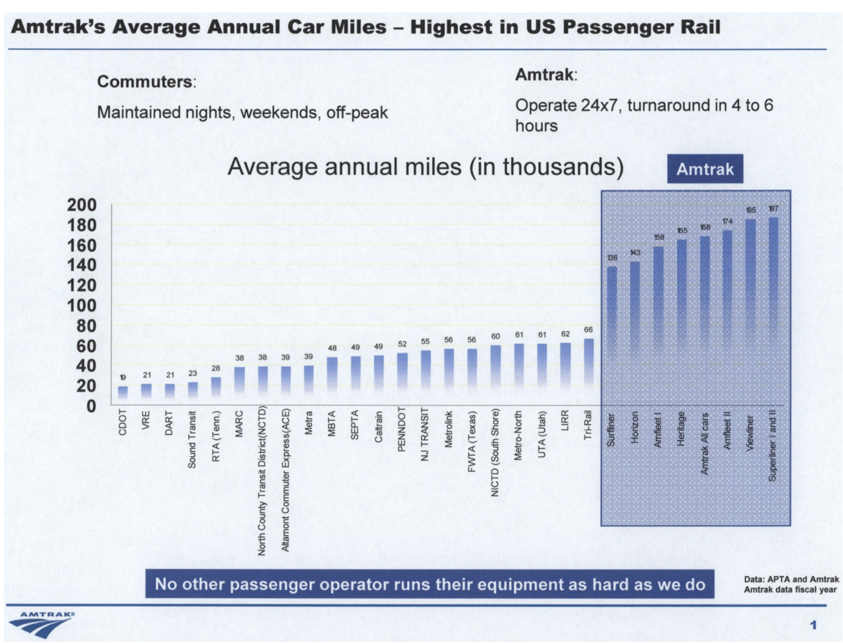
Central to all of these endeavors to strengthen or grow the Amtrak system is our need to replace our aging and hard-run fleet with modern equipment. Per Congress's instructions, we completed our first comprehensive fleet strategy for the entire system and provided it to the subcommittee on February 1. I testified before the House Appropriations Committee last month to explain the urgency of our financial needs, particularly our need to replace aging rolling stock, and I want to repeat and, if possible, amplify this appeal. New equipment is an urgent need. We must begin replacement of our aging cars and locomotives next year, and the arrangement of financing for these acquisitions is a priority. If we continue to delay, we risk a significant worsening of the mechanical problems and failures that degrade our service quality and increase the already considerable maintenance expenses associated with the maintenance and repair of a fleet far past its prime.

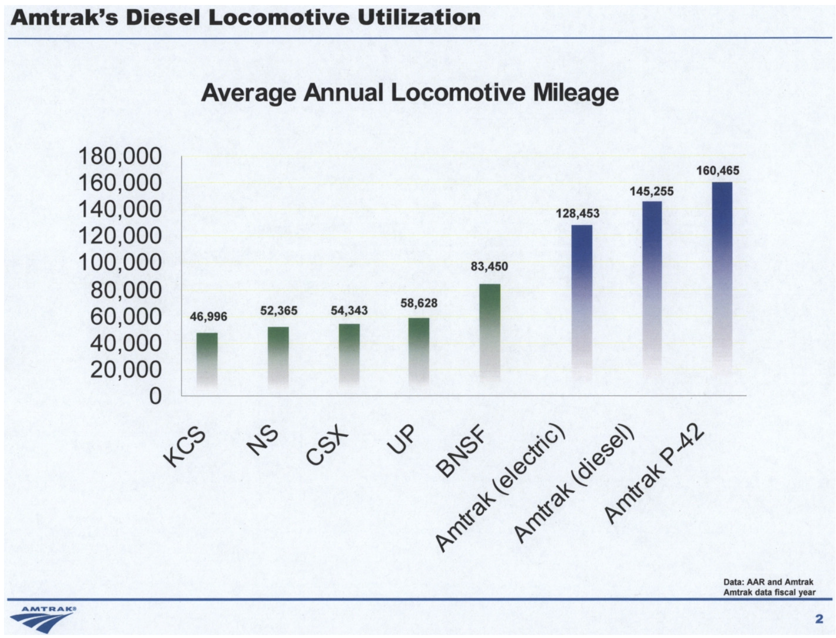
FISCAL YEAR 2011 REQUEST

For fiscal year 2011, Amtrak initially requested a total of $2.1 billion, consistent with the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) authorizations. About $592 million of that total is requested for operating support, and $1.025 billion will cover capital needs, while a total of $305 million would go for debt and debt retirement opportunities. Another $231 million will be needed for ADA compliance requirements. On March 22, Amtrak submitted a supplemental request to Congress for an additional $446 million to address our most urgent unfunded need, replacement of our aging fleet. This will raise our total fiscal year 2011 request to about $2.5 billion.

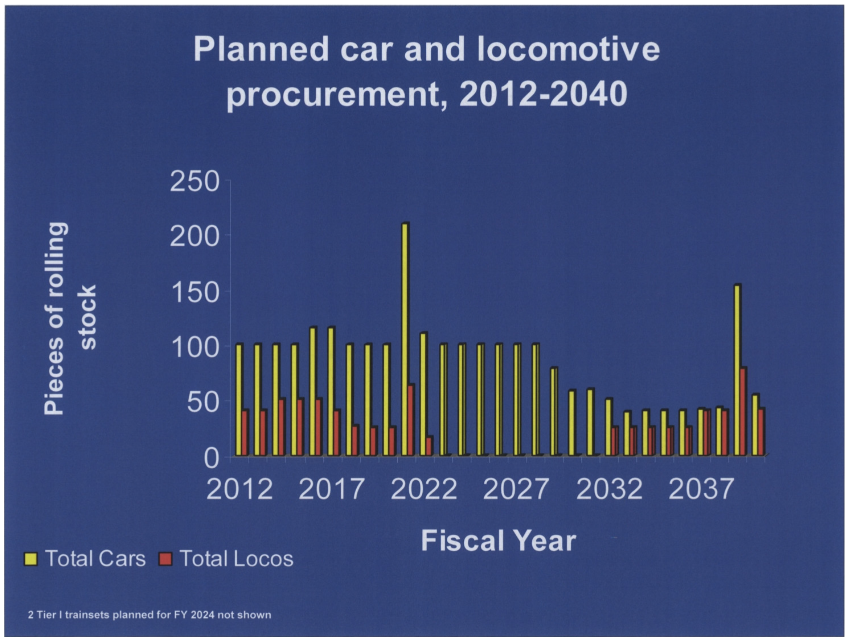
FLEET PLAN

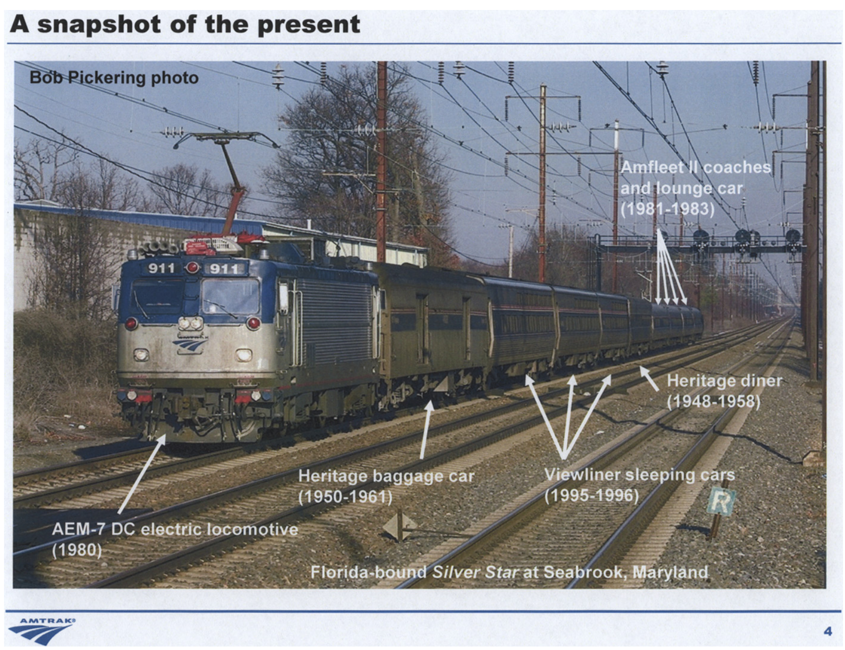
The $446 million requested for new equipment represents the first and most urgent investments we need to make in replacing our aging rolling stock. It will include the cost of purchasing 130 single level long distance cars to replace our 1950s-era "Heritage Fleet" of dining and baggage cars—the last rolling stock we inherited from the freight railroads that's still in daily revenue service. The average annual mileage of these cars is enormous, as you will see on this first slide (see attachment). The typical Heritage car averages 451 miles per day—that's like running it from Washington to Boston every single day of the year. And we're putting these miles on cars whose automotive equivalent would be a Studebaker or Packard. This is the fleet we are going to replace. If you go to the next slide, you can see the situation we face with our locomotive fleet. Our diesel electric engines are comparatively new, but the electric fleet that powers our Northeast Regional and Keystone trains is aging and requires replacement.





The plan we have put together is shown on this third slide. Many stakeholders have been anxious for the release of this plan, which was required by Congress in the fiscal year 2010 THUD appropriations bill. Amtrak has spent a year developing a comprehensive fleet plan that's designed to replace all of our existing rolling stock as it reaches the end of its useful life. It calls for the replacement of equipment in manageable annual increments, which will allow us to identify and fix issues with new designs before they become problems. This is not only a procurement plan but a strategy designed to develop and support a domestic rail manufacturing industry. It supports an administration goal and an Amtrak goal, as a stable domestic manufacturing and supply base should help spur innovation and reduce costs for us. Our fleet strategy affords States an opportunity to join their orders to ours, with unit cost savings for everyone—a goal set by Congress with passage of PRIIA. To further this, we are working with the FRA and the States through the PRIIA section 305 Next Generation Corridor Train Equipment Pool Committee to ensure that our new fleet shares common designs and specifications with the equipment needed by the States so that this equipment is interoperable and easily maintained. All of these are excellent goals, and Amtrak supports them wholeheartedly—but we need to take the first step, which is funding the initial procurement of a new single-level long distance fleet. We must give potential suppliers reason to believe there is a long-term commitment to retain Amtrak and to fund additional State procurements of intercity passenger rail equipment in the United States. Otherwise, they will not make the type of investments in facilities and workers necessary to bring the United States back to the position it once occupied, in the forefront of railcar manufacturing, and the 60-year old cars you see in this fourth slide, which date from that era, will remain in service as long as our maintenance and operating crews can keep them rolling.





Amazingly, Amtrak managed to increase its ridership by 32 percent between 2002 and 2008 without buying new equipment and our ridership continues to grow today. We are using ARRA funding to return stored and wreck-damaged equipment to service, and I'm very pleased with the job that our Beech Grove and Bear shop staffs have done. This extra equipment now back in service is a contributing factor to our increased ridership. But there are limits to what we can accomplish, and we can't put cars that don't exist back into service. Right now the margins for our equipment, particularly our single-level sleeper and diner fleets, are razor-thin. A single major accident could potentially require us to terminate or reduce certain services, particularly on the long-distance trains.

ACCESSIBLE STATIONS DEVELOPMENT PLAN

This July 26 will mark the 20th anniversary of the enactment of the Americans with Disabilities Act (ADA), and Amtrak is proud of its role as an important mode of travel for people with disabilities and of our special services to the disabled community. We look forward to celebrating this ADA milestone, but there remains much work to be done. Last year, 288,000 riders took advantage of the discounted pricing Amtrak offers to passengers with disabilities, and that number is on pace to increase by 6 percent this year. All of our front-line employees are trained to provide special service to passengers with disabilities, and we have resources and policies in place to accommodate those with unique service requests, such as at-seat meals. All of Amtrak's trains meet or exceed the requirements of the ADA, while each and every one of our new rail cars is designed to be accessible. Amtrak offers reserved spaces to park wheelchairs, accessible seating into which passengers can transfer from a wheelchair, accessible bedrooms on all long-distance trains, accessible restrooms, and other accessibility features and services. We're also in the process of modifying our train cars to allow for on-board storage of Segway devices for those passengers who use them for mobility assistance.

Currently, 94 percent of Amtrak passengers board at accessible stations. While our stations must be fully compliant with the terms of the act by July 26, 2010, unfortunately, as the subcommittee knows, we will miss this deadline. But we are focused on making each of the 529 stations we serve fully accessible, a challenge that requires significant funding. We are conducting a capital improvement program to bring all covered stations we serve up to the necessary standards at a cost of nearly $1.6 billion based on the comprehensive study we completed in February 2009. In this fiscal year alone, Congress allocated $144 million for station accessibility improvements.

Adding to this complication is the annual funding challenge. On February 1, 2009, Amtrak advised in our report under section 219 of the PRIIA that nearly $1.6 billion was needed to bring the entire system into compliance with ADA, assuming that current ADA regulations on platform boarding remain unchanged. (As the Congress may well be aware, a proposed Federal Department of Transportation rulemaking is pending that would call for level boarding at all stations covered by the ADA. If that rule were to be promulgated and become law, the basic assumptions and parameters of Amtrak's current stations compliance program would be nullified and both the time and cost to achieve compliance would be increased exponentially.) This investment amount represents a year-old estimate for both Amtrak's responsibility and third-party responsibilities.

In our fiscal year 2011 request, we asked for $281 million for our fiscal year 2011 Accessible Stations Development Plan, to continue the work to bring the stations we serve into compliance with the ADA. However, today I am here to report to you that we are revising that number downward to $231 million. Due to the challenges of reaching agreements with all parties with ownership interests at the stations, we have to take into consideration the 3 months of experience since our fiscal year 2011 request was submitted, and we do not think it will be feasible for us to spend $281 million in fiscal year 2011. If you or your staff would like more details on this issue, we can certainly follow up with you on that.

In closing, I am optimistic about our future and the future of intercity and high-speed passenger rail. Our intercity passenger rail system is one of the few readily available solutions to the transportation challenges facing our country—and we are ready to turn investments in rail into benefits for the environment, the economy, and our mobility. What it needs is continued investment and leadership. We look forward to working together in the coming months to ensure that Amtrak obtains the public funding it needs to sustain its system and fleet for generations to come and to realize the goals of a stronger Amtrak and a stronger intercity passenger rail network.

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

Mr. Alves.

STATEMENT OF THEODORE ALVES, INSPECTOR GENERAL

Mr. ALVES. Good morning, Madam Chair, ranking member, and members of the subcommittee. And thank you for the opportunity to discuss Amtrak's 2011 budget request.

I'd like to start by thanking Mr. Carper, Amtrak's Chairman, its Board of Directors, President Boardman, and members of this subcommittee for the support I've received during the past 5 months as Amtrak's new inspector general.

I'm also pleased to report that Amtrak management and the OIG have agreed to a new relationship policy, and that the inspector general of the Farm Credit Administration found that the new policy is consistent with the letter and spirit of the IG Act. I want to thank the subcommittee for including this very helpful requirement in last year's appropriations act.

Today, I will discuss the significant opportunities Amtrak has to provide increased levels of high-quality passenger rail service and four important challenges management must address to take advantage of these opportunities.

First, the opportunities. The Passenger Rail Investment and Improvement Act fundamentally changed Amtrak's role within the national passenger rail system. Rather than relying on Amtrak to lead development of new intercity passenger rail services alone, PRIIA calls on States, supported with Federal grants, to share in developing new corridor and high-speed rail services. As a result, Amtrak will become one of many choices States have to provide rail services, rather than the only practical option.

The first challenge is that Amtrak needs to organize properly and operate more efficiently. Amtrak is making organizational changes to help it successfully compete for new contracts, and has taken steps to operate more efficiently.

To illustrate, the company has made significant progress implementing reliability-centered maintenance practices in response to a 2005 OIG report. Using reliability-centered maintenance on the Acela fleet reduced costs and generated $16 million in new revenue in 2009. Amtrak should continue applying this maintenance concept across its fleet.

However, Amtrak can do more. For example, we recently identified opportunities to adopt European best practices, including better asset management systems and more advanced technologies.

Second, Amtrak needs to improve its human capital management practices. In a May 2009 report, we made several recommendations that management agreed to implement. As a result, Amtrak is focusing on strategic workforce planning, including identifying its critical skills and competencies, implementing a total compensation philosophy, and improving recruitment and retention practices. Fully implementing these corrective actions will require a concerted effort over several years.

Third, significant IT investments always involve risks. Amtrak has four major technology initiatives underway, and has taken a number of measures to address the risks, including: establishing disciplined procedures to guide both project management and technology development; forming an independent team to enforce standards; and implementing reviews to ensure that projects meet quality standards before proceeding to the next development phase.

To ensure that these projects stay on track and achieve anticipated benefits, Amtrak should closely watch progress, address emerging problems quickly.

The fourth challenge is managing risks associated with the Recovery Act projects. Specifically, Amtrak may have to take measures that could reduce productivity, adversely impact project quality, or significantly diminish railroad operations in order to finish some projects by February 2011.

Amtrak faces this issue, in part, because the terms of the FRA grant are stricter than the terms in the act. The act requires Amtrak to take measures to complete the projects by February 2011. The FRA grant, on the other hand, requires Amtrak to take continuing measures, and even extraordinary measures, to complete projects by that date.

As projects face slippages, Amtrak is now considering taking extraordinary measures to meet the completion date. These measures include adding second or third shifts, which studies indicate have a negative impact on productivity, and reducing the scope of projects, which reduces the benefits associated with the final product. Although the term “extraordinary measures” has not been defined, we do not believe that Amtrak should take actions that would significantly reduce productivity, adversely impact the quality of the final products, or significantly diminish railroad operations.

PREPARED STATEMENT

Madam Chair, this concludes my testimony, and I’ll be happy to answer any questions.

[The statement follows:]

PREPARED STATEMENT OF THEODORE ALVES

Good morning Madam Chair, ranking member, and members of the subcommittee and thank you for the opportunity to testify about Amtrak’s fiscal year 2011 operating and capital budget request. Amtrak has made considerable progress positioning itself to meet the challenges it faces to compete effectively in this new era of intercity passenger rail. The intercity passenger rail system includes the long distance routes, High Speed Rail corridors, State sponsored corridors, and the Northeast Corridor (NEC). Accomplishments include completing a new strategic guidance, a 5 year financial plan, and a long-range fleet plan. Although fiscal year 2009 saw a decline in ridership and revenue from fiscal year 2008 as the economy continued to struggle, both ridership and ticket revenues came in at the second highest level in company history. The last several months have also seen sustained increases in passengers and revenue.

Before I discuss Amtrak’s funding request, let me thank Mr. Carper, Amtrak’s Chairman, its Board of Directors, President Boardman, and members of this subcommittee for the support I have received during the past 5 months as Amtrak’s new Inspector General (IG). Last year’s appropriations act directed Amtrak management and the OIG to agree upon a set of policies and principles for working together that are consistent with the letter and spirit of the IG Act. On March 17 of this year, Carl Clinefelter, the IG of the Federal Credit Administration and Vice Chairperson of the Council of the Inspectors General on Integrity and Efficiency, reported that the new relationship policy is consistent with the letter and spirit of the IG Act. I want to thank the subcommittee for inserting this very helpful requirement.

Amtrak is requesting $2.6 billion for fiscal year 2011. A total of $592 million is for operating support, $1.8 billion for capital needs—including $446 million for replacing its aging fleet, and $281 million to meet the Americans with Disabilities Act requirements—and the remaining $277 million for debt retirement. This amount, along with last year’s American Recovery and Reinvestment Act (Recovery Act) funding of $1.3 billion would be a significant infusion of funds and would help Amtrak move toward its long-term goal of providing efficient, high quality passenger rail service that is cost and trip time competitive with other modes.

Today, I would like to discuss the significant opportunities that Amtrak has to provide increased levels of high quality passenger rail services, as well as important challenges it must address to take advantage of these opportunities.

First, the Opportunities.—Congress passed the Passenger Rail Investment and Improvement Act (PRIIA) in October 2008. PRIIA recognized that passenger rail services, particularly connecting large cities, can provide significant public benefits, including road and air congestion reductions, environmental benefits, fuel usage reductions, and increased mobility choices for the travelling public.

PRIIA not only reauthorized Amtrak; it fundamentally changed Amtrak's role within the national passenger rail system. PRIIA also contains many provisions aimed at spurring Amtrak to operate more efficiently and to improve services on its existing routes. In addition, the Recovery Act provided $8 billion through PRIIA grant programs to States to assist in improving Amtrak's national network and begin developing new High Speed Rail corridors. Amtrak also received $1.3 billion through the Federal Railroad Administration (FRA) to improve its infrastructure, facilities, and security.

Essentially, rather than relying on Amtrak to lead the development of new intercity passenger rail services alone, PRIIA calls on States, supported with Federal grants from FRA, to share in the development of both new corridor services and High Speed Rail services. While Amtrak is still presumed to be the national operator, PRIIA provides greater flexibility to the States in determining who will plan, develop, and operate these new services.

With States playing a larger role in planning for and funding passenger rail service, Amtrak will become one of many choices States have to provide services, rather than the only practical option. Amtrak can still be the provider of choice in this new competitive environment, but only if it is perceived as an efficient organization that provides quality and cost-effective service.

In fact, Amtrak has many competitive advantages, including its statutory access to host railroads, existing liability regime, and experience in planning, engineering, maintenance, and operations. For example, Amtrak already operates a number of commuter rail routes in key markets and has a nationwide reservation system that can be extended to support new services, allowing significant economies of scale. Amtrak can leverage these advantages to help States plan for these new services and to become the operator of choice for new services.

Now, the Challenges.—As Amtrak moves into this new era of passenger rail, it faces four interrelated management challenges. Those challenges include:

—Competing successfully for new State supported corridor and high speed rail services and then delivering high quality cost-effective service.
—Improving human capital management practices, including strategic workforce planning, and training and development.
—Managing risks associated with the modernization of Amtrak's information technology systems and infrastructure.
—Managing risks associated with projects funded through the Recovery Act.

CHALLENGE 1.—COMPETING SUCCESSFULLY FOR NEW STATE SUPPORTED SERVICES AND THEN DELIVERING HIGH QUALITY COST-EFFECTIVE SERVICE

Growth in State supported services, including the development and operation of new high-speed rail corridors, creates new challenges for Amtrak. To retain its dominant position in the market, Amtrak must elevate its customer focus, improve service quality, and become a more nimble and dedicated partner. Competition for routes should also challenge Amtrak to implement significant operating efficiencies that will improve all lines of business.

The strategic direction and additional Federal funding that PRIIA authorized, along with appropriations support, has given Amtrak a unique opportunity to expand and enhance its rail passenger operations. However, Amtrak will face challenges to compete successfully in a market place that has increasing levels of both domestic and foreign competition. The competition is evidenced by two recent examples:

—The Virginia Railway Express operating and maintenance service contract was recently awarded to the U.S.-based subsidiary of a French firm. Amtrak had been providing the services since the commuter rail operations began in 1992.
—Caltrans selected a different French firm to renovate all 66 bi-level intercity passenger vehicles from its California car fleet. The renovations will take place in a newly-opened maintenance facility in California. While Amtrak did not

compete for this work, it represents the growing marketplace for equipment-related work.

To thrive in this newly competitive environment, Amtrak must significantly improve its operating efficiency. In fact, we believe the very existence of competition will provide the incentive Amtrak needs to focus more attention on operating more efficiently.

Amtrak deserves to be commended for its recent decision to establish a new High Speed Rail department reporting directly to Mr. Boardman. This new department should help the company focus on the planning and development activities required to successfully compete for high speed rail contracts. As it implements this new organization, Amtrak will need to also focus on ensuring that it is positioned to deliver efficient and high quality services. A heightened emphasis on operating more efficiently and controlling costs will be needed to ensure that Amtrak remains the service provider of choice.

Amtrak has taken some commendable steps to improve operating efficiencies in recent years, but more needs to be done. For example, a recent OIG report [1] concluded that, although Amtrak's Engineering department has effectively reduced its operating expenses by 15 percent between 2002 and 2007, the company still spends about $50 million more per year than the average comparable European railroad, and $150 million more per year than the "best" European railroads to maintain and renew its infrastructure assets. Although American and European railroads are not entirely comparable and some of these opportunities are outside Amtrak's direct control, Amtrak can implement many European practices that would reduce costs. For example, we recommended that Amtrak implement better asset management systems and procure more advanced technology/equipment.

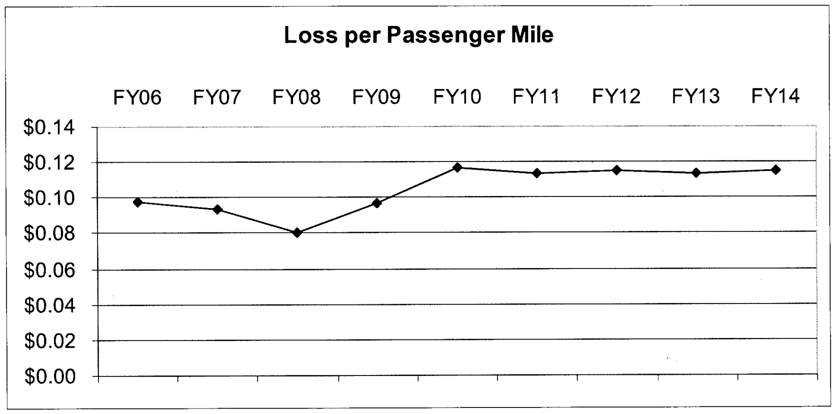
Amtrak is well along in implementing a new asset management system but it will be several years before it is fully operational. Additionally, Amtrak is exploring new technologies along the Northeast Corridor. The key now is for Amtrak to follow through on these recommendations to ensure that these changes are implemented effectively.

In 2005, we issued a report on Amtrak's Mechanical Maintenance Operations.[2] We estimated that Amtrak had an opportunity to save $100 million per year by adopting a Reliability Centered Maintenance strategy along with other efficiency improvements. Amtrak has made significant progress in this area. For example, implementing Reliability Centered Maintenance for the Acela fleet allowed Amtrak to reduce maintenance costs and to increase available train sets from 14 to 16 per day, generating additional revenues of $16 million during fiscal year 2009 alone. The experience with the Acela fleet is a strong indicator that significant additional benefits can be realized as this practice is expanded throughout Amtrak's conventional fleet. Amtrak needs to ensure that momentum is maintained to apply this important maintenance concept across all Amtrak fleet assets. We are currently conducting a follow-up review on this important program.

We also note that Amtrak's financial projections do not reflect significant improvements in operating efficiency. One key indicator of efficiency that Amtrak uses is loss per passenger mile. The chart below shows the operating loss per passenger mile increasing by approximately 45 percent from fiscal year 2008 to fiscal year 2010, and then remaining relatively constant from fiscal year 2010 to fiscal year 2014. During a period when ridership is expected to grow beyond the levels experienced in fiscal year 2008, we would expect to see the loss per passenger mile return to the levels experienced in fiscal year 2008 or even improve on those levels. Only through a renewed focus on efficiency improvement will Amtrak be able to achieve this.

[1] "Amtrak's Infrastructure Maintenance Program", September 2009, OIG Report Number E–09–05.

[2] "Amtrak Mechanical Maintenance Operations", October 2005, OIG Report Number E–05–04.



Projected Core Operating Loss per Passenger Mile

CHALLENGE 2.—IMPROVING HUMAN CAPITAL MANAGEMENT PRACTICES, INCLUDING STRATEGIC WORKFORCE PLANNING, AND TRAINING AND DEVELOPMENT

Improved human capital management and strategic workforce planning are critical to ensure that Amtrak has the right people with the right operational and leadership skills to improve services and expand operations efficiently and effectively.

Historically, Amtrak had been operating on budgets that allowed it to maintain the railroad and deliver adequate passenger services, but provided limited resources to invest in long-term planning, including human capital initiatives. It maintains a relatively stable work force, with long-term employees who operate the railroad with reasonable efficiency, instituting improvements as time and resources allow.

Two significant factors will change this environment:

—Amtrak's workforce is aging. Over the next 5 years, 30 percent of its work force, representing thousands of employees, will be eligible to retire. Replacing them will be a daunting task considering Amtrak employs about 20,000 people.

—Amtrak has received a large injection of capital funds to improve its infrastructure, facilities, and security capabilities—this has strained its ability to provide people with the right skill sets to oversee these investments while continuing to run the railroad.

Strengthening human capital practices remains a significant challenge across Amtrak, a challenge which will intensify as workloads increase at the same time that experienced employees in key positions retire or migrate to other business opportunities.

In May 2009, we issued a report that compared Amtrak's human capital management practices to other companies.[3] In preparing the report we interviewed over 125 Amtrak managers and employees, obtained results from benchmarking studies, and visited two other Class I railroads to see how they managed their human capital.

Our report made specific recommendations that covered four critical areas. Amtrak agreed with all major recommendations and has been taking steps to implement them. However, fully implementing these recommendations will require a concerted effort over several years.

Strategic Work Force Planning.—We found that Amtrak lacks a strategic workforce planning process to ensure that it has a workforce with the knowledge and skills to meet future needs. We recommended a stronger focus in this area that includes identifying the critical skills and competencies needed to achieve Amtrak's current and future business requirements. The company has made progress by identifying employees who are eligible to retire and preparing talent profiles for non-agreement covered positions. While this is a good start, the company has not yet identified its mission critical and other key positions or developed a strategic workforce plan.

Total Compensation.—Amtrak also lacks a total compensation approach to ensure that pay practices are applied consistently and are aligned to support Amtrak's strategic goals. Total compensation is the complete pay package an employee receives,

[3] "Human Capital Management", May 2009, OIG Report Number E–09–03.

including money, benefits, and services. Our recommendations focused on the need to define and implement an overall compensation philosophy and strategy. Since our report, the Human Resources Department has conducted a compensation review as part of an effort to develop a new pay structure that will help attract, motivate, and retain highly skilled and talented employees. Amtrak has not yet, however, revised its pay structures.

Recruitment.—Successful companies recognize the importance of having a clearly defined recruiting strategy linked to the company's identified workforce needs. Recruiting at Amtrak is decentralized and manually driven. While the company has been successful in filling its recruitment needs during the past 2 years, as the economy recovers Amtrak risks losing skilled craftsman and technical expertise faster than it can replace them. Our recommendations focused on how the company could improve the recruitment process to reduce the cost and time to hire while attracting highly qualified candidates. The company is working to deploy an automated system that should help improve recruitment.

Retention.—Each time a company loses an employee, it costs money. Amtrak's overall turnover rate has averaged about 10 percent annually, which is lower than most companies. Once employees reach 5 years of service with Amtrak, the majority tend to stay for the entire career. The problem is that in recent years a high proportion of Amtrak employees leave before completing 5 years, resulting in an overall workforce that tends to be skewed toward employees approaching retirement age. Amtrak's challenge, therefore, is to retain employees beyond the first 5 years of employment in order to smooth out this imbalance. Our recommendations focused on the need for a corporate retention strategy that aligns with and supports an overall strategic human capital plan.

Amtrak is heavily engaged in implementing the Employee Information Management (EIM) system, a sophisticated human resource management system that provides a basis to more effectively track and guide the career paths for its employees. Amtrak needs to ensure that it also makes timely progress in addressing the strategic Human Capital issues by continuing to implement our recommendations.

We also recently completed a separate and more detailed review focusing specifically on training and employee development. Our October 2009 report,[4] found that because Amtrak's training program is largely decentralized, it cannot ensure that training efforts are aligned to meet the company's strategic needs. We also found that Amtrak needs to develop an effective corporate-wide strategy for developing management employees to assume the future leadership roles in the company.

We made a series of recommendations to improve the effectiveness and efficiency of training and employee development, focusing on developing and implementing a corporate-wide training and employee development strategy. This would ensure that training aligns with the overall corporate strategy and provides employees with the skills needed to assume leadership roles in the future.

Management recently agreed with all of our recommendations and provided a plan to implement them. It is important, however, for management to stay focused on making near-term improvements, because effective training and development practices will be a key component of Amtrak's ability to deliver high quality services.

CHALLENGE 3.—MANAGING THE RISKS ASSOCIATED WITH AMTRAK'S GOAL OF MODERNIZING ITS INFORMATION TECHNOLOGY SYSTEMS AND INFRASTRUCTURE

Significant IT investments always involve risks, and achieving anticipated benefits depends on managing the risks and implementing business process improvements to streamline and improve internal operations.

Amtrak recognizes that a number of its key information systems and the underlying technological infrastructure are outdated and increasingly prone to failure. Modernizing these information systems also provides a major opportunity for Amtrak to better harness information to make decisions and operate more efficiently. Amtrak is, therefore, taking measures to mitigate the potential for system problems while at the same time leveraging more up-to-date systems technology to drive operational improvements and more effective decisionmaking.

Amtrak currently has four major technology initiatives under way:

—*Strategic Asset Management (SAM)*.—SAM is a multiyear program to transform and integrate key operational, financial, supply chain, and human resource processes. SAM is expected to help Amtrak meet managerial accounting requirements mandated by PRIIA and replace legacy financial, procurement, materials management, and operational systems.

[4] "Training and Employee Development", October 2009, OIG Report Number E–09–06.

—*eTicketing and Next Generation Reservation (RES–NG)*.—Amtrak's current reservation and ticketing system is critical for sales booking, ticketing, customer service, and train operations. eTicketing is a major program that aims to replace current paper-based ticketing processes with an airline-style electronic ticketing system. This program will also automate the onboard ticket processing and simplify and streamline the revenue recognition and accounting functions.
—*Amtrak Information Management (AIM)*.—The objective of this program is to make critical business information reliable and easily accessible to Amtrak's managers and executives. It will integrate information from various internal and external sources, and will include sophisticated capabilities such as business intelligence, document management, and train communications.
—*IT Infrastructure Improvement (ITII)*.—This initiative focuses on upgrading Amtrak's IT infrastructure to improve service levels and lower current costs. Under new outsourcing contracts signed during 2009, IBM is responsible for data center operations and seat management, while AT&T is responsible for data and voice networks. Amtrak is also moving its current data center to two new locations over the next several months.

Because large IT acquisitions involve significant risk, they must be carefully managed. The fact that these programs are taking place concurrently and have a number of inter-dependencies heightens these risks. For example, the AIM program will need to make use of information that is being made available by other programs such as SAM and eTicketing. Also, many changes to business processes and operational procedures will occur in quick succession, challenging the organizations ability to absorb the changes.

Amtrak is aware of these risks and has taken a number of measures to manage them, including:
—Reorganizing the IT department to foster partnerships and improve communications with business customers.
—Establishing a Project Management Office, separate and distinct from the technology delivery team, to establish standardized, disciplined procedures to guide both project management and technology development.
—Forming an independent Enterprise Architecture team to develop, monitor, and enforce architectural standards.
—Dividing each major project into phases and implementing comprehensive peer reviews for each phase, to ensure that projects meet quality standards before proceeding to the next development phase.
—Instituting progress reports to keep management and the Board informed about the status of each technology project.

To ensure that these projects stay on track, Amtrak will need to closely watch progress and take steps to address emerging problems quickly. We also recently initiated an audit of the largest and most complex of the four programs—the SAM project—to evaluate how well management and control measures are mitigating risks.

CHALLENGE 4.—MANAGING RISKS ASSOCIATED WITH PROJECTS FUNDED THROUGH THE RECOVERY ACT

Recovery Act spending creates many opportunities to improve infrastructure, facilities, and security, but the large amount of funds combined with tight spending deadlines create a challenge to spend money efficiently and effectively and to ensure that projects provide long-term economic benefits.

The Recovery Act included $1.3 billion in capital grants to fund a variety of projects to help Amtrak improve its infrastructure, facilities, and security posture. The act also required the Secretary of Transportation to take measures to ensure that projects would be completed within 2 years of enactment (February 17, 2011).

In March 2009, the Federal Railroad Administration (FRA) provided a $1.3 billion grant to Amtrak. The grant agreement requires Amtrak to complete all projects funded through the Recovery Act no later than February 17, 2011 and to continuously take actions to ensure projects are completed by that date. Amtrak is allowed to request a waiver for projects that cannot be completed by February 17, 2011, but must demonstrate that it has taken "extraordinary" measures to complete the project on time.

Amtrak currently has hundreds of individual projects under way that are funded through the Recovery Act. Examples of important projects include: replacement of the Niantic River Bridge, refurbishments of several other bridges, improved communications, power upgrades, modernization of stations, improvements for customer and workplace safety, and the return to service of dozens of locomotives and passenger cars.

This week we plan to issue a draft report to Amtrak that analyzes project risks associated with key engineering projects funded by the Recovery Act. Of the nine projects (totaling $293 million) that we evaluated, five contained a significant number of high-risk areas that need to be managed effectively to ensure the project's success. These projects included the Niantic River Bridge project and Positive Train Control projects. Of the 10 risk categories that we examined, risk associated with acquisition, environment, schedule slippage, and technology were identified by program managers as areas of the highest concern. In general the program managers were quick to recognize the high-risk items and to put forward tactics that they believed would adequately manage the associated risk.

However, neither the program managers nor Amtrak's executives are in a position to mitigate the most significant concern, which is that the grant between the FRA and Amtrak requires Amtrak to take extraordinary measures to ensure that all projects are completed by February 17, 2011. Although the Recovery Act requires that Amtrak take measures to complete the projects by February 2011, it does not require "extraordinary" measures. The March 19, 2009, FRA grant not only requires that Amtrak take continuing measures to complete projects within 2 years, but requires Amtrak to identify the extraordinary measures taken to meet the February 17, 2011, completion date when applying for a waiver.

This requirement to take extraordinary measures may have the unintended consequence of encouraging Amtrak to take actions that increase the risk of waste and inefficiency or even to take shortcuts that could increase the risk that the project will not perform as well as expected and will not provide the benefits expected. Although the term has not been defined, we consider extraordinary measures as any action that would significantly reduce productivity, increase the potential for waste or inefficiency, negatively impact the quality of the final products, or significantly impact the smooth operation of the railroad.

Amtrak executives, including the President and the Chief Financial Officer, are committed to ensuring that funds are utilized effectively and represent an appropriate use of taxpayer funds. They are in the process of making decisions about how to balance the need and desire to implement these projects against the need to spend taxpayer funds efficiently and effectively. In fact, when Amtrak awarded contracts, it had taken measures to complete the projects on time—those measures were reflected in a contract completion date that met the requirement.

However, as projects face slippages that threaten the completion date, which is not unusual for large construction projects, Amtrak executives are faced with either taking extraordinary actions to meet the completion date, or cancelling the project and identifying a substitute project that can be completed in time. Extraordinary actions that have been proposed by Amtrak include the addition of second or even third shifts on construction projects and reducing the scope of projects to accomplish less than originally planned. Identifying substitute projects at this point in time also involves risks and might result in spending on lower priority projects that will bring fewer benefits than the originally selected project.

Because the grant agreement is driving these "extraordinary" measures rather than the Law, we are recommending that Amtrak apply to the FRA to amend the grant provisions that require Amtrak to continue to take "extraordinary" measures to complete projects by February 17, 2011, if those measures would significantly increase the risk of waste, inefficiency, reduced project benefits, or disrupt operations.

In closing, let me briefly discuss the OIG' s budget request.

We are requesting $22 million as a direct appropriation to the OIG for fiscal year 2011, which is consistent with our authorized funding level. Although it represents a $3 million increase over our 2010 appropriation, I would note that the OIG appropriation has not kept pace with inflation for the prior 3 years.

The request will provide additional leadership positions to support needed restructuring of our operations as well as positions to strengthen our internal operations. For example, in the past, the Amtrak OIG relied heavily on support from Amtrak management units for Human Resource and procurement activities. While I plan to continue to rely on Amtrak support, it is essential that we have adequate in-house capabilities to ensure that we can operate independently and effectively. Finally, our request funds required upgrades to our IT systems.

We have developed a new strategic plan for the OIG that will help us to focus on the major goals Amtrak is trying to achieve and we have provided that plan to the subcommittee. This additional fiscal year 2011 funding will help us to implement our new strategy of focusing our attention on the most significant issues Amtrak faces. We expect to identify significant cost savings and program improvements in important areas, including Amtrak's $250 million annual healthcare expenditures.

We are also working closely with Congress and this subcommittee to provide timely information that will be helpful in the legislative and oversight process. We hope you agree that your investment in the Amtrak OIG serves to strengthen Amtrak's operations, improve efficiency, prevent and deter fraud and abuse, and provide the transparency needed in an organization that receives large Federal subsidies. To illustrate, in February of this year, Amtrak released a Fleet Strategy outlining a multibillion-dollar plan to replace its aging fleet and to provide additional fleet to handle the growth in demand. At the request of this subcommittee, we plan to review this important initiative.

Madam Chair, this concludes my testimony and I will be happy to answer any questions.

DEPARTMENT OF TRANSPORTATION

OFFICE OF INSPECTOR GENERAL

Senator MURRAY. Thank you very much.

Ms. Ann Calvaresi.

STATEMENT OF ANN CALVARESI-BARR, DEPUTY INSPECTOR GENERAL

Ms. BARR. Chairman Murray, members of the subcommittee, thank you for the invitation to discuss ongoing efforts to strengthen the Nation's passenger rail network.

As you know, recent legislation calls for significant investment in rail, an investment that demands rigorous oversight to ensure passenger rail goals are achieved and taxpayer dollars are used wisely.

My statement today focuses on FRA's expanded role and responsibilities under PRIIA and the Rail Safety Improvement Act, the challenges FRA faces in effectively carrying out its new role, and the progress Amtrak has made in improving its operating and capital financial management processes.

PRIIA and the Safety Act dramatically expanded FRA's role. Together, these mandates call for FRA to develop, from the ground up, a multibillion-dollar high-speed rail program and to undertake several new safety and passenger rail service enhancement initiatives.

Among the tasks set out for FRA are the development of performance metrics for minimum passenger rail service requirements, such as on-time performance levels, and the establishment of a discretionary grant program to develop and deploy positive train technologies. This expanded role presents several challenges for FRA, especially as they relate to implementing the high-speed rail program. To ensure program success, FRA must develop a sound implementation strategy.

While FRA has developed project selection criteria, it has yet to provide grant applicants with the detailed methodologies needed to adequately complete their applications. For example, FRA has not issued guidance on how to prepare forecasts of project ridership and revenue, costs, and public benefits for high-speed and intercity passenger rail. Without such guidance, FRA is not positioned to effectively assess the merits of rail grant applications and ensure sustainability of the service.

FRA must also enhance its internal policies and practices in order to effectively oversee these larger project grants. According to the Office of the Secretary of Transportation [OST], plans for program monitoring and administration are in development.

Finally, FRA must obtain adequate staff with the right skill mix to oversee program implementation.

The Recovery Act greatly accelerated FRA's rollout of the high-speed rail program, further exacerbating FRA's challenges. Within

10 months after its enactment, FRA was required to issue a strategic high-speed rail plan, establish interim guidance, and process all applications for the $8 billion stimulus investment.

Balancing other PRIIA responsibilities with its traditional responsibilities create even more challenges for FRA. For example, PRIIA requires FRA to coordinate with hundreds of public and private stakeholders to establish a National Rail Plan that addresses interconnectivity with other modes of transportation, informs the development of State rail plans, and recognizes the need for a sustainable funding mechanism. At the same time, FRA must not lose sight of its traditional responsibilities; chief among them, ensuring rail safety and oversight of Amtrak.

Effectively managing these critical rail programs will require sustained focus and oversight by FRA and the DOT OIG. We have begun to shift resources accordingly. Specifically, we have underway an evaluation of best practices for forecasting high-speed rail ridership and revenue, costs, and public benefits; an audit of infrastructure access agreements between the States and freights to ensure access agreements adequately address cost, schedule, and performance goals; and a quantitative analysis of Amtrak's delays that will help FRA ensure investments yield the highest return.

Given the important role Amtrak plays in intercity passenger rail, our work on Amtrak's financial management is relevant to FRA's efforts. Amtrak established key performance indicators to measure both the efficiency and effectiveness of its operational and financial performance. For example, Amtrak developed a cost-recovery indicator to measure the proportion of expenses covered by revenues and ridership growth. This approach appears to be a more efficient way to monitor and improve operating and financial performance than its previous approach of tracking savings from specific reforms.

Our ongoing work also indicates that Amtrak has improved its long-term capital planning. Specifically, Amtrak has developed long-term plans for its fleet and infrastructure, a transparent process for prioritizing its capital needs, and guidance on conducting post reviews of its capital investments. Clearly, Amtrak's success hinges on effective implementation.

PREPARED STATEMENT

In closing, while we are dedicating additional resources to oversee FRA and its expanded role, we are encouraged that the Amtrak's OIG, under its new leadership, will enhance its oversight of Amtrak-related work.

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

Thank you.

[The statement follows:]

PREPARED STATEMENT OF ANN CALVARESI-BARR

Madam Chairman and members of the subcommittee: Thank you for inviting me here today to discuss ongoing efforts to strengthen the Nation's passenger rail network. As you know, recent legislation has called for significant investment in rail—an investment that demands additional scrutiny and oversight to ensure legislative goals are achieved and taxpayer dollars are used wisely.

My testimony today focuses on: (1) changes in the Federal Railroad Administration's (FRA) role and responsibilities under the Passenger Railroad Investment and Improvement Act of 2008 (PRIIA) and the Rail Safety Improvement Act of 2008 (RSIA); (2) the challenges FRA faces in effectively carrying out its new role; and (3) the progress Amtrak has made in improving its operating and capital financial management. My testimony is based on our recent and ongoing work related to FRA, Amtrak, and rail issues in general.

IN SUMMARY

PRIIA and RSIA dramatically realigned FRA's role and expanded its responsibilities. Together these two pieces of legislation have called for the implementation of a high speed rail program, improvements in intercity passenger rail services, and safety enhancement initiatives. Each new mandate carries a unique set of challenges for FRA, especially as they relate to implementing the high-speed rail program. Challenges include developing written policies and practices to guide the program's grant lifecycle process and oversight activities, and obtaining adequate staff to oversee implementation. The American Recovery and Reinvestment Act of 2009 (ARRA) exacerbated these challenges by accelerating timelines and providing FRA an additional $8 billion. At the same time, FRA must continue to carry out its prior responsibilities, including its oversight of Amtrak. While our work has found that Amtrak has improved its financial management of operating and capital planning activities, new PRIIA mandates and ARRA funding could require Amtrak to heighten its improvement efforts. In light of these issues, the Department of Transportation (DOT), Office of Inspector General (OIG) has several audits—completed or under way—to monitor FRA's efforts to carry out its traditional and new roles and responsibilities.

BACKGROUND

Within the last 2 years, new legislation has been enacted with major ramifications to intercity passenger rail in the United States. On October 16, 2008, the President signed into law RSIA, or the Safety Act, and PRIIA. The Safety Act is the most comprehensive new railroad safety law in the past 30 years. In addition to reauthorizing FRA, the Safety Act contains new mandates for freight railroads, commuter railroads, and the National Railroad Passenger Corporation, better known as Amtrak. PRIIA reauthorizes Amtrak and strengthens the U.S. passenger rail network by tasking Amtrak, DOT, FRA, States, and other stakeholders with improving service, operations, and facilities. PRIIA focuses on intercity passenger rail, including Amtrak's long-distance routes and the Northeast Corridor, State-sponsored corridors throughout the Nation, and the development of high speed rail corridors.

ARRA was signed into law on February 17, 2009, to preserve and create jobs and promote economic recovery through investments in transportation, environmental protection, and other infrastructure. ARRA provided $8 billion to FRA for discretionary grant programs to jump start the development of high-speed rail corridors and enhance intercity passenger rail service. ARRA also directed $1.3 billion to Amtrak for capital investments. In addition, ARRA designated $20 million to DOT OIG through fiscal year 2013 to conduct audits and investigations of DOT projects and activities funded by ARRA. In response, OIG developed a work plan using a three-phase approach to conduct audit and investigative work by emphasizing high-risk areas and promptly reporting results. Between March and December 2009, OIG issued two reports outlining the risks and challenges to DOT program offices related to ARRA, including FRA.[1]

LEGISLATION DRAMATICALLY EXPANDED FRA'S ROLE

Historically, FRA was a small agency, focused primarily on promoting and overseeing railroad safety. FRA was responsible for: (1) promulgating railroad safety regulations; (2) administering several small grant and loan programs, such as the Rail Line Relocation grant program and the Railroad Rehabilitation and Improvement Financing loan program; and (3) overseeing Amtrak's operations and disbursing Amtrak's annual grant funds. PRIIA and RSIA, however, dramatically realigned FRA's role and expanded its responsibilities. Together, these mandates call for FRA to undertake several new safety and passenger rail service enhancement

[1] OIG Report MH–2009–046, "American Recovery and Reinvestment Act of 2009: Oversight Challenges Facing the Department of Transportation," issued March 31, 2009 and OIG Report MH–2010–024, "DOT's Implementation of the American Recovery and Reinvestment Act: Continued Management Attention is Needed to Address Oversight Vulnerabilities," issued November 30, 2009. OIG reports and testimony are available on our Web site: www.oig.dot.gov.

initiatives and to develop from the ground up a multi-billion dollar high-speed rail discretionary grant program.

PRIIA Added Several New Initiatives to Enhance Intercity Passenger Rail Service

PRIIA tasked FRA with numerous significant responsibilities—among them the creation of a new High-Speed Intercity Passenger Rail (HSIPR) grant program. Other new PRIIA mandates include initiatives to improve existing intercity passenger rail service and to promote the expansion of intercity passenger rail. PRIIA requires FRA to design a long-range national rail plan that promotes an integrated, efficient, and optimized national rail system for the movement of people and goods. FRA issued its preliminary plan on October 15, 2009, and must submit the final plan to Congress on September 15, 2010.

PRIIA also required FRA to develop performance metrics that establish minimum passenger rail service requirements—such as minimal on-time-performance levels and other service quality measures—and provide a framework for improved passenger rail service. The metrics were developed in conjunction with Amtrak and in consultation with the Surface Transportation Board, Amtrak's host railroads, States, Amtrak's labor organizations, and rail passenger associations. FRA is required to publicly report performance results quarterly. Other Amtrak-related responsibilities that PRIIA requires FRA to carry out include monitoring and conducting periodic reviews of Amtrak's compliance with applicable sections of the American's with Disabilities Act and monitoring Amtrak's development and implementation of performance improvement plans for its long-distance routes.

RSIA Highlighted and Expanded FRA's Traditional Safety Role

RSIA amended existing railroad legislation to make the safe and secure movement of people and goods FRA's highest priority. Most notably, RSIA requires FRA to establish a discretionary grant program, with authorized funding of $50 million per year for fiscal years 2009 through 2013, to support the development and deployment of positive train control technologies. FRA issued a Notice of Funds Availability, Solicitation of Applications for this program on March 29, 2010; a status report on positive train control implementation is due to Congress by December 31, 2012.

RSIA also requires FRA to perform several safety-related studies. One study will assess the risks posed to passengers with disabilities boarding and alighting from trains where there is a significant gap between the train and the platform. Another study addresses the risks associated with the use of personal electronic devices by railroad personnel while on duty. This body of work will position FRA to carry out its role as the Nation's rail safety enforcement agency as it undertakes increasing passenger rail responsibilities.

FRA FACES SIGNIFICANT CHALLENGES IN MEETING ITS MANDATE

The new legislative mandates present unique challenges for FRA. Effectively implementing the HSIPR program is key among these challenges. Specifically, FRA must: (1) assess the net benefits of high-speed rail; (2) develop written policies and procedures for grant management; and (3) determine staffing needs. The $8 billion in ARRA funding exacerbated these vulnerabilities as it accelerated implementation. In addition to implementing the HSIPR program, FRA must balance its increased workload under PRIIA with prior legislative requirements, including its oversight of Amtrak. While FRA has made several steps toward meeting these challenges, it has recognized that more resources are needed to successfully carry out its mandate.

HSIPR Success Depends on an Effective Implementation Strategy

To ensure HSIPR project grantees follow sound management practices, FRA must develop a sound implementation strategy. First, FRA must develop guidance for forecasting project ridership, revenue, costs, and public benefits for high-speed and intercity passenger rail. According to DOT's Office of the Secretary (OST), FRA has developed detailed evaluation criteria to determine a proposed project's merit and feasibility. However, FRA has yet to issue formal guidance for grant applicants to use in preparing forecasts.

Second, FRA must develop written policies and practices to guide the program's grant lifecycle process and oversight activities. We identified certain risks associated with awarding grants without a fully documented program implementation strategy and grant lifecycle process. As a result, FRA delayed the awards until early 2010. However, according to OST, FRA is still in the process of reviewing its grants management manual for final approval and developing monitoring plans and grant administration standard operating procedures.

Finally, FRA must obtain a sufficient number of staff with the skills needed to oversee program implementation. To address its initial lack of capacity to start up and effectively manage the HSIPR program, FRA has completed a workforce assessment, which we have yet to validate. As a result of that assessment, FRA requested and received funding for 27 additional staff resources in its fiscal year 2010 budget. However, FRA has been slow to fill these vacancies.

ARRA's tight deadlines for spending funds have greatly accelerated FRA's rollout of HSIPR, exacerbating program challenges. Deadlines for obligating funds under Track 1 ("ready to go projects") and Track 2 ("corridor development programs") are September 2010 and September 2011, respectively. Within 10 months after ARRA's enactment, FRA issued a strategic plan, established interim guidance, and processed all Track 1 and 2 applications, as required.

Managing Other New and Traditional Legislative Responsibilities Further Challenge FRA

Balancing new PRIIA responsibilities with its traditional responsibilities create additional challenges for FRA. With regard to PRIIA, FRA must coordinate with hundreds of public and private stakeholders to establish a national rail plan that addresses interconnectivity with other modes of transportation and recognizes the need for a sustainable funding mechanism. As the market for intercity passenger rail carriers grows, tracking and reporting their performance results could become a challenge for FRA. For example, FRA will have to establish a standardized mechanism for collecting performance data from multiple carriers who may have different procedures than currently used for reporting the proposed metrics and standards.

At the same time, FRA must continue to carry out its prior administrative responsibilities for its existing grant and loan programs. Specifically, FRA must effectively manage the Rail Line Relocation discretionary grant program, the Railroad Rehabilitation and Improvement Financing loan program, and the Amtrak grant program. Together, these programs account for 37 percent of FRA's $4.374 billion fiscal year 2010 budget.

Effectively managing these critical rail programs in the face of the public scrutiny of the HSIPR program will require sustained focus and oversight by FRA and OIG. OIG has begun to shift resources to provide the appropriate level of oversight in order to inform FRA's efforts and monitor its progress. For example, our evaluation of best practices for forecasting high-speed ridership, revenue, and public benefit should assist FRA in its efforts to assess the economic and financial viability of proposed projects and ensure Federal investments are allocated to the most worthy projects. Our audit of the risks private freight railroads pose to the HSIPR program should help FRA ensure that access agreements adequately address cost, schedule, and performance goals, and that HSIPR benefits are achieved. Finally, our quantitative analysis of the causes of Amtrak delays will inform efforts by Amtrak and the freight railroads to improve Amtrak's on-time performance and clarify the relative value of investing Federal funds to expand freight rail capacity as a means to address delays.

AMTRAK HAS MADE IMPROVEMENTS IN FINANCIAL MANAGEMENT

Our work on Amtrak's financial management is extremely relevant to the HSIPR program, given the important role Amtrak will play in FRA's development of intercity passenger rail service. Since we began reporting regularly to Congress [2] on Amtrak's operating performance and its progress in reducing Federal operating subsidies, Amtrak has shifted its financial management approach from implementing various strategic reform initiatives (SRI) to establishing key performance indicators (KPI). The KPIs appear to be a more efficient way for management to monitor operating performance. Results of our mandated audit on Amtrak's 5-Year Capital Planning, which we are finalizing, also indicate that Amtrak has made significant improvement to its long-term capital planning including a more transparent prioritization process.

[2] The Transportation/HUD Division of the Consolidated Appropriations Act of 2010, Public Law 111–117 changed OIG's reporting requirement on Amtrak's savings from quarterly to semi-annually.

Management's New Approach to Measuring Reform Initiatives Through Key Performance Indicators Appears Reasonable

Since fiscal year 2006, we have reported on Amtrak's savings achieved as a result of operational SRIs at the corporate level, by business line, and at the route level.[3] The SRIs were intended to improve Amtrak's operating efficiencies and lower its dependence on Federal operating subsidies. For example, one SRI aimed to reduce losses through enhanced service flexibility and the outsourcing of certain services, such as food and beverage. The SRI approach was established to provide a comprehensive analysis of potential and realized operating savings for the longer term provision of a more efficient and financially feasible intercity passenger rail service. However, as we stated in our fiscal year 2009 fourth quarter report, Amtrak did not include any new savings from operational reform initiatives in its fiscal year 2009 budget.

Amtrak's 2009 Strategic Guidance provided further details on possible savings from future operational reforms through KPIs—criteria that will measure both the efficiency and effectiveness of Amtrak's operational and financial performance. For example, Amtrak established cost recovery ratio KPIs to measure the proportion of Amtrak expenses covered by revenues and ridership growth. Recently, officials told us that because the KPIs are derived from the annual budget and Amtrak operates to its budget targets, the KPIs provide a more streamlined way of evaluating performance to budget.[4] Amtrak officials also noted that because KPIs are linked to monthly financial statements, KPIs are tracked and updated much more frequently, allowing management to react quicker to changes in operating and financial conditions. The updates should also allow management to drill down into KPI detail in real-time to determine what is driving any changes, and consequently react quicker, rather than waiting until the next month for the next round of financial statements. The Strategic Guidance states that KPIs will be used to evaluate management and to ensure that leadership's attention and effort are properly focused.

While Amtrak's new approach appears to be a more efficient way to monitor and improve operating and financial performance, Amtrak has continued to pursue improvement initiatives tied to the original SRIs. Further, Amtrak officials stated that management will not measure the net impact of individual initiatives because it is too difficult to determine the incremental impact of any given initiative or project on one metric. For example, if Amtrak's marketing department invests additional funds to promote Acela and revenues increase for that route, there is no clear way to determine if or what portion of the increase is due to higher gasoline prices, deteriorating airline service, or the marketing campaign. Instead, executives will discuss the results of improvement initiatives, and when intended outcomes are not achieved, they will require the relevant departments to take action to address the targeted KPIs. If the departments achieve the KPIs, then the improvement initiatives will be deemed successful.

Because the KPIs have only been in place for 6 months, the ultimate success of this new approach has yet to be determined. As we stated in our fiscal year 2009 fourth quarter report, in addition to reporting on a semi-annual basis Amtrak's financial performance, we will track and evaluate Amtrak's efficiency KPIs. Our Amtrak semi-annual report, which will be issued next month, will provide more detail on our evaluation of Amtrak's operating performance through March 2010.

Progress Has Been Made in Long-Term Capital Planning, but the Measure of Success Will Be Determined Through Implementation

Since 1999, we have also reported[5] on Amtrak's progress in determining its long-term capital needs. Previous reviews by our office, GAO, and Amtrak's OIG have looked at various aspects of Amtrak's capital budget and requirements and outlined concerns, including a number of which focused on Amtrak's lack of a comprehensive long-term planning strategy with clearly defined goals, as well as a process for monitoring performance.

In our current review, we have found a number of operational changes that have been implemented to improve Amtrak's long-term capital planning process, which are primarily due to legislative requirements dictated by PRIIA and leadership from its Board of Directors and senior management. Specifically, Amtrak has developed long-term plans for its fleet and infrastructure, a transparent process for prioritizing its capital needs, and guidance on conducting post-reviews of its capital projects.

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[3] Transportation, Treasury, Housing and Urban Development, the Judiciary, District of Columbia, and Independent Agencies Appropriations Act (TTHUD), 2006; Public Law 109–1 15.

[4] March 31, 2010, semi-annual review.

[5] OIG Report CE–1999–116, Report on the Assessment of Amtrak's Financial Needs Through fiscal year 2002. Issued July 21, 1999.

However, the success of these efforts depends on Amtrak's ability to effectively implement and sustain many of its new policies and procedures. We look forward to issuing our full report within the next couple of months. Our office is also in various stages for other PRIIA mandated reviews, which are planned for issue over the next 12 months.

CONCLUSION

High-speed intercity passenger rail is expected to greatly enhance the Nation's transportation system. Yet meeting the goals of PRIIA, RSIA, and ARRA will be a significant challenge, especially given the transformation required of FRA. While ARRA was enacted to jump start the U.S. economy, FRA's decision to move forward deliberately is prudent and should help it make the most of its ARRA funds. Further, it has given OIG a unique opportunity to ensure proper oversight controls are built into the program. We have begun to position ourselves to oversee FRA developments while continuing our ongoing and newly mandated work on Amtrak. However, we are hopeful that Amtrak's OIG, under new leadership, will pick up appropriate work, allowing us to dedicate additional resources to oversee FRA's implementation of the HSIPR program.

Senator MURRAY. Thank you very much.

Mr. Boardman, under Amtrak's new leadership, we've seen some important improvements in how the railroad has been managed, and instead of limiting its focus to getting through each day, the management team now has a strategic vision and has started to look at long-term planning.

Amtrak's overall capital plan and the accompanying fleet plan reflect that new priority on strategic decisionmaking, but Amtrak is still making separate requests for its capital plan and for its fleet plan. If you do not get all of the funding you've requested for fiscal year 2011, how are you going to decide on funding between these two separate plans?

CAPITAL PLAN AND FLEET PLAN FUNDING

Mr. BOARDMAN. I think you're referring to—basically—we're almost a billion dollars over where the request came in from the administration. And it's accounted for, all in capital. We're talking about fleet, and we're talking about all the projects that are capital-related on the Northeast corridor and on ADA and on all the other projects that are needed. So, as Amtrak has done in the past, and as Amtrak needs to look, today, to the future, we look at every opportunity for us to gain those dollars, one of them being the appropriation process, another being—and I think the Administrator talked about it a little bit—we are in discussion with the administration about—either a Federal loan or even going out into the commercial market to borrow money.

But, in the end, it all comes back to Congress, because all capital is subsidized by Congress, in one fashion, form, or another, just like all capital for the highway or the aviation side is subsidized through Congress. They have a different methodology. They have a program that provides user funds for highways, but those user funds also are distributed to transit, which are not necessarily—and I think we talked about it a little bit earlier—they're not paid for by the transit rider, they're paid for under the same structure that the highway receives those funds and the same way that aviation receives those funds; it all comes back to the Congress in making a decision.

The need for Amtrak is to put on the table to Congress what our capital needs are, and we have not been bashful about doing that, because we need to rebuild the railroad.

Senator MURRAY. Okay. Well, in addition to replacing your aging locomotives and railcars, as I talked about earlier, this could revitalize a domestic industry for manufacturing rail equipment and really help us focus on manufacturing jobs here in the country. But, realizing that goal, as I mentioned earlier, is going to require companies to have the confidence that Amtrak has a reliable, long-term source of funding for its fleet plan. What will it take, do you believe, for U.S. manufacturers to believe that passenger rail equipment is a viable line of business?

Mr. BOARDMAN. Like that commercial on television says, "Buy my product." Fund my plan.

Senator MURRAY. So, you need to know that there's a—that they will need to know that there is——

Mr. BOARDMAN. Yes. And——

Senator MURRAY [continuing]. A consistent——

Mr. BOARDMAN [continuing]. There's a new——

Senator MURRAY [continuing]. Source of funding.

Mr. BOARDMAN. Chairwoman, there is a new understanding across the world today, I think, that we are in a very different competitive environment for—not only the economy, but for energy for the future. And every country today is looking at how they are going to solve this problem. And rail becomes a key part of that. We've already seen that, as a key part of it, in terms of what the investments are with transit. But, transit needs to be connected to the rest of the country and there are two key elements that Amtrak brings to the table. One is its workforce, its key competitive advantage in the people that operate this railroad and know what needs to be done. And the other is the connectivity across this country, up and down from border to border and from coast to coast. This railroad will be a key reason why this Nation can live in a more prosperous position in the future.

Senator MURRAY. So, what you're saying is, if we have that goal, as a country, and it's very clear and consistent, it will send a message to domestic manufacturers that we're in it.

Mr. BOARDMAN. Yes. And I think that message is already getting there.

Senator MURRAY. Okay.

In the past, Amtrak has purchased rail equipment from Bombardier, a company based in Canada. Is Amtrak currently purchasing rail equipment or overhaul service from Bombardier, and will it do so in the near term?

UPGRADING THE AMTRAK FLEET

Mr. BOARDMAN. Yes. We continue to enhance our relationship with Bombardier, with GE, and with other manufacturers across the United States.

Senator MURRAY. Okay. I understand that Amtrak is still trying to decide on the best strategy for replacing the Acela fleet, which was originally provided by Bombardier. One option is to purchase additional cars for the Acela fleet in order to expand capacity along the Northeast corridor, even though these new cars would be replaced after just a couple of years, along with that original Acela fleet. How likely is it that Amtrak would purchase additional Acela cars from Bombardier, before updating all of the equipment for the Northeast corridor?

Mr. BOARDMAN. Well, what we really looked at was that the Acela fleet on the Northeast corridor actually covers 121 percent of its costs. So, you're actually making money on Acela, as compared to——

Senator MURRAY. Right.

Mr. BOARDMAN [continuing]. Other modes and services on the corridor. So, we looked at that. We can improve the amount of revenue and enhance ridership if we could extend the number of trains that we operated that were Acela-like train sets. So, the opportunity is for us to increase our revenues, if we can find about five train sets that we could add to the corridor for high-speed service.

Certainly, the Bombardier products that exist are already a proven design, and we don't have to spend the time to go through to test an entirely new technology to provide that service. So, there's a great—I'm trying to find the right word—there's a great opportunity for us to be able to do that with Bombardier. But, we haven't made that decision. We haven't decided that that's——

Senator MURRAY. Not decided.

Mr. BOARDMAN [continuing]. What we're going to do.

Senator MURRAY. Okay.

In my opening statement, I talked about the fact that I'm glad the administration is not submitting budget requests that would guarantee the bankruptcy of Amtrak anymore. But, their request for capital grants is still lower than the railroad's own request, by about $500 million. What impact would the administration's budget have on your capital investment?

Mr. BOARDMAN. It'll just make more shovel-ready projects available for us to do for the future, if funding becomes available. And I—what I mean is that we have, as every State DOT, and at—every competent operation has a list of projects that need to be done, especially when you have a $5 to $7 billion backlog, just on the Northeast corridor.

But, there are a lot of other projects that could be done. I know Senator Dorgan may be here, talking to me about one in particular, in Devils Lake. So, we have opportunities, should the money become available, to get a——

Senator MURRAY. On the capital——

Mr. BOARDMAN [continuing]. Job done.

Senator MURRAY. What about on the operating side? I think their request is $40 million less than yours. Will that have an impact?

Mr. BOARDMAN. It will not cause, if the question really is, us to cut back services.

Senator MURRAY. That's what I'm asking.

Mr. BOARDMAN. We're looking for a way that we can make sure that those services are continued to be provided.

But, some decisions—for example, I still get messages, from those who ride from Albany to New York City, asking, "When are we going to return the cafe car?" which we don't have on there any longer. We eliminated that in order to reduce costs.

Senator MURRAY. Right.

Mr. BOARDMAN. But, it—so, it impacts us, that it's not as convenient for people to ride the service now as it was before.

Senator MURRAY. Okay. Thank you very much.

Senator Bond.

Senator BOND. Thank you, Madam Chair.

Mr. Boardman, we just heard Mr. Alves testify that second and third shifts are reducing productivity and compromising the work that's done. We thought that—I understood that the $1.3 billion in ARRA funds were for shovel-ready projects. Were they not shovel-ready? Was Amtrak not shovel-ready? Why have you had to take these extraordinary steps, which apparently are more costly and less productive?

ARRA PROJECTS

Mr. BOARDMAN. I think all the projects were shovel-ready. And I think that the IG did an excellent job looking at the risks for us along the way. But, of the nine projects that he really looked at—one of them was the Niantic Bridge, there were two positive train control projects, and there was a frequency converter replacement project and the Los Angeles maintenance facility—there were the top five that they were worried about for risk.

When you looked at the number of points—and they looked at acquisition, environment, schedule, objectives, technology, size, complexity, financial, human capital, management, and fraud—what you wound up with was 10 points for each of the first 3 that they were worried about, 9 for 4, and 8 for 5. And when you look at the 10, what you find is the risk is really environmental and size and complexity. The things that Ted and his staff found is it's costing us more, as it does in every capital area, when you try to get it done as quickly as we were really trying to get it done and you had to put on the second or third shift.

Senator BOND. So, that was a mistake, trying to put the time deadline on it. That had——

Mr. BOARDMAN. Well, if——

Senator BOND. That was a mistake, in terms of cost, productivity. So, that is a signal not to put timelines on it. I would hope that the requests you have would have reasonable timelines that are achievable. And I didn't have any——

Mr. BOARDMAN. Absolutely. We agree with you.

Senator BOND. I didn't have anything to do with that bill, so I can't speak to that.

You've mentioned you're taking a look at different types of funding for Amtrak. And you mentioned, as it—high on the priority list, borrowing in the private market. Correct me if I'm wrong; if you borrow, that means this budget—this subcommittee's budget will have to pay the interest costs and the debt service every year. So, that will really be a charge on this budget.

Are there any dedicated sources of funding that you're looking at, outside of putting Acela-type trains on, that generate a profit, making things profitable that will give you the money you need?

Mr. BOARDMAN. No.

Senator BOND. Thank you——

Mr. BOARDMAN. All capital comes from this—from the Federal Government.

Senator BOND. Okay. Well, I would urge you to find out ways to emphasize that—what is profitable, and de-emphasize that which is not profitable, because we are up against the wall, as you probably heard me say, earlier.

Mr. BOARDMAN. None of it is profitable, Senator.

Senator BOND. Okay. Well—but, it has to be less costly. Right now——

Mr. BOARDMAN. And that is happening. But, it's not——

Senator BOND. Yes. Well, it's not——

Mr. BOARDMAN. Even if it——

Senator BOND. But——

Mr. BOARDMAN. Even if it's less costly, though, sir, it doesn't mean we can pay the capital with it. It means we can pay the operating. We——

Senator BOND. Well, it's—we——

Mr. BOARDMAN. We——

Senator BOND. They come out of the same pot of funds. If you're looking here—doesn't matter whether you call them capital or operating, your capital is going to compete with your operating, which is going to compete with housing.

Let me turn to Mr. Alves. This is sort of a two-part question.

I know you're new to the office at—of inspector general. We welcome you. The—in 2009, Amtrak outlined a strategic guidance document, and I'd like to know how it is being implemented. And to what extent are Amtrak managers or others being held responsible for achieving the key performance indicators that have been developed? And are they affecting pay and promotion?

Mr. ALVES. I'm not sure I can fully answer that question, but I'll do my best.

The strategic guidance identifies the key things that Amtrak is trying to achieve. And Amtrak has been taking steps, under a new performance measurement system, to develop performance measures and goals for its key executives, and to—and then to flow those through the system to subordinates to be able to——

Senator BOND. Are there—is there tie-in between pay, or—is there any performance bonus for those who meet it or penalties for those who don't?

Mr. ALVES. I'm not sure about a bonus, but I do know that the rating and the pay is going to be tied to those measures.

Senator BOND. All right.

Ms. Barr, welcome. You have spoken about the problems that apparently came from putting too much money, too many requirements on FRA. In other words, you were—I think I understood you to say that a bunch of money was dumped on them with a bunch of requirements that were impossible to meet. And that's why there have been failures to achieve what is expected from FRA. Is that a fair assessment?

ROLE OF FRA

Ms. BARR. Yes, I think the assessment, and the point that I really want to make is, looking at FRA and what its traditional role really was, was a small regulatory agency that's been asked to transform into a large grant-making organization. So, not only do they have to issue their own grants, develop their own internal policies for good, solid project management and oversight, but they have to oversee a larger grant operation on behalf of Amtrak.

Overlay that with all of the new safety requirements that came out of the Safety Act as it relates to positive train control, as it relates to the Americans with Disabilities Act, and a whole host of other things, that is a big challenge. That's a hugely expanded role. And I think if I had to characterize what it's like, it's like needing to design and implement at the same time. That's very difficult.

Senator BOND. Are they able to handle the resources and the demands that they are expecting now? Are they still have a—are they able to handle it?

Ms. BARR. I think they're on their way.

Senator BOND. Okay.

Ms. BARR. They've requested the FTEs, but they're nowhere close to where they need to be.

Senator BOND. Okay.

And finally, who's going to—with the DOT IG, Amtrak OIG, how are you going to relate the roles of the two IGs?

Ms. BARR. Okay. I can start first. Ted and I had discussions about this, as well. We're thrilled that he is in place and can pick up, traditionally, what—where we've been focused, on some of the Amtrak issues. The way—I guess I would divide the responsibilities. I think it laid out pretty well the challenges that FRA has before it. And I think you, Senator, indicated this National Rail Plan is something that needs to be looked at very, very closely.

Senator BOND. That will be your——

Ms. BARR. That would be something we would look at. We would look at all of the other mandates, the requirements, how well they're overseeing project oversight. And we would hope that the Amtrak IG can continue doing what he's doing, looking at some of those internal policies and practices and management challenges, going forward, with their new requirements.

Senator BOND. Okay. You've got the FRA ball. Mr. Alves, you've got the Amtrak ball.

Mr. ALVES. I would like to say a couple words about this, if I could. I agree with what Ann is saying. And the Amtrak inspector general, I think, has some very capable people, and has done some very good work. But, I think that our focus needs to be on the major challenges that Amtrak faces and its strategic goals that are outlined in that strategic guidance. And we have put together a new strategic plan that builds on that strategic guidance and, basically, directs us. Our goal is going to be to spend much more of our resources addressing the big, major issues. And so, I think that will fit with what you're looking for.

Thank you——

Senator BOND. We look forward to your sharing with us. My apologies, Madam Chair, to you and my colleagues.

Senator MURRAY. Senator Lautenberg.

Senator LAUTENBERG. One of the things that has been talked about with a degree of frequency, and that is, searching for new corridors, where we can bring rail—good quality rail service to these places.

Where would we—how would we fund the equipment, the tracks, the infrastructure, we—when we can't handle the equipment needs for Amtrak, as it exists? We're talking about other corridors. How is that going to be paid for?

Mr. BOARDMAN. No, no. Directed to me, Senator?

Senator LAUTENBERG. Yes.

Mr. BOARDMAN. It's good to see you.

Senator LAUTENBERG. Please.

FUNDING CORRIDORS

Mr. BOARDMAN. First of all, I think there are a lot of those corridors that we can extend the use of our existing equipment. For example, Springfield, Mass., to New Haven, for example—that's one of the things being funded. And, certainly, there has been a lot of activity about how that'll get financed for the future. When we extended the corridor to Lynchburg, Virginia, we were able to use equipment that was available that extended from the Northeast corridor to provide that service.

But, there are areas, as you say—for example, one of the corridors that I think has great promise is the Milwaukee-to-Madison corridor, for example, for the future. That will require the rebuilding of the tracks, and it will require additional equipment. And you have a State that's made a strong commitment, in regard to that, being Wisconsin, and—both in terms of equipment that they would buy and pay for—in some cases, on their own—and also applying for and rebuilding the line between Milwaukee and Madison, or at least part of that line that they own.

And I think that's where the key for PRIIA came, was that the States would take a leadership role in those corridors, for the future, not only with adding tracks and facilities, but also with the equipment. We're there to help them, but they're going to have to take a role in that process and also use the Federal money that's become available.

Senator LAUTENBERG. The question that arises here—you know, I look at this, and one thing that we all know, here, whether we like to look back and talk about all of the years of neglect in investment that we made—I mean, if you compare what Amtrak—what's happened with Amtrak on an annual basis, I think it runs something over a billion dollars a year, over the—since the 1970s, when it became Amtrak, as we know it.

And when you look in other places and commitments that are made—$10 billion a year in Germany for—get—to get high-speed rail to—going. And they did it. And it doesn't do us a lot of good to beat our chests here about that. But, the fact of the matter is, this has been a case of sheer neglect on our part, to step up to the plate.

So, when you look at these amounts of money, this isn't something that is coming in out of the blue. It's trying to make up for some lost time.

Mr. BOARDMAN. Well said, sir.

FLEET MAINTENANCE

Senator LAUTENBERG. And, you know, when we look at, for instance—I want to ask a couple questions about the equipment. You were—you pretty well gave an endorsement to the continuation of a—buying Bombardier equipment.

And how about the maintenance costs for Bombardier, how about the durability of the equipment, because I've heard, chatting around, that the maintenance costs right now are outrageously high. Is that not true? That's—is that because the equipment was over—has been overworked? Or——

Mr. BOARDMAN. Well, right now—and I don't mean to interrupt you, if you're——

Senator LAUTENBERG. No.

Mr. BOARDMAN. Right now, we're actually rebuilding them at the midlife—it's 10 years. So, the cost, right now, is somewhat higher. We expect these trains have to last 20 years.

One of the things we did with the fleet plan was we began to recognize that there was a commercial life and there was a useful life. There were no manufacturers, other than Bombardier, in the United States that really built the heavy-duty, long-lasting, intercity rail cars in the United States. So, we really had to have a spec on regular—I'm kind of mixing terms here—but, we're—we really had to have a spec that was heavy-duty for the future that would drive domestic manufacturing.

Part of the reason that we're committed to Bombardier is because we're committed to Bombardier. We have 20 train sets out there that are operating, and I want to get things done and keep things moving. And I truly believe that—right to my core that we're sitting on the precipice of huge increases again in fuel cost, and our need to deliver for our Nation and for the community is going to mean that we need to move faster.

Somebody said—asked the question earlier, how long does it take to get these cars in here? Three years? Maybe, if we push them, 2 years? We're at $80 a barrel. We're going to be headed to 100, at least by some estimates, and maybe beyond that. It's when that happens that you begin to see a total breakdown in the aviation business model for short distance. And those are the kinds of things that railroads can provide in the most efficient manner.

So, I don't want to say that we have to buy Bombardier for the high-speed rail sets. And I want a new generation of high-speed rail that's open and competitive. But, right now, in order for us to really move things the way we think we need to move them, we need the relationships with Bombardier. And we also need relationships—and we are improving our relationships with General Electric, for example, that we have—over 200 of our diesel locomotives are General Electric locomotives that—we're improving our relationship with them so that they will become longer-lasting, and we're looking at the potential for a new-generation tier-3——

Senator LAUTENBERG. In the meanwhile, can we get any acceleration of the speeds—you held out some hope there, and made me glad for a minute; in this environment, that's pretty hard. But, the fact is that, with new equipment, you projected a real shortening of the trip from here to New York. The example that——

Mr. BOARDMAN. We believe the time savings can be improved.

Senator LAUTENBERG. If we—the midlife repairs that you talked about. Does that give you the kind of equipment advantage that in any way enhances the amount of time that we have to go on the Northeast corridor to get to destination?

Mr. BOARDMAN. Well, some, but it doesn't get us up to the speed of the Acela. And it's not going to improve your handwriting, because we need to have that infrastructure fixed, as well.

Senator LAUTENBERG. We don't do old habits like that, huh?

Mr. BOARDMAN. Yes, sir.

Senator LAUTENBERG. Thank you. Thank you, Mr. Boardman.

Thank you, all of you.

Senator MURRAY. Senator Dorgan.

Senator DORGAN. Thank you very much.

So, Mr. Boardman, thank you for being here. And Senator Lautenberg and I were just talking about the fact that both of us think you're doing a good job, and we were reminiscing, with Mr. Gunn, who used to run Amtrak, who I thought was a superb leader, as well. But, thanks for sinking your teeth into this.

This is a big challenge, because you've not gotten the money from the Congress for capital to do what's necessary.

I was in Russia recently, and was on a fast train from Moscow to Saint Petersburg, and I'm thinking, "Wait a second. Why is it there's a fast train, with faster and better equipment in Russia than here?" It makes no sense to me.

Well, I'm a big supporter of Amtrak. I think rail passenger service is an important part of the transportation network. And I think Congress just has to do better. And I know we have some among us, here in Congress, who believe we shouldn't do this at all, "The private sector won't do it, it shouldn't be done." I'm not one of those. I think this is a very important adjunct to America's transportation system.

Now, having said all that, and complimented you sufficiently, let me——

Mr. BOARDMAN. Is Devils Lake on your mind, Senator?

Senator DORGAN. Yes it is. Yes it is.

You know, you mentioned, I think that the Empire Builder is probably one of the most successful long-distance trains in——

Mr. BOARDMAN. Yes, sir.

DEVILS LAKE

Senator DORGAN [continuing]. On the Amtrak system. The Senator from Washington knows that, because that's where the Empire Builder ends up. Over a half a million people get on that train, from Chicago to Seattle. It goes through North Dakota. And we face a problem. As you know, we have a chronic lake flooding that's been going on for a dozen years now in what is called "Devils Lake." It's dramatic flooding. I think it's the only circumstance, other than that of the Great Salt Lake, where you have a closed basin. We don't quite understand where all this is going to go, but the Lake has increased in height, I think, 25 feet now. And it just continues to rise. This year, it's expected to rise again.

We have a bridge, near Churchs Ferry, on a track owned by BNSF Railway where Amtrak, I believe, slows down to 25 miles an hour in order to——

Mr. BOARDMAN. Yes.

Senator DORGAN [continuing]. Go over that bridge. But, if the water goes much higher, perhaps another foot and a half, you won't be able to go over that bridge. And we met, in January, about that. I'm hoping that quick action can be taken to begin the work to resolve that issue.

I don't think you want to avoid stopping at Grand Forks, Devils Lake, Rugby, along the route of the Empire Builder. You get a lot of traffic in that area.

So, tell me where we are, in your minds, and what can we do to fix this, and do it on an urgent basis?

Mr. BOARDMAN. We've been regularly meeting, in regard to this——

Senator DORGAN. I'm aware of that.

Mr. BOARDMAN [continuing]. With the State and with BNSF and so forth. And nobody has stood up and volunteered to pay for a new bridge, for example, which is perhaps understandable. But, it's time. It's time for all the parties to decide, what part of this do they need to help pay for? And how do we move this forward?

So, I would propose to you—with your blessing, I hope—that we meet with the State, in a more structured way, with our senior folks, to find a way to not only design and engineer, but finance, the appropriate bridge that solves this problem for the future.

Senator DORGAN. Now, the track and the bridge belong to BNSF?

Mr. BOARDMAN. They do.

Senator DORGAN. And what will the design and the engineering cost be?

Mr. BOARDMAN. You know what, I had it and——

Senator DORGAN. All right.

Mr. BOARDMAN [continuing]. Was supposed to remember it, and it's gone. But, I can provide that to you for the record.

I think the construction of the bridge was around $60 million, and usually it's about 10 percent of that, but I think—I think it was, like, between $4 and $6 million to design it; and then, the more—maybe more difficult part for the future was, we had to replace some rails for the future, and maintain it, which brought the whole thing up to, maybe, in the $100,000-plus-or-minus category.

Senator DORGAN. You mean $100 million.

Mr. BOARDMAN. Yes, $100 million. If it was 100,000, we'd take care of it.

Senator DORGAN. Yes, we'd——

Mr. BOARDMAN. Sorry. I was trying to convert, you know——

Senator DORGAN. Senator Murray——

Mr. BOARDMAN [continuing]. Kilometers per hour to——

Senator DORGAN [continuing]. Would fund that out of personal funds, $100,000.

Mr. BOARDMAN. You got me.

Senator DORGAN. We seldom ever hear numbers like that.

Well, let me make a suggestion. I wonder if perhaps we shouldn't do a conference call next. My staff has been involved with all of these calls. I mean, we've had some weekly calls; but, frankly, nothing is happening.

Mr. BOARDMAN. Yes, sir.

Senator DORGAN. I mean, nothing constructive is happening, and I wonder if we shouldn't do a conference call with the CEO of

BNSF, Mr. Rose, yourself, the Governor, the congressional delegation; and, in that call, decide who's going to do what, when, and how we're going to get this fixed. Because, I worry very much that we could come up to a time here, in just a matter of weeks, when something—structural issues or others—could persuade you that you can't any longer run that Amtrak train through Grand Forks, North Dakota—Devils Lake, North Dakota—Rugby——

Mr. BOARDMAN. You were persuasive to me, in the meeting we had in January, that I would continue to operate——

Senator DORGAN. Well, I tried to be persuasive.

Mr. BOARDMAN. Yes.

Senator DORGAN. But, let me suggest that we put together a conference call of principals, first. Make some judgments there about who's going to do what and when.

Mr. BOARDMAN. Yes, sir.

Senator DORGAN. But, again, you want this railroad to run well. You believe in passenger service, as I do. And I think that the chairman of this subcommittee, I know, has very strong feelings about it. You just heard Senator Lautenberg—nobody's been stronger in the Senate than Senator Lautenberg. You understand you've got a very strong supporter in the Vice President's office.

Mr. BOARDMAN. Yes.

Senator DORGAN. We watched him, as a Senator, spend a lot of time on Amtrak, as well.

So, I really want you to succeed. We need to find a way to get enough capital into this rail passenger system so that you can make decisions in the intermediate and longer-term. It's the only way we're going to get to where we want to be, and need to be, to have a healthy rail passenger system that works well.

So let me, Madam Chairman, thank you for the time.

And I'll look forward to talking to you either late today, Mr. Boardman, or tomorrow.

Mr. BOARDMAN. Yes, sir, Senator.

Senator DORGAN. And we'll set up that call.

Thank you very much.

Mr. BOARDMAN. Thank you.

Senator MURRAY. Thank you very much.

I have one final area, and that is in fiscal year 2010, Amtrak committed to spending $144 million on station improvements to bring the rail system into compliance with the ADA. The original budget request for 2011 included $281 million for the second year of its 5-year plan for ADA compliance, but, today Amtrak is lowering that estimate, I understand, by $50 million, because of difficulty getting the money out the door this year. And I understand that part of that is due to the fact that you don't own all the facilities.

But, I wanted to ask you today, Mr. Boardman, if you still believe that Amtrak will be able to bring all of its stations into compliance with the ADA within the next 5 years.

Mr. BOARDMAN. I don't know that we can, Chairwoman. I'm not happy with my organization that reduced the amount from the $281 million down to the $231 million. And I don't yet have the answers from them as to what we're going to do to make that 5 year deadline. If we have to drop it—$50 million right this minute—for me to testify to you that we can deliver it in 5 years, I don't think would be the appropriate thing for me to do.

Senator MURRAY. Well, I just want you to know, this is a high priority for me.

Mr. BOARDMAN. Yes.

Senator MURRAY. It's about people's civil rights. And it's not going to get any easier in the next 5 years, so I'm going to continue to press you on this.

Mr. BOARDMAN. Yes, ma'am.

Senator MURRAY. With that, I don't believe we have any other members that have questions. So, I want to thank all of our witnesses for their testimony.

SUBCOMMITTEE RECESS

And I will recess this hearing until May 6, at 9:30. At that time, we will be taking testimony from HUD Secretary Donovan and DOT Secretary LaHood on the administration's fiscal year 2011 budget request related to community livability and sustainability.

Thank you very much.

[Whereupon, at 11:24 a.m., Thursday, April 29, the subcommittee was recessed, to reconvene at 9:30 a.m. Thursday, May 6.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2011

THURSDAY, MAY 6, 2010

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 and Bond.

DEPARTMENT OF TRANSPORTATION

OFFICE OF THE SECRETARY

STATEMENT OF HON. RAY LAHOOD, SECRETARY

OPENING STATEMENT OF SENATOR PATTY MURRAY

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

I want to welcome both of our witnesses today and thank you for coming here and being a part of this today.

Last year, the administration launched the Interagency Partnership for Sustainable Communities. This partnership, among the Departments of Transportation, Housing and Urban Development, and the Environmental Protection Agency, represents an effort to use Federal resources more effectively to help our communities create livable and sustainable communities.

This morning, we are pleased that DOT Secretary LaHood and HUD Secretary Donovan are here today to talk about their Departments' funding requests to support that partnership. This hearing provides us a very important opportunity for us to hear how these Departments are working together and how their budget proposals will help communities across the country.

All across the country, Americans are making decisions about where to live, where to work, where to raise their families. They are evaluating where they can get a job, where they can afford to live, how much time and money their commute will cost, and what schools and services a community can offer.

As the most significant expenses for most families, transportation and housing are central to those decisions. But the costs aren't limited just to dollars and cents. The tradeoffs impact quality of life and future opportunities.

In communities across our country, in small towns and large urban centers, local leaders understand the issues facing their communities, and they are seeking ways to address the challenges of congestion and affordable housing, pollution, and lack of jobs. Importantly, they recognize that the health of their communities depends on taking a comprehensive approach to those challenges.

The economic crisis has made the obstacles to affordable housing and economic competitiveness that much greater. We have seen millions of families become overwhelmed by unaffordable housing costs, entire communities devastated by the foreclosure crisis, and local economies struggle with the loss of entire industries.

But as we know, efforts to create sustainable communities can be part of the solution. Many of our communities are still growing and need to decide for themselves what they want to look like as they develop. This isn't always about whether or not we should build a road, but where and how to build those roads so they get people where they need to go and how to create transportation alternatives so people don't have to get in their car if a bus or a bike or a subway could work better.

Other communities aren't growing. Instead, they are trying to figure out the right way to reduce their size and create viable neighborhoods and a smaller footprint, ones that are connected to jobs in retail and essential services. Taking a comprehensive approach to housing and transportation is not about dreaming and idealism. It is about real decisions that our communities make each day.

There is a perfect example of this in my home State of Washington. For years, leaders of the city of Bellevue have worked with residents and local businesses on a coordinated approach to developing the Bellevue-Redmond Corridor, which serves as a major thoroughfare connecting Bellevue and the city of Redmond.

This Bell-Red Corridor plan is a perfect example of the type of comprehensive approach to sustainable, environmentally conscious development we are trying to encourage with the Sustainable Communities Initiative. It is a plan that melds housing, transportation, and investments to support economic growth and job creation.

By better aligning Federal programs, this partnership among HUD, DOT, and EPA can support the work that is already happening in Bellevue and other communities across the country, unfortunately, because many of our Federal programs are based on outdated rules and regulations and thinking, they do not reward innovation and collaboration.

Distinct programs and funding sources managed by different agencies and governed by different and often conflicting rules can make it difficult to coordinate funding streams. And sadly, the Federal Government provides little incentive for communities to think comprehensively about housing and transportation. That is why I worked last year to include the TIGER program in the Recovery Act and in the fiscal year 2010 appropriations act.

That program offers communities the opportunity to fund the best solution to their transportation needs without the Federal Government prescribing whether that solution should be a road or a transit service or railroad. But I believe that traditional programs should also help communities coordinate their housing and transportation plans.

On the Federal level, we need to do more to reward and promote innovation. These incentives should not change the fundamental principle that choices about housing and transportation and economic development are best made at the local level. At the same time, Federal policies do impact the choices that communities make, and we should be designing policies that promote economic competitiveness, affordable housing, and energy efficient and healthy communities.

HUD, DOT, and EPA have developed livability principles to serve as a foundation for their partnership. But the hard work will come in applying those principles. The President's budget includes several new proposals for sustainable communities, including $527 million for programs at the Department of Transportation and $150 million for programs at the Department of Housing and Urban Development. This is a significant investment, and the budget materials provide few details on how these resources would be used.

I want to understand the long-term benefits of those investments to our communities and our transportation system and our economy. This subcommittee must decide how to allocate resources to meet the various transportation and housing needs across the country, and because our resources are so limited, we need to closely examine all budget proposals. So I will have questions today on the specific criteria for each of these programs and the standards that we will be using to evaluate their success.

I will also have questions on the appropriate role for each of the Departments. The administration has laid out a framework by which HUD will be the lead on planning, DOT will provide capacity building, and EPA will deliver technical assistance. While I understand the importance of defining clear roles for each of the agencies, I am concerned that these roles may unintentionally reinforce existing silos.

Within HUD, the fiscal year 2011 budget requests an additional $150 million for the Sustainable Communities Initiative, which Congress first funded in fiscal year 2010. This funding is intended to help communities on a regional and local level gain the tools and capacity to develop and implement comprehensive plans that integrate transportation and housing.

In order to develop its NOFA for the fiscal year 2010 funding, HUD has spent a great deal of time working with DOT and EPA to get feedback from communities and other stakeholders on how to most effectively design these programs. I support these efforts to make sure these policies are designed to meet the needs of communities. But at the same time, there needs to be clarity of purpose for this initiative and for these Federal resources.

So I will have questions on how to balance the need to provide communities with the flexibility to address their specific needs with the need to have some structure at the Federal level to make sure they are sound Federal investments.

The budget proposal from the Department of Transportation includes $200 million for grants to provide transportation planners with the analytical tools to develop more reliable forecasts. The administration has proposed paying for these grants with funds taken from the regular highway program, and I have very serious concerns about that.

DOT's proposal also includes $307 million in existing transit funds that have been combined into a new livable communities account, but without any apparent change in the purpose. I look forward to hearing more rationale for this proposal, and I will also have questions about how these proposals for DOT fit into our larger debate over reauthorization.

Americans have long realized that quality transportation and housing are critical elements for vibrant communities that can foster private sector investment and create good jobs. I believe this interagency partnership has the potential to address many of the challenges that communities are facing and help them achieve those goals.

There is no one-size-fits-all approach to the many transportation and housing challenges our communities face. The Federal Government cannot prescribe the solutions, but it should be able to assist communities in developing them and prove the appropriate incentives to do so.

Changing practices and thinking in our Federal Departments and local communities will not be easy. People are always comfortable with what they know, and change is difficult. So I commend each of you for the leadership you have demonstrated in breaking down silos and pushing for leaders on the Federal and community level to think in a new way about the best way to make Federal investments.

With that, I will turn it over to my ranking member, Senator Kit Bond for his opening statement.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Thank you, Madam Chair.

And welcome, Secretary LaHood and Secretary Donovan. We appreciate both of them coming today, good friends who are working with us on things that are very, very important in our States and throughout the country.

And today's hearing is about coordinating Federal housing and transportation investment in our communities. If done properly, this cooperation between Government agencies could be a way to stretch responsibly taxpayer dollars and truly get the best bang for the buck.

However, as I indicated to you gentlemen prior to the hearing, I have a philosophical question about that because this seems to indicate that the Federal Government is the one that is going to decide what makes a community livable. And I am concerned that we are looking to the Federal Government to be involved in the decisionmaking.

Now we already know that the Federal Government helps fund the planning agency. We have got planning agencies at home, the MPOs, the RPCs. Their job is to work local officials and get local input and decide which way their communities should grow, what they need, and I want to support that effort.

The chair mentioned Bellevue, Washington, and I could go around the State of Missouri to tell you about Columbia, Missouri, which wants bike paths. Everybody else wants roads. They want bike paths. We fought to get them bike paths. St. Charles needs a river dredged. We want to try to help St. Charles get the river dredged.

I am not as confident that entrusting Federal decisionmakers in Washington to lead the process and tell communities how they should go is the right way to grow. I have fought for years to say that we have the plans at the local level, and we want to work with you to make sure that your agencies carry out their core responsibilities to provide our communities the roads, highways, and bridges they need and the affordable, low-cost housing and public housing that are needed.

And I want to make sure that these decisions are supported by the Federal Government. I do not see it as the responsibility of any Federal agency to tell our towns and cities what would make their communities more livable or sustainable or even to try to define the term of what they want their communities to be.

They want it livable. They want it sustainable. I am concerned about it, and I have, for example, I have mentioned previously when you asked people in Missouri, the part of Missouri I live in what makes—how DOT can help us make a livable community. Their answer is going to be to make the highways safer because, well, in rural areas people have to travel.

They work on farms. They live in dispersed cities. They have to travel. Their children have to go to school. Their elderly have to get healthcare. Our roads and bridges in Missouri are out of date. We kill over 1,000 people a year, almost 3 people a day, and at least one-third of those deaths are attributable to unsafe highway conditions.

And on the other side, there are housing shortages. There are rental housing shortages in some areas. There are things that we need to work on, and we appreciate the working cooperation with HUD to make sure we take care of those needs.

But I want to see these decisions made at the local level, but I want to thank HUD especially for the efforts that you have made. We have got some, what is it, 900 pages of comments on what they want at the local level.

Well, I—just to be frank, I don't have any question—I know planners, and I have worked with planners. And if you go out and tell a bunch of planners that we would like to get your plans to see how you could spend the money to plan to take care of our priorities, they would be more than happy to submit plans for how they are going to use more money to plan. And if it is only 900 pages, they are just not trying.

But I want to see those planning efforts focused on planning at the local level for what they need to do.

And again, I share the same concerns that the chair mentioned that we have a very tight budget, and I have complained about this before. We have got so many demands at the same time we have a record budget this year of $1.6 trillion, 10.6 percent of our GDP. We are borrowing that from our children and grandchildren, and we have to keep our spending under control.

And I am concerned about committing scarce dollars, an $827 million program that we can't even name, when we have really pressing needs in transportation and housing that we have already identified. And I would like to see the money in highways spent on highways. We need a lot more of it there, and we have tremendous needs in the housing area.

And I am still looking, Mr. Secretary, for the rationale on which HUD awarded the $2 billion in competitive neighborhood stabilization program grants. I would like to see some more transparency in that process. And I would like to see the criteria on which the TIGER grant applications were awarded and what were their ratings.

Basically, we want to see more transparency at the Federal level. But I am very interested in making sure that the dollars that we have available go to the core responsibilities that you have and that we don't take money away from programs which I believe are already pressed, and that is the housing program, the transportation program. We have got more needs than we can reasonably afford with what is likely to be people tell me a tight budget allocation.

And I would close by just saying that we hope that you will go back to the process that we have specified in law before and will again that Congress be notified 3 days prior to announcement with backup materials and information on how awards were made, where they are discretionary awards made by HUD, where those monies are going, and we would like to know—and how they were selected. We would like to know the same thing from the Department of Transportation.

But I thank you very much for the work that you have done on it. I am still confused about what we are trying to do. If you all can't agree whether it is livability or sustainability and the fact that you will know it when you see it, if that is going to be the criterion, I think that is a criterion that the local leadership can choose and can apply better than we in Washington can.

Thank you, Madam Chair.

Senator MURRAY. Thank you very much, Senator Bond.

With that, again we welcome both of our witnesses today, and Secretary LaHood, we are going to begin with your testimony.

STATEMENT OF HON. RAY LAHOOD

Secretary LAHOOD. Madam Chair and Ranking Member Bond, thank you for your leadership on so many of these issues that we deal with on a daily basis. We are grateful to you for all that you do to enable us to carry out the mandates of Congress, and we also thank you for the opportunity to discuss the Department of Transportation's efforts to promote livable communities through our current programs and to highlight our related budget request for fiscal year 2011.

Over the last 16 months, I have traveled to 80 cities in 38 States, and everywhere I go, Americans are asking for more public transportation, more walkable neighborhoods, less congestion, and less sprawl. Livable communities are in great demand because they make financial and economic sense.

Transportation and housing are the two largest household expenses for the average American family. In order to reduce those costs and strengthen our communities, we must rethink our planning, our priorities, and our investments in the Nation's transportation infrastructure.

We need a new approach that will improve the quality of life in cities and towns across this country while helping us to save billions in infrastructure and energy costs through the application of livable and smart growth principles we have developed with our friends at HUD and EPA. We are already making substantial progress by creatively leveraging our existing programs, and we have clearly demonstrated that the American people believe we are headed in the right direction.

We recently funded a project in Dubuque, Iowa, to design streets that are attractive, convenient, and safe for a broad range of transportation users. Dubuque's efforts helped to attract an IBM employment center of more than 1,500 people to the city.

In Seattle's Mercer Corridor, a hub for biotechnology companies, we are investing in better roads with bicycle lanes, improved access to transit, and upgrading local water, sewer, and electrical infrastructure. These improvements will help attract and retain a well-qualified workforce to Seattle's biotech community.

And one other noteworthy project, which I have mentioned before when I have been here, Kansas City, Missouri, where they are taking a 150-block distressed urban community called Green Impact Zone to significantly expand transit and pedestrian facilities for the first time in the community's history. This offers residents brand-new access to clean, reliable transportation to get to jobs, schools, hospitals, and connect with the rest of downtown.

This project in particular is a national model demonstration of integrating place-based investments—how place-based investments can apply the principles of sustainability to help transform a community. In addition, our decision earlier this year to include a range of livable criteria evaluating transit capital projects through FTA's New Starts program also elicited a huge outpouring of support.

Meanwhile, we are helping to educate and empower local communities on how to make livable projects a reality by providing information and training in new ways. This includes guidance on transit-oriented development we have prepared with HUD. Elected officials, planners, and developers should find this information very valuable.

We released a notice of finding for a pilot program administered by the FTA that will enable urban and rural communities to put more buses, trolleys, and other local transit on the street. And along with our friends at EPA, we are sharing our expertise in support of HUD's efforts to award planning and challenge grants to help communities become laboratories for sustainability.

Looking ahead to 2011, the President's budget includes $520 million for a livable community program that will accomplish several key objectives. It will establish an Office of Livability to ensure we lead and coordinate our livable-related programs and grants DOT wide and create appropriate performance measures.

Too often local governments and planners do not have access to the best, most comprehensive information that is essential to making better, more informed transportation investments that generate the desired outcomes. We must remedy that in partnership with our friends at HUD and EPA.

PREPARED STATEMENT

We will fund transit and capacity-building initiatives that give State and local governments the tools, resources, and assistance they need to better coordinate transportation, housing, land use planning, and water infrastructure. Our livable proposal is a starting point for a bold new approach to revitalize the Nation's transportation infrastructure. The President's budget and the administration's future surface transportation proposals reflect these and many other innovative ideas.

We look forward to your questions following Secretary Donovan's testimony.

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

[The statement follows:]

PREPARED STATEMENT OF HON. RAY LAHOOD

Thank you for inviting me to appear before you today to discuss the Department of Transportation's (DOT) current efforts to promote livable communities through our existing programs and our budget request for fiscal year 2011.

INTERAGENCY PARTNERSHIP FOR SUSTAINABLE COMMUNITIES

As a Nation, we pride ourselves on the livability of our communities, one in which every American has access to affordable housing, good transportation choices and access to jobs. Making America's communities more livable is a key part of the President's agenda, and the administration is already making important advancements in this area. Last June, DOT joined forces with the Department of Housing and Urban Development (HUD) and the Environmental Protection Agency (EPA) to stimulate comprehensive regional and community planning efforts that integrate transportation, housing, energy and other critical investments. Together, we will help State and local governments make smarter investments in their transportation infrastructure, in order to better leverage that investment, and to advance sustainable development.

The Department's budget allocates over $500 million toward this effort. It's an investment that is already receiving national attention. As I have traveled around the country soliciting input on our Surface Transportation Reauthorization, I heard resounding support for our livability initiative. The feedback has been clear: it's time to rethink how we are investing in our Nation's communities.

Toward this effort, DOT, HUD, and EPA have developed the following principles to guide our shared efforts to promote livability:

—*Provide More Transportation Choices*.—Develop safe, reliable and economical transportation choices to decrease household transportation costs, reduce our Nation's dependence on foreign oil, improve air quality, reduce greenhouse gas emissions and promote public health.

—*Promote Equitable, Affordable Housing*.—Expand location- and energy-efficient housing choices for people of all ages, incomes, races and ethnicities to increase mobility and lower the combined cost of housing and transportation.

—*Enhance Economic Competitiveness*.—Improve economic competitiveness through reliable and timely access to employment centers, educational opportunities, services and other basic needs by workers as well as expanded business access to markets.

—*Support Existing Communities*.—Target Federal funding toward existing communities—through such strategies as transit oriented, mixed-use development and land recycling—to increase community revitalization, improve the efficiency of public works investments, and safeguard rural landscapes.

—*Coordinate and Leverage Federal Policies and Investment*.—Align Federal policies and funding to remove barriers to collaboration, leverage funding and increase the accountability and effectiveness of all levels of government to plan for future growth, including making smart energy choices such as locally generated renewable energy.

—*Value Communities and Neighborhoods*.—Enhance the unique characteristics of all communities by investing in healthy, safe and walkable neighborhoods—rural, urban or suburban.

CURRENT DOT AND PARTNERSHIP EFFORTS

DOT has already begun using these principles in its programs.

For example, the recent change in the criteria for FTA's New Starts grants will ensure that the Department considers livability in its funding recommendations of transit capital investments. Previously, cost-effectiveness was the primary factor used in making a recommendation for construction funding, a criterion that uses travel time savings to quantify a project's benefits as a comparison to project cost. FTA will now equally consider cost-effectiveness, and economic, environmental, and livability factors to determine the best use of funds.

We are also making tools available to transportation professionals and the public to build their capacity to implement livability projects at the community level. For example, DOT and HUD produced an action guide last November to help planners implement mixed-income transit oriented development and regional transit corridor planning. This guide, now available online, takes planners step-by-step through the data gathering and planning process. DOT is also working to develop an online database for transit-oriented development, which includes over 4,000 existing and planned rail/transit stations. This database will provide a central resource of transit planning information for developers, and will be available to the public by the end of the summer.

To foster the preservation and enhancement of urban and rural communities by providing better access to jobs, healthcare and education, DOT released a Notice of Funding Availability (NOFA) in December for two new pilot programs that would provide funding for livability projects from existing funds: up to $150 million is available for bus livability projects and $130 million for urban circulator grants.

DOT and EPA are also supporting the development of HUD's NOFA for sustainable community grants authorized in the fiscal year 2010 budget. DOT and HUD collaborated in the grant selection process and are providing staff to assist communities that received EPA's smart growth technical assistance grants. Through these discretionary grant and technical assistance dollars, DOT, HUD, and EPA are providing States and communities with opportunities to build the livable communities that are so important to their economic growth and quality of life.

LIVABLE COMMUNITIES PROMOTE QUALITY OF LIFE

Citizens are changing their preferences toward livable communities, and State and local governments are responding to constituent demands. In fact, EPA has found through consumer surveys that at least one-third of the consumer real estate market prefers a mixed use, transit-oriented community. The needs and desires of the U.S. home buyer also are changing: many consumers in the early 1990s had a preference for golf courses and other recreational amenities. Today, surveys indicate that many consumers prefer walkable communities—communities characterized by pedestrian access and a sense of connection, community, and diversity.

Livable communities are in high demand because they make financial and economic sense. Transportation and housing are the two largest expenses for the average American household. Reducing the need for private motor vehicle trips by providing access to other transportation choices can lower the average household expenditure on transportation, freeing up money for housing, education, and savings. Realtors, developers, and investors recognize that an increase in walkability translates into a higher home value.

The application of livability strategies can also save billions in infrastructure investment. For example, Envision Utah brought together residents, elected officials, developers, conservationists, business leaders, and other interested parties to participate in the development of a growth plan for Salt Lake City and the surrounding area. The process, which included outreach and comprehensive planning efforts, will help preserve critical lands, promote water conservation and clean air, promote public health, improve the region-wide transportation systems, and provide housing options for all kinds of residents. By coordinating investments, the plan saved $4.5 billion in infrastructure costs over the last decade. This example shows that as we make our communities more livable, we can also decrease the strain on natural resources, decrease greenhouse gases, improve air quality, and promote public health by supplying more efficient options for transportation and housing—all while decreasing infrastructure costs and the burden on the American taxpayer.

LIVABLE COMMUNITIES' INVESTMENTS SUPPORT BOTH RURAL AND URBAN COMMUNITIES

Livability also can play a substantial role in small towns and rural communities. The concept of livability comes from rural towns with a town center that is walkable and accessible to all ages and income groups. Rural communities, however, face special challenges that threaten traditional community design. Past transportation policies have resulted in many rural Main Streets being bypassed by the interstate highway system, which contributed to the decline of once-vibrant business centers. Many rural communities located close to cities have lost farm land and open space as urban areas subsume them. Transportation costs are often significantly higher for residents of rural communities, especially those with longer commutes to employment centers. Better coordination of housing and transportation will lead to policies and programs that protect and safeguard open space and agricultural land in rural areas, preserve the historical culture of rural city centers, and provide rural residents with transportation options that decrease their household costs.

Livability will certainly take a different form in rural areas than in urban city centers, but a small town with a walkable, main street lined with spaces for retail, employment and housing is something we can all picture. Franklin, Tennessee is a small city 25 miles southwest of Nashville that has adopted land-use plans and has adjusted their zoning ordinances to promote higher density mixed-use development. Bath is a small town in southwest Maine whose historic downtown area is a model of a livable community. The town provides two trolley loops to transport residents and tourists through downtown, reducing the need for on-street parking. Bath's street design encourages citizens to get out of their cars, which in turn supports local merchants through increased foot traffic.

My favorite example is Dubuque, Iowa, which I had the pleasure of visiting last year. In its Historic Millwork District, Dubuque is redeveloping old factories and mills—dormant since the early part of the 20th century—to create new mixed income housing, workplaces and entertainment. Sustainable transportation options are important to this plan. The city's trolley bus now connects the Millwork District to downtown. We also funded a project to design streets in this district that are attractive, convenient and safe for a broad range of users, including drivers, public transit, pedestrians, bicyclists, people without access to automobiles, children and people with disabilities. Dubuque's efforts, in part, attracted IBM to move its employment center to the area, where it will provide over a thousand new jobs for the city. With its "Smart City" partnership with IBM, Dubuque has become a model for other cities seeking new livable uses for its established infrastructure.

We are seeing this emphasis on livability not only in rural communities, but in urban and suburban communities as well.

In September, Secretary Donovan, Administrator Jackson, and I visited Denver's La Alma/Lincoln Park neighborhood, which is a predominantly Latino neighborhood and also one of Denver's oldest. The 10th and Osage station, which adjoins an industrial area, a diverse existing housing stock, and the Sante Fe Arts District, is serving as a catalyst for Lincoln Park's redevelopment. The South Lincoln Park Homes redevelopment, planned around the 10th and Osage station, calls for developing mixed-use, mixed-income housing within walking distance of the station, to create a more dense and walkable community. It also focuses on improving transportation connections within the La Alma/Lincoln Park neighborhood for its residents to improve job access.

Portland is planning for the growth and development of its city center and transit systems, strengthening policies to form a denser bike network, and investing in streetcar and light rail. Our TIGER grant program has helped them with this by funding over $23 million toward the reconstruction of a complete street on their waterfront—including three traffic lanes, dual streetcar tracks and pedestrian and bicycle facilities—allowing increased access to the central business district.

In Seattle, we are helping to invest in turning a major roadway into a multimodal boulevard. They have instituted smart growth policies and transportation investments that encourage urban living and reduce dependence on cars, as well as encourage strong sustainable building standards.

When I was in Minneapolis in January, I got a chance to tour a 9.8 mile light rail transit line between the downtowns of the twin cities, Minneapolis and St. Paul. By balancing our cost-effectiveness criteria with equity considerations in our transit program, we will be able to help fund three additional stops on this line to serve underserved and lower income communities that otherwise would not have had access to this mode of transportation.

Kansas City, Missouri, is another great example. DOT recently awarded a $50 million TIGER grant to Kansas City for their Green Impact Zone project, which will provide better access to regional opportunities through expanded transit and pedestrian facilities. This project will improve infrastructure in a 150-block area in the urban core of Kansas City, Missouri that has been impacted over the years by high rates of poverty, unemployment, crime, and high concentrations of vacant and abandoned properties. Partners in the Green Impact Zone are creating a national model that demonstrates how integrated, place-based investments, centered on principles of sustainability, can transform a community.

FISCAL YEAR 2011 BUDGET REQUEST

The President's Budget includes $527 million for livable community efforts in DOT. This funding will support three areas: a Livable Communities Program within the Office of the Secretary (OST); transit funding to support livable communities in the Federal Transit Administration (FTA); and a capacity-building grant program in the Federal Highway Administration (FHWA). The purpose of these programs is to provide transportation practitioners with the tools, resources, and capacity they need to develop a transportation system that provides transportation choices, saves people money, protects the environment, and efficiently moves goods.

This budget request was developed in coordination with the requests for HUD and EPA. As you will hear from Secretary Donovan, HUD's program focuses on improving regional planning to integrate housing and transportation decisions. EPA's role is designed to administer technical assistance to communities to pursue infrastructure improvements in ways that protect public health and the environment.

DOT's program supports two vital needs: capacity building in transportation planning and financial assistance to initiate innovative infrastructure investments. This benefits State and local governments, which currently use outdated planning and regional models and poor data to make their transportation investment decisions. Because of competition for scarce resources, sometimes innovative solutions can take a back seat to the more pressing needs of maintenance and repair. By targeting some investment funding, DOT hopes to demonstrate that smart investment up front can save communities tax money over time by strengthening communities and lowering infrastructure costs.

The President's budget includes $20 million to establish a new Livable Communities Program, including a new Office of Livability within OST. This Office will lead and coordinate livability programs across the Department's modal administrations and provide grants and technical assistance for improving local public outreach. It will serve as the focal point for interagency efforts such as the Partnership for Sustainable Communities and spearhead efforts such as developing metrics and performance measures for livability.

Three hundred and seven million dollars is requested to refocus existing FTA programs to expand transit access for low-income families, provide effective transportation alternatives and increase the planning and project development capabilities of local communities. Consolidating the Job Access and Reverse Commute formula grants, Alternatives Analysis grants, and formula grants for State and metropolitan planning will allow DOT to better coordinate efforts with HUD and EPA to develop strategies that link quality public transportation with investments in smart development.

The President's budget requests $200 million to fund a competitive livability program within FHWA. This discretionary grant program aims to improve modeling and data collection, provide training, and support organizational changes to better carry out integrated planning. This assistance would be available to States, local governments, and tribal partners.

LOOKING FORWARD

What I have described so far is just the starting point for what we hope to be a robust livability initiative, both within DOT and among our partnering agencies. The President's budget marks a bold new way of thinking about investments in our transportation infrastructure and will become a key component of the administration's future surface transportation proposal. The programs requested in the President's budget have been designed to further the goals of the Partnership for Sustainable Communities and to assist regions and communities in need of Federal assistance to pursue their own planning and development needs. By providing capacity building, planning funds, and technical assistance, DOT, HUD, and EPA can help communities meet the demands that they face for developing these types of neighborhoods.

Looking forward, reauthorization of our surface transportation programs will provide an important opportunity to focus on livable community investments that foster transit-oriented, pedestrian and bike-friendly development, provide more transportation choices, and offer better access to jobs and housing.

Thank you for the opportunity to appear before you today to discuss the efforts of our Partnership for Sustainable Communities and the Department's fiscal year 2011 budget request to support this effort. We look forward to working with Congress and our stakeholders to make this a reality.

I will be happy to answer any questions you may have.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF HON. SHAUN DONOVAN, SECRETARY

Senator MURRAY. Secretary Donovan.

Secretary DONOVAN. Thank you, Chairwoman Murray, Ranking Member Bond. I want to thank you for this opportunity to provide an update on HUD's efforts to help urban and rural areas across the country create more sustainable homes and communities.

I also want to take a moment to thank Ray and his entire team, as well as Lisa Jackson, for their just tremendous partnership on this effort.

I have submitted more complete testimony for the record, but today I would like to use my time to report on the progress we have made, thanks to this subcommittee's support through the Recovery Act and the $200 million Office of Sustainable Housing and Communities appropriation for our fiscal year 2010, and to share with you our plans in the coming months.

OFFICE OF SUSTAINABLE HOUSING AND COMMUNITIES

In February, HUD launched this office to help coordinate our investments with the Departments of Transportation, EPA, and Energy, and other agencies at the Federal level, as well as allowing us to work directly with communities to support innovation at the local level.

With a combination of housing and transportation costs now averaging more than 50 percent of income for American families, we formed a sustainability partnership with DOT and EPA because when it comes to housing, environmental, and transportation policy, it is time the Federal Government spoke with one voice. And the partnership is working.

In addition to the examples that Ray cited, in cities like Detroit, you can see that we are not only talking to one another, we are making funding decisions together that improve outcomes for local communities. In the first round of DOT's TIGER grant program under the Recovery Act, DOT awarded $25 million for the Woodward Avenue Streetcar Project in Detroit. All three agencies reviewed the city's application.

HUD brought to DOT's attention community development activities already planned or underway in the Woodward Avenue Corridor, which made the site a more attractive investment for DOT. The EPA was able to highlight brownfield remediation efforts in the vicinity of the project, which will allow abandoned properties along the streetcar line to be recycled for economic development and affordable housing.

As a result, we believe this transportation investment has the potential to fundamentally transform one of the most historic neighborhoods of the city and is an example of the more effective award process in communities throughout the country.

A similar process will unfold with the selection of HUD's regional planning and local challenge grants this year. With this subcommittee's support, we are preparing to launch a $100 million sustainability planning grant program to encourage metropolitan and rural regions to plan for integration of economic development, land use, and transportation investments.

We issued an advance notice and request for comment for the program, inviting feedback through a new online Wiki accessible via HUD's Web site and through an extensive listening tour around the country. We wanted communities to tell us what works, what isn't working, and how we can better help them build sustainably.

Just as important, we hope to send a very important signal that we in the Obama administration are serious about being the kind of partner that listens and learns. And the response has exceeded even our expectations. We received over 900 written comments, met with over 1,000 stakeholders in 7 listening sessions, and staged Webcasts that touched thousands more.

And the feedback we received was overwhelmingly positive as well, from mayors and other officials of both small and large communities to business leaders in growing regions to Governors of States that have been hit hard economically. One example of how this feedback changed our thinking is with respect to small towns and rural areas. The White House convened a special focus group to discuss the needs of such communities, and in this session and the many letters we received, we heard concerns that larger communities in central cities might receive preference for these funds despite the great need in rural America.

Indeed, Madam Chairwoman, while rural communities generally have less access to public transportation, higher poverty rates, and inadequate housing, at HUD we recognize that residents of these communities also face unique challenges when it comes to accessing healthcare, grocery stores, adult education opportunities, and many other services. This is something it is with communities like St. Peter, Minnesota, which Deputy Secretary Sims visited last month with the Department of Agriculture, and how they have responded to these challenges that we will ensure that small towns and rural regions have a better shot at competing in this NOFA through a special category of funding.

ENERGY INNOVATION FUND

While these funds are targeted at the regional level, another $40 million will support local efforts through a Community Challenge Planning Grant. With these funds, HUD has chosen to issue a joint NOFA with DOT for its TIGER II planning grant program. At the same time, with our $50 million Energy Innovation Fund as part of the 2010 budget, we are developing new and innovative low-cost financing for single and multifamily programs, including taking an energy-efficient mortgage product to scale.

It could provide key incentives to both buyers and sellers who want to make much-needed energy improvements in their homes.

But this office isn't limited to the successful implementation of these funds alone. The Office of Sustainable Housing and Communities is also active in other partnerships as well.

Over this past year, HUD has been working with the Department of Energy to eliminate duplicative rules that sharply limited the $5 billion in Federal weatherization funds from being available to retrofit multifamily properties. By simply cutting through red tape, we have helped pave the way for Rhode Island to allocate $7 million, one-third of its weatherization funding, to multifamily housing, and Colorado to weatherize an expected 1,000 multifamily units by June of this year and another 1,600 in the next fiscal year.

As a result, thousands of low-income families living in multifamily housing across the country stand to see their utility bills reduced. The President has set a goal of weatherizing 1 million homes per year. As part of the HUD–DOE partnership, we have made income eligible more than 1.5 million units of HUD-qualified homes that could potentially use weatherization funding.

Indeed, we at HUD have set a goal of retrofitting or building 159,000 energy-efficient homes over the next 2 years, including 85,000 funded through the Recovery Act. Obviously, this is only a sample of the work we are doing. My written testimony offers a more complete picture of the scope of our sustainability work to date.

As you know, we are requesting $150 million for the second year of the Sustainable Communities Initiative in our fiscal year 2011 budget, including a second round of regional planning grants administered by HUD in collaboration with DOT and EPA and additional investment in challenge grants to help localities implement these plans.

Senator Dodd has also introduced legislation that would make some of our initiatives permanent and look forward to working with him and your counterparts on authorizing committees toward that end.

But Madam Chairwoman and Ranking Member Bond, I hope you can see that this funding is producing real results at the same time it is helping to fundamentally transform the way the Federal Government does business. It is helping us prove that the Federal role isn't about dictating what localities can or can't do and how to do it, but rather offering them the resources and tools to help them realize their own visions for achieving the outcomes that we all want, outcomes like less time commuting and more time with family, neighborhoods where kids can play outside and breathe clean air, and communities with opportunities for people of all ages, incomes, races, and ethnicities.

PREPARED STATEMENT

That is the goal of these efforts, and it is why I am so proud to work with my partners in the administration and this subcommittee.

Thank you for this opportunity.

[The statement follows:]

PREPARED STATEMENT OF HON. SHAUN DONOVAN

Chairman Murray, Ranking Member Bond and distinguished members of the subcommittee, thank you for this opportunity to provide an update on HUD's expanding efforts to help urban and rural areas across the country create more sustainable homes and communities. Thanks to this subcommittee's support, both through the American Recovery and Reinvestment Act and through this year's appropriation to support new sustainable housing and communities grant programs, we have been able to make substantial progress on an ambitious agenda in our first year. I am pleased to share with you today our early results and plans for the future.

My testimony has three main sections. The first highlights the results to date of HUD's Recovery Act investments in sustainable housing and communities, which has laid the foundation for much of our continuing commitment. The second summarizes the groundbreaking sustainability partnerships HUD has formed with other Federal agencies, building the framework for unprecedented collaboration and impact on the ground. The third describes the major activities HUD has underway, led by the new Office of Sustainable Housing and Communities, which will focus our efforts to ensure this agenda remains an enduring priority for the Department. First, however, I want to provide context for HUD's commitment in this area.

THE NEED FOR FEDERAL LEADERSHIP TO ADVANCE SUSTAINABLE HOMES AND COMMUNITIES

While the consequences of climate change are complex and far reaching, we know that the increasing emissions of greenhouse gases, the primary cause of global warming, are largely a result of energy use in our "built environment."

As a Federal cabinet agency focused on the built environment, strengthening communities, and expanding opportunity for all Americans, HUD recognizes the urgent need for aggressive action to combat climate change. The positive news, and the powerful opportunity, is that we can cut greenhouse gas emissions, while creating jobs and expanding opportunity for all Americans through proven strategies for creating more sustainable homes and communities.

Residential housing and the built environment are major contributors to energy consumption and global warming. Residential buildings alone account for 20 percent of U.S. carbon emissions, with the vast majority coming from detached single-family houses. It may be surprising to many, but all types of buildings combined actually account for more emissions than the entire transportation sector. The transportation sector accounts for about another one-third of carbon emissions, among many factors because sprawling development patterns separate jobs and houses that, without adequate public transportation systems, necessitate long commutes and increased dependence on car travel.

This is no coincidence. During the housing boom, many real estate agents suggested to families that couldn't afford to live near job centers that they could find a more affordable home by living farther away. Lenders bought into the "Drive to Qualify" myth as well—giving easy credit to home buyers without accounting for how much it might cost families to live in these areas or the risk they could pose to the market. While some home buyers were aware of the risk they were taking on, others were not. And all of these families found themselves vulnerable to gasoline price fluctuations, as they drove dozens of miles to work, to school, to the movies, to the grocery store, spending hours in traffic and spending nearly as much to fill their gas tank as they were to pay their mortgage. And some places more—like Atlanta, where housing and transportation costs total 61 percent of family income or East Palo Alto, California where they consume over 70 percent of family budgets.

The social equity implications of current growth patterns have also become more apparent. As metropolitan areas continue to sprawl outward and jobs become increasingly dispersed, fewer low-wage earners and renters are able to find housing near their work. Nationally, 45 percent of all renters and two-thirds of low-income renters live in central cities. Low-income families, many of them minorities, live in neighborhoods that limit access to quality jobs, good schools and opportunities to create wealth. Indeed, some studies have found that zip code predicts poor educational, employment, and even health outcomes. The unbalanced nature of metropolitan housing development has strained urban, suburban and rural household budgets, as commutes lengthen: the combination of housing and transportation costs now average a combined 60 percent of income for working families in metropolitan areas.

With few exceptions, the Federal Government has historically not been up to the task of addressing these critical trends. Federal programs dealing with housing, transportation and energy issues remain largely separate from each other, precluding smart, integrated problem solving. Federal policies and rules are narrowly defined, poorly coordinated and often work at cross purposes. The silo driven nature of Federal policies and programs extends to planning, data collection, performance measurement and research and evaluation. To address these and other issues, the administration has launched the first comprehensive review of "place based" Federal policies since the Carter administration, with sustainability as a central focus—asking each agency to determine whether Federal policies enable and encourage locally-driven, integrated, and place-conscious solutions, or obstruct them.

Place of course is already at the center of every decision HUD makes. Today, HUD's programs reach nearly every neighborhood in America; 58,000 out of the approximately 66,000 census tracts in the United States have one or more unit of HUD assisted housing. Now we have seized this opportunity to renew our focus on place, to better nurture sustainable, inclusive communities across America's urban, suburban, and rural landscape.

A major component of HUD's place-based approach involves making communities sustainable for the long-term. For HUD, "sustainability" includes improving building level energy efficiency, cutting greenhouse gas emissions through transit-oriented development, and taking advantage of other locational efficiencies. Critically, we believe sustainability also means creating "geographies of opportunity," places that effectively connect people to jobs, quality public schools, and other amenities.

But it's not just about what we think at HUD or in the Federal Government. Sustainability means different things to different kinds of communities. If you asked John Hickenlooper, the Mayor of Denver, where they are building more than 100 miles of new light rail, commuter rail, and bus rapid transit lanes, linking the 32 communities surrounding Denver proper, he'd tell you sustainability is about building inclusive neighborhoods of opportunity—binding communities to work together as a region so that they not only share problems, but solutions as well. If you asked Dan Kildee, who was Genesee County Treasurer for many years, he'd tell you sustainability is about the very economic survival of a city like Flint, Michigan—where years of population loss and economic decline have left a surplus of housing and more vacant land than can be absorbed by redevelopment. For Flint, sustainability is about being smaller but stronger and smarter.

And so, the Federal role within each of these efforts is clear: not to dictate what localities can and can't do or how to do it, but rather offering them the resources and tools to help them realize their own visions for achieving the outcomes we all want: less time commuting and more time with family, neighborhoods where kids can play outside and breath clean air, and communities with opportunities for people of all ages, incomes, races and ethnicities.

Partnering with communities so they can make choices that work for them—for their needs, and their marketplaces—is an example of what I would call a "New Federalism" that President Obama is proposing—and it's something we are committed to practicing at HUD.

LAYING THE FOUNDATION—RECOVERY ACT INVESTMENTS IN SUSTAINABLE HOMES AND COMMUNITIES

HUD has played a key role in implementing the Recovery Act, which, according to the Council of Economic Advisors, is already responsible for putting about 2.5 million Americans back to work, putting the Nation on track to create or save 3.5 million jobs by the end of the year.

HUD has now obligated 98 percent of the $13.6 billion in Recovery Act funds stewarded by the Department—and disbursed over $3.9 billion. Nearly all of HUD's Recovery Act funding is fully paid out, or expended, only once construction or other work is complete—just as when individual homeowners pay after they have work done on their homes. Therefore, HUD's obligated but not yet expended funds are already generating jobs in the hard hit sectors of housing renovation and construction.

While our top priority with Recovery Act funds is creating jobs and economic activity, we are also seizing the opportunity to lay a foundation for HUD's new direction in our Recovery Act investments. When President Obama signed the Recovery Act into law last year, it was designed to do three things: create jobs, help those harmed by the economic crisis, and lay a new foundation to make America competitive in the 21st century. By putting people back to work greening homes in cities like Philadelphia and building high-speed rail in places like Milwaukee and Madison, this administration is using our response to the economic crisis as a catalyst to build good neighborhoods, more resilient communities, and the strong, interconnected regional backbones our economy needs to create and sustain these jobs.

Nearly one-third of HUD's Recovery Act funds can be used for "greening" America's public and assisted housing stock, making homes healthier and more energy efficient. At the same time, this investment will prepare a new generation of professionals, from mechanics and plumbers, to architects, energy auditors, and factory workers building solar panels and wind turbines, all of whom are needed to design, install, and maintain the first wave of green technologies.

These investments include:

—$600 million for energy retrofits of 226 public housing developments and 35 more green newly constructed and substantially rehabilitated public housing developments.

—$500 million for housing on Native American lands, which HUD is encouraging and supporting tribal housing groups to provide in an environmentally sustainable manner.

—$250 million for green retrofits of 16,600 units of privately owned HUD-assisted housing. (HUD received applications for more than $700 million.)

—$100 million to eradicate lead paint and create healthy homes.

Importantly, energy efficiency and other environmental criteria—and results—are also present in larger HUD programs funded by the Recovery Act, such as $3 billion in formula funding for public housing and $2 billion through the Neighborhood Stabilization Program.

The Recovery Act investments we are making to help families and communities save energy and live in healthier homes are teaching us what works and how we can be a more effective partner to builders, owners and residents who want the opportunity to live in greener communities. These lessons and feedback from our partners are informing and improving our continuing efforts to increase environmental benefits, lower costs, and measure the benefits in affordable housing.

BUILDING THE FRAMEWORK—HUD'S SUSTAINABILITY PARTNERSHIPS WITH OTHER AGENCIES

Creating more sustainable housing and communities at scale—making sustainability the "default option" for our partners and the people we serve—requires an interdisciplinary approach and intense collaboration across the traditional silos of Federal policy. That is why we are so pleased to be working closely with a number of Federal agencies to leverage the skills, resources and partnerships that each can bring to truly transforming our built environment.

As you know, HUD, the Department of Transportation (DOT) and the Environmental Protection Agency (EPA) have formed the Interagency Partnership for Sustainable Communities to help improve access to affordable housing, expand transportation options and lower transportation costs while protecting the environment in communities nationwide. Through a set of guiding Livability Principles and a partnership agreement that frames our collective efforts, the partnership is coordinating Federal housing, transportation, and other infrastructure investments to an unprecedented extent to protect the environment, promote equitable development, and help to address the challenges of climate change. When it comes to housing, environmental, and transportation policy, it is time the Federal Government spoke with one voice. (The Livability Principles are attached as Appendix A.)

Having served in, and worked with, various levels of government for many years, I can say that the extent of collaboration and cooperation among our agencies has been nothing short of remarkable—starting at the senior leadership level where Secretary LaHood, Administrator Jackson and I have developed an excellent working relationship, and extending to the staff in each agency. Every day, we are getting better at aligning where it makes most sense and assigning specific responsibilities to the appropriate agency based on resources and expertise. One example was DOT's inclusion of HUD and EPA in the review of competitive applications for DOT's $1.5 billion TIGER Grant program funded under the Recovery Act. We would by no means suggest that we have perfected the collaborative approach. Decades of statutes, regulations and habits, in some cases, create real challenges to the partnership results all three of our agencies aspire to achieve. But the good news is we are making consistent progress, moving forward despite the barriers, and we always welcome ideas and assistance from interested parties, including this subcommittee.

Another exciting example is the partnership between HUD and the Department of Energy that is working to increase energy efficiency in affordable homes and apartments. One joint project is to develop a streamlined, low-cost, consumer friendly tool to provide homeowners with better information about their home's energy use, options for saving energy, and the cost savings that would result. We are also exploring options for providing financing for consumers to pay for the cost of energy saving home improvements, described more below.

HUD's partnership with DOE is delivering results in multi-family low-income housing as well. Our agencies have worked together to eliminate duplicative and unnecessary rules that impeded the use of Federal Weatherization Assistance Program funds to retrofit multi-family properties. Thousands of low-income families are now in better position to benefit from the $5 billion in weatherization funds provided under the Recovery Act as a result.

For instance, Rhode Island's Office of Energy Resources, has allocated $7 million to weatherize multi-family housing—this set aside was in response to the HUD/DOE MOU published in May of last year. Rhode Island anticipates a large number of applications for this program.

Colorado is allocating $80 million for its weatherization program. GAO and IG reports have identified Colorado as a high performing State. Currently, about $30 million of the ARRA funding has been expended to weatherize multi-family homes throughout the State.

In addition, I have appointed Deputy Secretary Ron Sims to represent HUD on the Steering Committee for the White House Council on Environmental Quality, the Office of Science and Technology Policy, and the National Oceanic and Atmospheric Administration interagency process to produce a set of recommendations for Federal actions that will help society adapt to climate change. This group is developing recommendations on how Federal agencies can effectively create and implement climate change adaptation policies and strategies.

Other similar partnerships are in formation or early development. We are especially optimistic about potential collaboration with the Department of Agriculture to ensure we are as effective in helping deliver sustainability solutions in rural areas and small towns as we are in larger and more urban communities.

ENSURING HUD'S LONG TERM LEADERSHIP ON SUSTAINABLE HOMES AND COMMUNITIES

Thanks to this subcommittee's support, we have created a new office that will ensure that the foundation laid by our Recovery Act investments, and the framework we are building in partnership with other agencies, is buttressed and built upon by institutionalized capacity within HUD. The Office of Sustainable Housing and Communities, under the direct supervision of Deputy Secretary Sims, will help provide and expand that capacity among HUD staff and stakeholders.

Shelley Poticha, nationally recognized for her leadership to create more location efficient communities, is in place as Director of the office and we have begun to assemble a talented team that brings the technical skill sets and deep commitment our sustainability initiatives demand. Just as important, we are creating teams of staff in HUD's regional and field offices to serve as partners and points of contact with stakeholders in our sustainability agenda, listening to local ideas and delivering HUD's solutions in real time. Staff playing these roles will be current HUD employees who are trained in additional skills and work with their colleagues from DOT, EPA and other agencies in our communities.

The office has already made significant progress advancing several new initiatives totaling $200 million. This subcommittee's early support for these initiatives will be key to their ultimate success. First is the Sustainable Communities Regional Planning Grant Program, which will provide a total of $100 million to a wide variety of multi-jurisdictional and multi-sector partnerships and consortia at the regional level, from Metropolitan Planning Organizations and State governments, to nonprofit and philanthropic organizations and another $40 million to foster reform and reduce barriers, at the local level, to achieve affordable, economically vital and sustainable communities. These grants will be designed to encourage regions and local jurisdictions to build their capacity to plan for integration of economic development, land use, transportation, and water infrastructure investments, and to combine workforce development with transit-oriented development. Second is the $50 million Energy Innovation Initiative to enable the Federal Housing Administration (FHA) and the Office of Sustainable Housing and Communities to catalyze innovations in the residential energy sector that can be replicated and help create a standardized home energy efficient retrofit market. Finally, another $10 million is set aside for research on a transportation/housing affordability index. I will discuss these initiatives in greater detail below.

Sustainable Communities Regional Planning Grants

For the first time ever, we will provide Federal money to support planning grants that will be selected not only by HUD, but also by DOT and EPA—because when it comes to housing, environmental and transportation policy, it's time the Federal Government spoke with one voice.

As indicated above, the first $100 million in funding is for regional integrated planning initiatives through a Sustainable Communities Planning Grant Program. The goal of the program is to support multi-jurisdictional regional planning efforts that integrate housing, economic development, and transportation decisionmaking in a manner that empowers communities to consider the interdependent challenges of economic growth, social equity and environmental impact simultaneously. We are committed to encouraging these regions to engage residents and other local stakeholders to build long-lasting alliances.

HUD recognizes that while the core principles of the program are not new, the Federal Government has never attempted to directly support local leaders in articulating and realizing them. In recognizing that we can learn from our leaders on the ground, we issued an Advanced Notice and Request for Comment for the program. We invited feedback through a new online "Wiki" accessible via HUD's Web site (www.hud.gov/sustainability) and through an extensive listening tour around the country. We want communities to tell us what works, what doesn't work, and how we can build sustainably. Just as importantly, we hope to send a very important signal that we in the Obama administration are serious about being the kind of partner that listens and learns.

We received over 900 written comments, met with over 1,000 stakeholders in 7 listening sessions, and staged web casts that touched thousands more. The feedback we received was overwhelmingly positive—from the mayors and other elected officials of both small and large communities, to business leaders in growing regions, to Governors of States that have been hit hard economically.

One example of how this feedback changed our thinking is with respect to small towns and rural areas. The White House convened a special focus group to discuss the needs of such communities. In those sessions, we heard concerns that larger communities and central cities would receive preference for these funds despite the great need in rural America.

Indeed, Madam Chairwoman, while rural communities generally do not have access to public transportation, at HUD we recognize that these residents still face unique challenges when it comes to accessing healthcare, grocery stores, adult education opportunities, among other things. We are very much aware that there are high rates of poverty and inadequate housing in rural areas.

That is why we are looking at creating a separate, special funding category for small towns and rural places as we prepare the Notice of Funding Availability (NOFA) for the fiscal year 2010 Sustainable Communities Regional Planning Grant funds—and, indeed, are incorporating many of the ideas submitted to us.

HUD formed an interagency team to draft the NOFA. This team included deep engagement from staff within the Federal Transit Administration and Federal Highway Administration within DOT; EPA's Brownfields, Water, and Smart Growth offices; all of HUD's key program offices; the Office of Management and Budget; and the Domestic Policy Council within the White House.

We also consulted with the Department of Agriculture, the Federal Emergency Management Agency, the Department of Education, and the National Endowment for the Arts. Our fiscal year 2010 NOFA is now in clearance. Applicants will be given at least 60 days to submit proposals. With DOT and EPA, we aim to announce approximately 40 winners—from small and rural areas, mid-sized regions, and large metropolitan areas.

The $100 million investment from this fund could potentially be game-changing and will leverage additional public and private dollars. We will also be working hard and listening closely to ensure it is truly useful for rural and smaller communities, as well as larger ones. The program is designed to address the needs of places that are just starting to think about more sustainable growth and development, as well as those that are more advanced. Congress has directed us to share our plans for the entire Sustainable Communities Initiative and we will submit a formal report on our plans to the subcommittee.

Finally, as briefly noted above, with $10 million of the Office of Sustainable Housing and Communities' budget, we are working with the Department of Transportation and the Environmental Protection Agency to develop an Affordability Index to educate consumers who want to buy homes in more sustainable places by accounting for that housing's proximity to jobs and schools. Congressman Blumenauer is preparing legislation on this subject and we look forward to continuing to discuss this proposal with him going forward.

Community Planning Challenge Grant Program

HUD's fiscal year 2010 budget provided $40 million to support the detailed planning and code reform efforts that cities and counties must undertake to realize their sustainability goals. Consistent with the administration's intent to be more transparent and "user-friendly," HUD has chosen to issue a joint NOFA with DOT for its "TIGER II" planning grant program (up to $35 million.) This NOFA will be published at the same time that DOT publishes its TIGER II Capital Grants NOFA. The key difference between the DOT planning grant program and HUD's Community Planning Challenge Grant program is in the types of activities that could be funded. DOT's program funds planning activities that relate directly to a future transportation capital investment, while HUD's program funds land-use related planning activities that would be linked to a future transportation investment. HUD and DOT will jointly develop selection criteria that will apply to all proposals submitted in response to the joint NOFA and will jointly review the proposals.

DOT and HUD believe there is great value in aligning the two planning programs in order to create synergies between transportation and land use planning and to set the stage for future linkages between the three Partnership agencies' various programs. Furthermore, we believe this proposal has the potential to encourage and reward more holistic planning efforts and result in better quality projects being built with Federal dollars.

Energy Innovation Grants

Another area where the Office of Sustainable Housing and Communities is focused is scaling up energy efficiency in affordable housing. Our fiscal year 2010 appropriation includes $50 million for an Energy Innovation Fund. Pursuant to Congress' direction, we are developing new and innovative low-cost financing for single- and multi-family programs, including taking an Energy Efficient Mortgage product to scale that would allow homeowners to wrap energy improvements into property tax assessments where the up-front cost can be amortized.

In both cases, our aim is to use these Federal funds to pilot approaches that FHA and the private sector financial institutions will take to greater scale in the market.

Under the leadership of the Office of Sustainable Homes and Communities, HUD has also launched a transformative program to develop uniform investment policies, performance goals, and reporting and tracking systems to support national objectives for energy efficiency. HUD is working together with DOE to support the achievement of the President's goal of weatherizing 1 million homes per year by enabling the cost effective energy retrofits of a total of 1. 2 million homes in fiscal year 2010 and fiscal year 2011. As part of this initiative HUD intends to complete cost effective energy retrofits of an estimated 126,000 HUD-assisted and public housing units during this time.

As we are developing new approaches to the Energy Efficient Mortgage, we are also exploring the potential for Location Efficient Mortgages (LEM's). LEM's take into account the lower costs of transportation in transit rich, walkable communities. This is part of a larger effort that HUD is considering housing affordability through the lens of the combined costs of housing (including utility costs) and transportation, rather than looking at them separately. This work, while early in the research and development stage, holds significant promise. These efforts are motivated by a belief that markets work best when there is reliable and useful information for consumers and communities alike—and that by making information on utility and transportation costs widely available, we can drive a much broader scale of change than Government ever could alone, ensuring that we never again foster a culture of "Drive to Qualify."

As you know, we are requesting $150 million for the second year of the Sustainable Communities Initiative. Additionally, Senator Dodd and Rep. Perlmutter have introduced legislation that would make some of our initiatives permanent, and we will work in consultation with the two authorizing committees as the legislative process moves forward. Working closely with this subcommittee and the authorizing committee, we would use these funds for the following:

—A second round of Sustainable Communities Planning Grants administered by HUD in collaboration with DOT and EPA. As described above, these grants will catalyze the next generation of integrated metropolitan transportation, housing, land use and energy planning using the most sophisticated data, analytics and geographic information systems. Better coordination of transportation, infrastructure and housing investments will result in more sustainable development patterns, more affordable communities, reduced greenhouse gas emissions, and more transit-accessible housing choices for residents and firms.

—Additional investment in Sustainable Communities Challenge Grants, also as described above, to help localities implement Sustainable Communities Plans they will develop. These investments would provide a local complement to the regional planning initiative, enabling local and multi-jurisdictional partnerships to put in place the policies, codes, tools and critical capital investments needed to achieve sustainable development patterns.

—The creation and implementation of a capacity-building program and tools clearinghouse, complementing DOT and EPA activities, designed to support both Sustainable Communities grantees and other communities interested in becoming more sustainable. HUD's focus will be on buttressing the capacity of land use and housing stakeholders, while DOT will focus on building capacity and providing tools for transportation professionals. EPA will bring their decade-long expertise in technical assistance and research to the Partnership.

—A joint HUD–DOT–EPA research effort designed to advance transportation and housing linkages at every level where our agencies work together.

—All three agencies will collaborate on providing guidance to fiscal year 2011 Sustainable Communities grantees to assist them to implement their projects and programs.

I also would like to say a word about the various roles of the three agencies within the interagency partnership. Each agency has clear and defined roles: HUD will take the lead in funding, evaluating, and supporting integrated regional planning for sustainable development, and will invest in sustainable housing and community development efforts. DOT will focus on building the capacity of transportation agencies to integrate their planning and investments into broader plans and actions that promote sustainable development, and investing in transportation infrastructure that directly supports sustainable development and livable communities. EPA will provide technical assistance to communities and States to help them implement sustainable community strategies, and develop environmental sustainability metrics and practices. The three agencies have made a commitment to coordinate activities, integrate funding requirements, and adopt a common set of performance metrics for use by grantees.

Allow me to explain to the subcommittee how our interagency collaboration—and your support—is already producing results. In the first round of DOT's TIGER grant program under the Recovery Act, DOT awarded $25 million for the Woodward Avenue streetcar project in Detroit. Both HUD and EPA brought critical information and perspectives to the table when the three agencies reviewed Detroit's application. HUD was able to bring to DOT's attention community development activities already planned or underway in the Woodward Avenue corridor. EPA was able to highlight Brownfield remediation efforts in the vicinity of the project which will allow abandoned properties along the streetcar line to be "recycled" for economic development and affordable housing. In the past, DOT would not have had access to this information and a project with so much promise might not been selected.

This is a prime example of how I believe, Secretary LaHood believes, and President Obama believes, Federal agencies must begin to partner with one another to make the biggest possible impact on the ground.

Finally, I want to say that with our Choice Neighborhoods demonstration, which will be soon underway, HUD will be aiming to prove that neighborhoods can be a platform for a new kind of sustainability—bringing to bear private capital and mixed-use, mixed income tools to transform all housing in a neighborhood.

But creating true neighborhoods of choice—where lower-income families can find opportunity and higher income families would choose to live, for their location, their uniqueness, and their amenities—requires we bring HUD's fair housing policies, which have remained largely unchanged since the Fair Housing Act was passed in 1968, into the 21st century. With consultation from Ron Sims, HUD's Assistant Secretary of Fair Housing and Equal Opportunity, John Trasvina, is adopting a broader definition of fair housing that includes not only the racial makeup of housing, but also its orientation to opportunity—to public transportation and job centers.

Armed with this broader set of criteria with which we can better understand segregated development patterns, HUD can not only help communities identify long-standing demographic and development challenges with new technologies such as geospatial data analysis—more importantly, we can help them with new development strategies and targeted technical assistance. This is not just enforcement—but what the law calls "Affirmatively Furthering Fair Housing."

Building on this direction, Deputy Secretary Sims and I have instructed Shelley to collaborate with Assistant Secretary of Community Planning and Development Marquez toward that end as we develop HUD's new Consolidated Plan.

With housing-specific resources like vouchers, counseling and Choice Neighborhoods, to new financing tools for transit-oriented development, to incentives that encourage the repurposing of polluted land for affordable housing development, we can help communities coordinate the use of all available resources to turn segregated neighborhoods of concentrated poverty into integrated, healthy, sustainable communities.

That is why I believe this office reinforces President Obama's commitment to ensuring all Americans have the opportunity to participate in real community change.

CONCLUSION

My testimony today has focused largely on the work and agenda of HUD's Office of Sustainable Housing and Communities. We recognize that $150 million alone is not sufficient to meet the demand for sustainable communities. That is why I believe the real size of my sustainable budget is really $44 billion. That is the size of HUD's fiscal year 2010 budget—and we intend to begin using every dollar of it to put more power in the hands of communities and more choices in the hands of consumers.

These efforts are motivated by a belief that when you choose a home, you don't just choose a home. You also choose transportation to work and to school. You choose public safety for your children. You choose a community—and the choices available in that community. And I believe that our children's futures should never be determined—or their choices limited—by their zip code.

We want to again express our deep appreciation for the subcommittee's support for this bold, and necessary, new initiative. As I say frequently, our ultimate goal is to harness the entire HUD budget as a force for creating greener homes and communities everywhere in America. We look forward to working with the subcommittee to advance that goal and I look forward to our continued progress through the proposals outlined in the fiscal year 2011 budget.

APPENDIX A

HUD–DOT–EPA Interagency Partnership for Sustainable Communities

Livability Principles—June 16, 2009

Provide More Transportation Choices.—Develop safe, reliable, and economical transportation choices to decrease household transportation costs, reduce our Nation's dependence on foreign oil, improve air quality, reduce greenhouse gas emissions, and promote public health.

Promote Equitable, Affordable Housing.—Expand location- and energy-efficient housing choices for people of all ages, incomes, races, and ethnicities to increase mobility and lower the combined cost of housing and transportation.

Enhance Economic Competitiveness.—Improve economic competitiveness through reliable and timely access to employment centers, educational opportunities, services and other basic needs by workers, as well as expanded business access to markets.

Support Existing Communities.—Target Federal funding toward existing communities—through strategies like transit oriented, mixed-use development, and land recycling—to increase community revitalization and the efficiency of public works investments and safeguard rural landscapes.

Coordinate and Leverage Federal Policies and Investment.—Align Federal policies and funding to remove barriers to collaboration, leverage funding, and increase the accountability and effectiveness of all levels of government to plan for future growth, including making smart energy choices such as locally generated renewable energy.

Value Communities and Neighborhoods.—Enhance the unique characteristics of all communities by investing in healthy, safe, and walkable neighborhoods—rural, urban, or suburban.

REGIONAL PLANNING GRANTS

Senator MURRAY. Thank you very much to both of you for your testimony today.

We will begin a round of questions, just so everybody knows, this is the Senate. We are going to have a vote here in a few minutes, apparently. So I will begin by asking my questions, and when the vote is called, I will turn it over to Senator Bond, and I will go and come back. So, hopefully, we can keep this moving.

As we engage our stakeholders in discussions about the partnership for sustainable communities, it is really apparent that the terms "sustainability" and "livability" aren't easily defined. And the reality is, there isn't one type of sustainable or livable community.

The administration has been clear that plans for sustainable communities will be locally driven, but at the same time as the subcommittee considers the administration's funding request, it is important to understand what types of projects will fit into these principles of livability developed as part of the interagency partnership.

So, Secretary Donovan, let me start with you. What specific criteria is HUD going to be using to determine if regional and community plans meet the goals of sustainability?

Secretary DONOVAN. I think there are a number of key things that we are looking for up front in the applications for these grants. And then I want to be clear, and I think you said this well in your opening statement, we need to make sure that this is about local efforts because one size doesn't fit all, but we also have to set clear standards for accountability and showing results.

Those results will be dependent on the specifics of the local plan, but will include a range of outcomes like lower cost of living for households, including the combined costs of housing and transportation, lower infrastructure costs for communities as well. And what we will see as a result of that is more disposable income and more resources available at the State and local level available, as Secretary LaHood said, because we will be able to lower costs for infrastructure investment and other forms of investment.

In terms of the criteria, we are looking for very clear regional partnerships in our regional planning grants. There must be evidence of collaboration among the various local jurisdictions that will be competing. We are looking for capacity to use and leverage funds effectively, and we are looking for real evidence of the capacity to do planning efforts, whether it is through direct capacity at the local or regional government level or whether it is with nonprofit or other types of partners like regional planning organizations or councils of government that often play the lead function in these kind of planning efforts.

Senator MURRAY. So I am hearing you say that you are more interested in the integrated planning process rather than the specific details?

Secretary DONOVAN. I was talking about the regional planning grants. Those will be the key criteria. That is right.

Senator MURRAY. Okay. And I am going to turn it over to Senator Bond because the vote has been called and let him do his questions, and I will come back and have a number of additional questions that I will ask.

NON-MOTORIZED TRANSPORTATION

Senator BOND [presiding]. Thank you, Madam Chair, and thank you for your statements gentlemen.

Secretary LaHood, I have a letter that I assume you have seen from the Transportation Construction Coalition dated—what was the date of this letter? We received it yesterday. Ah, Bella has kindly passed it up.

These are the associations engaged in road building and the unions that engage in it. And I thought they raise some good questions. They state that any definition of "livability" must recognize that non-motorized transportation is a viable solution in certain areas, and in our major cities, we appreciate the support for mass transit.

And I told you Columbia, Missouri, is the one city in the State that has really gone wild with bicycles. They love to bike, and they have theirs. But there are a lot of communities, good-sized communities that don't have public transportation, and it is too far to bike. And the conditions are not safe.

And they are concerned that—another concern they have is that transportation goals and transportation policy is usually set in multiyear reauthorization bills. They are concerned that the proposal that takes $200 million out of the highway measure to put it in livability, as I think the chair mentioned, may reflect a view that we want to get rid of auto transportation.

I don't know if this quote is accurate, but I have an article stating that last year at a National Press Club event, a panel moderator said—and some of the highway supporter motorists groups have been concerned by your livability initiative. He said is this an effort to make driving more tortuous and to coerce people out of their cars?

And according to the article, you answered, "It is a way to coerce people out of their cars." Is that an accurate reflection of what you said?

Secretary LAHOOD. Well, first of all, I haven't seen the letter. I was in Houston yesterday.

Senator BOND. Oh, okay.

Secretary LAHOOD. And they didn't provide the courtesy to present the letter to me. So I don't have access to it.

Senator BOND. It was addressed to us, and I thought——

Secretary LAHOOD. Senator Bond, I have been all over the country. I have been to 80 cities. I have been to 35 States. I was in Houston yesterday, which probably has more highways maybe than any other place in the country. We had a meeting there around the authorization bill. It is our fourth meeting that we had.

We have had one in New Orleans. We had one in Minneapolis. We had one in Los Angeles, and we had one in Houston yesterday—and nobody has more highways than Texas does.

What I told those folks is what I have told people all over the country not only at these meetings, but everywhere I have gone. We have a state-of-the-art interstate system in America. We have very good roads, and at DOT, we have an obligation to maintain our roads to make sure they are fixed up. In places in the country where they need more capacity, we are for that. So the idea that we are giving up on our road program, or we don't care about it, or we don't care about our highways is nonsense.

But I can tell you this. Wherever I go, people are sick and tired of being stuck in cars and in congestion. People want other alternatives. When we hear that, we feel an obligation, as the U.S. Department of Transportation, to help create the kind of opportunities that people want.

In some communities, people want more transit. Now that can be light rail. It can be a bus. It can be a streetcar. Streetcars are coming back to America. In some communities, it can be a walking path or a biking path, and in some communities, it may be more capacity on an interstate, like they have done in Miami, where they put another lane right down the middle of the——

HIGHWAY TRUST FUND

Senator BOND. Mr. Secretary, I am beginning to run short of time, and I have worked on all those things, and I have made—I have asked for grants for things like that, and we talked about the place-based green city in Kansas City. That is something that came from the bottom up, from the leaders of the community with the leadership of my good friend Congressman—and we call him Reverend—Emanuel Cleaver has been very strong on that, and I have supported that. That comes from the bottom up.

Now a lot of these things, they all want money that most of it comes out of the Highway Trust Fund. And the Highway Trust Fund is strangled, and they want to know why we have got all of these non-motorized uses for highway—for the Highway Trust Funds when we have a lot of roads, a lot of areas that need better roads in Missouri.

But the basic question I asked was this is a quote from the American Spectator, I guess April 19 of this year, talking about last year. Did you say at the National Press Club it's a way to coerce people out of their cars?

Secretary LAHOOD. Yes sir.

[The information follows:]

I believe you are referring to a question that came up at a speech I gave at the Press Club in early 2009. The moderator asked if this was an effort to make driving more difficult and to "coerce people out of their cars". I said that it was, and that people already dread getting stuck in their cars in traffic for hours. My point was that people want to get out of their cars and it's our role to create those opportunities for people who want to use streetcars, bicycles, or light rail.

Senator BOND. That is inaccurate? Well, I think a lot of people may see that and be very much concerned because——

Secretary LAHOOD. Well, I have been quoted a lot of places around the country, Senator. There have been a lot of quotes that people have used. But I wish—and that is the reason that I——

Senator BOND. Well, that is all right. I gave you the opportunity to answer it and say it wasn't—you didn't say that. So that is good.

Secretary LAHOOD. No, but look——

Senator BOND. You answered the question.

Secretary LAHOOD. I have been to 80 cities in 35 States, so I have been quoted a lot. I have given a lot of speeches, and what I just told you is the accurate point of view from the Secretary of Transportation about our priorities. We have a state-of-the-art interstate system. We are not giving up on it. If people need more capacity, they will tell us that.

Senator BOND. We are telling you that. We need it in Missouri——

Secretary LAHOOD. I know you are telling me that, but I am also telling you what other people are telling me about other kinds of things they want in their community.

HIGHWAY TRUST FUND

Senator BOND. Okay. Well, I will tell you something. Your basic responsibility is the core transportation needs, and we put money into the Highway Trust Fund, and taking it out for livability, sustainability, that is greeted with a minimum amount of high enthusiasm by the people who need the roads. So I think we all have the same goal. We all have the same goal to make sure that the communities in States around this country and areas that are too dispersed even to be considered a community, where people necessarily live and farm are part of and thriving parts of every State in the Union.

And what I am concerned about is the focus that we—I know you like to bike, and I certainly want to respect bikers, but we need a lot of roads. And we are working on bridges, and we appreciate your coming to help get us another bridge across the Mississippi River. I had a battle on the floor with a good friend of mine who comes from a very dry State who didn't know why we were spending any highway dollars on a bridge.

I said in your State, you don't need bridges. But if you live in Missouri and want to get to Illinois, you better have a bridge or a car with water wings. Now you were there to help us meet one of the top priorities. That was a priority identified by the leaders in the community, the people in the community.

And that is what I'm saying. I'm saying these should come from the bottom up. And to the extent that we pay into the Highway Trust Fund, we need those dollars and we need more dollars in the Highway Trust Fund than we are able to put on the—lead on the target now.

But let me go on to another question. Can you explain the difference between livability and the FTA's definition of transit-oriented development?

Secretary LAHOOD. Well, Senator, let me, first of all, just say that this bottom-up idea, that is the reason I have been to 35 States and 80 cities. I agree with that. The reason we go out to these places is so we can listen to people and hear what they have to say.

In some places in the country, people do want more roads, and they want more capacity, and we feel at DOT that has to be part of our priority. I would say just as counter to—I know the Highway Trust Fund is set up out of the receipts that come from the gasoline tax. But I will tell you, sir, that when you all extended the program, twice now, and extended it through December, the $35 billion, almost $40 billion to pay for that came from the general fund——

Senator BOND. Right.

Secretary LAHOOD [continuing]. Which is taxes paid by all the taxpayers. So, the idea that we are trying to take Highway Trust Funds and use them for other things than highways—part of the money came from the general fund, which is paid for by all the taxpayers, who, in some instances, want something more than just roads. I just—I have to put that on the record.

Senator BOND. We know that, and we need to have your recommendations for funding the Highway Trust Fund and also funding all the transportation needs. And when we get to electric cars, we are having more and more electric cars. That is good for the environment. It saves gasoline. It reduces imports. How are we going to make sure that the electric cars that are on the roads—and I happen to live in a small community which is assembling electric cars, and we believe in them.

But how do you get the trust fund—how do you get the money into the basic high programs because these little supersized golf carts need to drive on highways, too? I hope you will have a recommendation for that.

TRANSIT-ORIENTED DEVELOPMENT

Secretary LAHOOD. Well, let me answer your question about FTA and the criteria. We changed the criteria because almost from the first day that I appeared before any of these committees on the Senate side, every Senator would ask how come it takes 10 or 12 years to get a New Starts program?

Because our criteria was very limited, and by expanding the criteria, we can shorten the period of time within which New Starts can begin and really give more communities more opportunities to really begin the kind of New Starts and transit that they want to do. That is the reason that we really wanted to change the criteria.

Senator BOND. Well, one of the things that was most important, we worked very hard on the SAFE–T, and I happened to be the head of the subcommittee in EPW that worked on it. We put some streamlining in there to make sure that all of the relevant questions were asked and answered, but one time only because the cost of starting has been delayed so much and there is so much additional cost by all of the regulations, overlapping regulations that are added without considering reducing existing limitations.

I hope that you will look at how you can streamline that to—they are telling me I have got one minute left on the vote. Oh, well. You win some. You lose some.

But I hope that you will do that, and I am sorry I haven't had a chance to discuss with you, Mr. Secretary, some of my concerns about this. We will submit those for the record. And I guess it would be appropriate to say that the subcommittee will stand in recess until the return of the chair.

And I thank you very much, gentlemen.

Secretary LAHOOD. Thank you.

Senator BOND. It is always enlightening. I am sorry, Secretary Donovan, we will have more of a chance to talk later.

Thanks.

Senator MURRAY [presiding]. I bet you are glad to see me back.

Secretary LAHOOD. We are very glad to see you, Madam Chair.

METROPOLITAN PLANNING ORGANIZATIONS

Senator MURRAY. I am glad to see you as well. Sorry for the pause and I appreciate both of you waiting for us. We are back in session again.

Let me go right back to my questioning, and I wanted to turn to you, Secretary LaHood. As part of the fiscal year 2011 budget, you have requested $200 million to increase the capability of metropolitan planning organizations, MPOs. Under this proposal, will you select those MPOs based on their need to improve their planning capabilities or their interest in livability projects?

Secretary LAHOOD. Well, first of all, we think the MPOs play a very important role. In your absence, Senator Bond was talking about how these ideas need to bubble up from the communities. And we believe in that. And we believe that the MPOs are a very good mechanism to do that. As I said to Senator Bond, I have been to 80 cities in 35 States. We have held four hearings around the country around the idea of transportation policy tied into with our friends at HUD and EPA.

What we are hearing from people is that we are always going to need roads, but there are lots of other things that communities want in terms of transportation. Some communities want light rail. Some want more buses. Some want to get into the streetcar business. Some want more walking and biking paths. So our decisions will be based on what bubbles up from the MPO.

I think people recognize that we have a pretty good system of highways and roads around the country, and I think what the MPOs are going to be hearing about is other opportunities for transportation that can be tied into affordable housing. So, I think some of it will be based on what the MPOs have to say, but I think everybody knows now that livability and sustainability include not only roads, but they include a lot of other things, too.

Senator MURRAY. But when you look at those proposals and you are evaluating them, are you looking at whether they have put in place good planning and are capable of doing that? Or are you looking more at whether it actually is livability?

Secretary LAHOOD. I think we are probably going to look at it in terms of what their capacity has been to do the planning and to do it on a regional basis and incorporate a lot of different forms of transportation. In some instances, I think we will try to enhance their ability to do that.

For example, in Houston yesterday, I talked to the mayor, and she is very concerned about how far a reach her MPO goes and who should be included and those kind of things. In some instances, MPOs do need some enhancement, and some more staff capability to try to incorporate livability not only in an urban area, but also there are great concerns about rural transportation and rural areas, and how do you incorporate their priorities?

So I think we are going to be looking at the capability of MPOs, what their thinking is, and how we can really enhance their ability to carry out the agenda that the community wants.

SMALL AND RURAL COMMUNITIES

Senator MURRAY. Okay. The idea of a sustainable or livable community sometimes doesn't resonate in some of our smaller or rural communities. The terms that are associated with concepts like "increased density" and "congestion pricing" and "transit-oriented development" just don't resonate in small communities. But small and rural communities do need improved planning and need to address land-use issues, which is really actually why this subcommittee included a set-aside within the regional planning grants to support planning efforts in regions with populations of less than 500,000.

Secretary Donovan, can you explain how HUD will make sure that smaller regions benefit from these grants and maybe give us some examples?

Secretary DONOVAN. Sure. First of all, I think the set-aside is very important. In fact, one of the things that we heard in the feedback that we got and the sessions we have done around the planning grants is that, in fact, 500,000 may be too large in some cases. And so, one of the things that we are looking at is finding ways to ensure we get even to smaller regions and communities beyond the 500,000.

So I think that was a clear piece of feedback that we heard and one of the ways that we are looking at right now. I guess another thing I would say is I think you make a very important point about not painting livability with too broad a brush because it does vary so much by community. Secretary LaHood was just talking about how we need to listen to those local communities.

One of the things we consistently hear around smaller towns and rural areas is for seniors in those communities, the difficulty of linking up housing with transportation options. And obviously, you are not going to put in a streetcar line or you are not going to have the same kinds of solutions, but there are very important transportation solutions like vans or other kinds of transit options that can be flexible in rural areas that are available particularly for seniors, and we have been looking at ways to link up housing to those kinds of efforts as well.

So there are very specific things like that, examples like that that we have heard out of these sessions and that we are incorporating into the criteria that we will have for those smaller places, as well as implementing the set-aside and looking at ways to even to get to smaller places. So those are a few examples.

DATA COLLECTION FOR SMALL COMMUNITIES

Senator MURRAY. Okay. Secretary LaHood, your proposal seeks to increase the capacity of MPOs by improving data collection and computer modeling capabilities. Oftentimes, those things work better for large communities with really complex transportation challenges. How will those grants benefit smaller MPOs and communities, or communities that don't have an MPO?

Secretary LAHOOD. Well, we think there needs to be some reform to MPOs to make sure that in past instances where the rural communities have not been at the table, that they can be at the table, that their transportation, housing and other needs are really being addressed. There are a couple of programs that Secretary Donovan mentioned in which transit districts have established contracts with smaller communities where they do provide transportation services so people can make a doctor's appointment or go to the grocery store or go to some other opportunity that they want in a larger city.

We are going to work with MPOs on the idea that there has to be the kind of outreach that incorporates transportation and other needs that people have in rural communities. We know that many people want to retire in the communities where they have raised their children, where they farmed, or where they have lived all their lives, and still have access to the larger metropolitan areas.

So, we have funded in the past some transportation opportunities for some communities, but we really need to make sure the MPOs are taking these kinds of considerations into account when they are putting together their plans.

FUNDING FOR INFRASTRUCTURE

Senator MURRAY. Okay. Well, most of the transportation planning is done by the MPOs. Elected officials sit on the boards of MPOs, but they are still different organizations than the State or local governments who actually fund transportation projects.

Secretary LaHood, your planning grants mainly go to those MPOs, but State and local governments tell us they have huge backlogs of infrastructure needs, and the Federal Government needs to find a way to fund more of the transportation projects. And I think we all agree there is a tremendous need to invest in our Nation's infrastructure.

So how do you address the concerns that are given to us by State and local governments who are trying to find a way to fund their infrastructure needs?

Secretary LAHOOD. We hope that you all in Congress will consider the kind of opportunities that were presented to communities for direct funding through the TIGER program. We had $1.5 billion. We had $60 billion worth of requests. That $1.5 billion went directly to communities, directly to transit districts, bypassed other bureaucracies.

When you get $60 billion worth of requests, which we did, you get a lot of creative ideas and a lot of good ideas. The reason there is such a pent-up demand is for the reason that you just said—because they have been overlooked by either a State government or a larger metropolitan area. We think this program worked very well, the way it was intended, to go directly to very creative ideas in communities that have been bypassed.

So the MPOs also should incorporate elected officials. If there is a small town mayor, they ought to have a seat at the table and be a part of the planning process. I think there will be some debate about whether they have an equal voice or not, but the point is they ought to be at the table.

The TIGER program worked well because it went directly to very creative ideas that have been bypassed for years.

CHALLENGE GRANTS

Senator MURRAY. All right. Well, as I mentioned in my opening statement, cities across the country like Bellevue in my home State have already developed projects like the Bel-Red Road that really exemplify both of your efforts to build livable communities. Bellevue has already done its planning and permitting. So I want to hear from both of you on what you would tell Bellevue or other cities like that where they would now look for Federal funding for the next phase of Bel-Red Road or similar projects that have finished their planning and permitting processes.

And Secretary Donovan, let me start with you.

Secretary DONOVAN. And let me just build on the prior question as well. It is one of the reason we felt that having the challenge grants that would go directly to local governments were an important complement. We realized that, I think as Ray said, the regional component of this, making sure that the regional organizations, whether it is an MPO. In rural areas, there are many places where you have regional organizations that aren't MPOs, but there are other types of organizations that cut across.

Those are important, but also we have to go directly to local governments for the kind of planning and implementation that is important as well. So I think we have a balanced approach that recognizes you have to work with both kinds of organizations.

In this case that you are talking about, I think it is the Bel-Red project that is there, there are a couple of things I would say on the HUD side, and Secretary LaHood could talk about the DOT side. Specifically, what we often see with these kinds of projects is that they create the opportunity for significant new housing development.

They create demand around the stops on a line like that. And the challenge grants, as well as the DOT TIGER II planning grants that we are looking at putting together in one application or one NOFA process, those could be used, for example, to do zoning studies and really build out all of the specifics around the development that would take place around those transit stops. That is one example of how specifically it could be used there.

A second would be our CDBG funding, which could be used for street improvements or a range of supporting investments to the actual transit line. This is exactly the kind of synergy I was talking about with the Detroit investment that the TIGER grant was made there. So those are a couple of examples of the way what we can do through this sustainability partnership would support the kind of investment and planning that they have already done.

Senator MURRAY. Okay. Secretary LaHood?

Secretary LAHOOD. We think that the collaboration that we are doing will enable people to have affordable housing and affordable transportation, in some communities, it could be a streetcar line, in other communities, it could be light rail, in other communities, it will be transit through bus services.

The collaboration enables not only other forms of transportation besides an automobile, but affordable housing along the way. We have been around the country and seen where this has worked very, very well. Where there is good planning, you can make it happen, and you can actually talk about livable neighborhoods. Then, really building on the whole livable community's idea, you create not only affordable housing and the amenities that go in neighborhoods, but also good transportation that goes along with it.

TRANSPORTATION INVESTMENTS

Senator MURRAY. Okay. As both of you know, each State and local government has a different relationship with their MPO. In some cases, the plans are a valued part of the process. But in others, they are largely ignored. How can you be sure that investments in better planning will actually lead to better investments in transportation projects?

Secretary LAHOOD. These MPOs have to be very inclusive. They have to include the rural areas.

SMALL TOWNS AND MPOs

Senator MURRAY. So you will be looking at that?

Secretary LAHOOD. Absolutely, small towns and the connectivity that can be created around the metropolitan areas. In the city of Denver, the mayor brought all of the suburban Denver area in, and collaborated with them on plans. Now they have one of the really unique transit plans in the country, which runs six transit lines into their Union Station, where there will be an Amtrak capability.

So, you create the kind of capacity for people from the suburban areas, and you take their ideas about the mobility that they want around the urban area. It has to be very inclusive, and it has to include rural and suburban in the case of a city like Denver or even Chicago, which Mayor Daley has done the same thing and been very inclusive with the suburban area.

So, you have a couple different systems: you have the metro system that delivers people from the suburban area into the city of Chicago, you have the Chicago Transit Authority, where people can get around there, and you have trains that go to the airport, and it is connected. This is the kind of thing that really needs to be done if you are really going to provide the kind of alternatives that people want.

Senator MURRAY. Okay.

MEASUREMENT CRITERIA

Secretary DONOVAN. I would just add to that I think in addition to the important work we will obviously do in evaluating these applications, are the plans credible? Is there real evidence of collaboration, as Secretary LaHood is talking about, across jurisdictional lines?

I also think it is critical that we set up specific measurement criteria as a result of the process. Again, we are not going to impose a single set of criteria up front. That has to come from the ground up. But it is clear that having impacts like reducing costs of combined housing and transportation, reduction in——

Senator MURRAY. So you will set that out up front, this is what we expect to see?

Secretary DONOVAN. Exactly. To say, out of these applications, we are going to agree to a set of criteria. We want to see the criteria that you are proposing. We will work with you on those, and then we will agree to a set of metrics that will have to be met from the plan.

And that way, everybody knows what success looks like up front. We are not going to dictate that, but we have to at least know that there is something to be accountable to.

LIVABILITY

Senator MURRAY. Well, following on that, what changes would you expect to see from a community after it has developed this integrated plan? Do you see the community using Federal housing programs like CDBG or section 8 in a different way?

Secretary DONOVAN. I certainly think that we will see lower costs, and that is in a range of different areas. I would hope that we would see lower commuting costs, which would also be able to bring down emissions as well. We would see families with more income available. And certainly, I would expect to see lower costs on the HUD side for the taxpayer as well.

What we see with the investments we have made from the Recovery Act in greening our housing stock, typically we see those investments pay for themselves in 3 to 5 years. So any savings that go beyond that, and these are annual savings, is net savings to the taxpayer. So we certainly expect to see lower utility costs in the long term that will help on the budget side with, as you know, what we have seen under the recession, increasing costs in section 8 and other programs. So I think this is a significant advantage as well.

Senator MURRAY. So I am assuming that one of the things you are looking at in proposals is, at the end of the day, does that community envision having lower costs as a result of their planning?

Secretary DONOVAN. Absolutely. How we measure those costs may be different in different communities, but in just about every example that I have seen—urban, rural, different types of metro areas—we see that.

We see more efficiency in infrastructure investment, and this is one of the things that I think is so important about these principles is where we have a community, whether it is because of brownfields or red tape from HUD is standing in the way of making investments in places that already have infrastructure, we should be able to achieve lower infrastructure costs because we can recycle, if you will, existing infrastructure that is there, improve it rather than having to have to continue to sprawl in ways that have negative impacts on families, but also on infrastructure cost.

Secretary LAHOOD. Can I just say that as a result of the work that you have done, Madam Chair, this idea of these kinds of transportation opportunities coming from the grassroots up, the whole ferry service, which is very unique to your part of the world, and there probably aren't any—there are very few other places around the country like this. But that is an integral part of the transportation for people to get back and forth to work, to housing, or to schools or whatever.

Those opportunities to create multimodal forms of transportation have to come from the ground up, have to come from the MPOs, and have to come from the idea that not one size fits all.

CAPACITY-BUILDING FUNDING

Senator MURRAY. Okay. Let me turn to some questioning about the roles and responsibilities of the agencies.

In last year's funding we provided to HUD for the Sustainable Communities Initiative, the administration has worked to clarify the roles that each agency is going to play in this partnership. And under those new defined roles, HUD is going to focus on integrated planning efforts and updating zoning codes. DOT is going to focus on capacity building. EPA will focus on administering technical assistance.

Now I understand that those roles were established in part to avoid duplication of effort among the different agencies, and that is important. But I am concerned that when we make those distinctions up front, we just are reinforcing the old stovepipes.

So, Secretary LaHood, can you provide some more detail on what you see as DOT's role in providing capacity-building funding?

Secretary LAHOOD. Well, I don't know if there has been another time when three agencies, three big agencies of the Government have ever sat down at a table together and began discussions about how we were going to share resources, how we were going to collaborate. This is an extraordinary opportunity, I think, for the country as we get into an authorization bill, as we get into a transportation policy, as we try to provide affordable housing.

We each have our expertise, and we have our resources. The point here is, we are willing to share our expertise and some of our resources if it can be brought to bear on affordable housing and where people want to live. We know what our role is, but obviously, we have expertise in transit, and we have expertise in highways, and we have expertise in other forms of transportation.

But collaborating with where people want to live and have affordable housing, has not really ever been done before. So, we are going to bring our own expertise, and look at a holistic point of view, not from a sort of a tunnel vision that you build a road here and then you hope that maybe somebody will build some houses. Or you see some houses, and how people are really going to gravitate around these communities.

I think the key point here is that we are really looking at it from a holistic point of view and coordinating and collaborating and getting good ideas from people who are in these communities.

HUD'S ROLE

Senator MURRAY. Secretary Donovan, you are supposed to focus on planning, but it seems to me that planning is about capacity building. So maybe define for me better what you see your role as.

Secretary DONOVAN. I think you raise a very important question, I think, about how we make sure that we are not duplicating roles because I think that a lot of the work that we have done to try to define clear roles is to make sure that we are not replicating expertise that Ray has in his agency, at HUD that we are not hiring more folks than we need or spending more than we need to spend in terms of making these happen.

But also recognizing, as you said correctly, that the lines are not perfectly clear and if we try to make them too hard that we can end up replicating the silos, and I think it is the right balance to strike.

Let me maybe use an example in what we are looking at with the planning grants that we have, our challenge grants. We looked at this, and we said, look, DOT has $35 million in funds that could be used for similar purposes, but not exactly the same. We are going to come together to evaluate, but we will be awarding these funds depending on the specifics of what that community needs.

If it really is more of a transportation planning effort that is specifically around, say, a streetcar line or something like that or a ferry line or whatever it might be, Secretary LaHood's team would provide the funding there. We might provide the funding if it is more specifically, say, an inclusionary zoning effort or a transit-oriented development around there. And there may be examples, too, where we would both combine funding and provide them.

In those cases, we are going to be providing some capacity building as well because we are going to be working so extensively with the regional planning organizations, the MPOs, and others. There is real expertise at Department of Transportation in doing that. That is why we felt it was appropriate for them to be the lead.

They being the lead doesn't mean we wouldn't also provide technical assistance——

Senator MURRAY. So you don't see that as the sole responsibility is going to be them?

Secretary DONOVAN. It is not a sole, but it is making sure we understand who is leading and who is following. If there is a more specific issue, for example, around zoning codes, land use, those issues, we would step in. If there is a brownfields issue, obviously, EPA would step in and be able to provide the technical assistance.

But really, the leadership and the greatest experience on this was in DOT. That is why we felt like on that technical assistance side, they ought to be leading that effort. I hope that clarifies it.

BARRIERS TO NEW STARTS PROGRAM

Senator MURRAY. Yes, it does. And what I hear you saying is you are using your own expertise, you are sharing it, which is new, and you are not exclusively limiting yourself to your one area?

Secretary DONOVAN. Right. And the biggest risk here, we don't want to reinvent the wheel——

Senator MURRAY. Yes.

Secretary DONOVAN [continuing]. Where we have that capacity. It is more cost effective, and that means we have to be in the same room and understand who is leading and who is following.

COST EFFECTIVENESS

Senator MURRAY. Okay. All right, very good.

Secretary LaHood, I wanted to talk with you, I was really happy to see your announcement in January that the Department is now going to consider other important factors in addition to cost effectiveness when it is evaluating new transit projects. Cost effectiveness is obviously important, but I am really happy to see a more holistic approach that also considers the potential impacts of congestion and the environment and the economy because we know all of that is important to the places where we live and want to make them more vibrant and sustainable.

That announcement also highlighted the proactive steps that DOT and HUD can take to remove barriers that stand in the way of smart development, and I wanted to ask both of you today if you can tell me what your Departments are doing now to identify and eliminate obstacles that are within your power to change?

Secretary LAHOOD. Well, by proposing changes rather than just using economic development, which is an important, obviously, criteria. But taking into consideration several other factors, we think we can speed up opportunities for funding of New Starts. Really, I think the main obstacle to really expediting New Start opportunities and providing funding for it was that we were encumbered by our own guidelines. Expanding the guidelines and taking other criteria in will shorten the time within which we can really make these allocations and approve these projects.

In your absence, I told Senator Bond that the most common complaint that I heard at the beginning of my tenure was, why does it take 10 or 12 years to get a New Starts program going? Well, because of all the bureaucracy, I guess, and all the hoops that we were making people jump through.

It is not that we are not going to be taking a careful look. We are going to be doing that, but we are going to be looking at other criteria, such as livability and sustainability and the environmental benefits of each. The economics are important, and they always will be. But there will be other things that we will look at, and I think it will speed up the process.

Senator MURRAY. I am told there is a list available somewhere in the administration of the barriers that exist. Is that available? We have been asking for it for over a year now.

Secretary LAHOOD. Well, it is available as far as I am concerned. We will see if we can get you a copy of it.

[The information follows:]

The Federal Transit Administration (FTA) has, in the past year, rigorously examined each stage of the project development of New and Small Starts and implemented measures in an effort to make the process move more smoothly and quickly. FTA has revised its internal business practices and policies as well as the regulatory framework of the New and Small Starts program to expedite project delivery.

A number of significant improvements have been made. A major change occurred in January 2010, when Secretary LaHood rescinded the test established in 2005 requiring New and Small Starts projects to have a Medium or better Cost-Effectiveness rating to be considered for a funding recommendation in the President's annual budget. Consideration for project funding recommendations are now available to projects that achieve a Medium or better Overall rating, as required by statute. Cost-Effectiveness no longer trumps all the other statutory evaluation criteria. Project funding recommendations are now based on the full set of statutory criteria, including "livability" criteria like environmental benefits and economic development effects. This change is expected to expedite the project development process because it removes the need for project sponsors to repeatedly rescope projects to lower their costs in an effort to meet a Medium cost effectiveness threshold.

To provide better technical support to applicant project sponsors as they advance toward construction funding, FTA issued new and clarified guidance. FTA also works with sponsors to develop "roadmaps," mutually developed action time lines for advancing projects.

FTA revised its organizational structure by creating an office solely devoted to New and Small Start project development and by revitalizing its New Starts project development teams that work one-on-one with applicant sponsors. FTA reduced the number of submittals required from sponsors. FTA introduced streamlining policies such as allowing project sponsors to automatically move forward with certain procurement and early construction activities, using local funds eligible for later Federal reimbursement upon compliance with environmental requirements.

Of particular note, FTA has just issued an Advanced Notice of Proposed Rulemaking (ANPRM) effort to improve and simplify the methodology used to measure three important criteria used to evaluate New Starts projects. During this ANPRM effort and subsequent development of a new regulation, FTA will work with a broad range of stakeholders in public transportation and livable communities to make the New and Small Starts regulatory framework not only reflect a wider range of the benefits of transit, but to be more compatible with expedited project development timeframes.

With those accomplishments behind us, the FTA also expects to announce a significant revamping of its project approval processes in the coming months to further streamline the project decision process and shorten the period it takes to advance projects to a Federal funding decision.

Senator MURRAY. Okay. We would like that, all right. Secretary Donovan.

Secretary DONOVAN. I think this is such an important question, and it goes back a little bit to the issue that was raised before. Is the Federal Government dictating, absolutely not. We want to work with local communities.

One of the things we consistently hear from local communities, and I think in some ways is our first responsibility, is the Hippocratic Oath, which says "first, do no harm," and I think that is a principle we need to follow on this side as well.

One of the great benefits of us coming together in the way that we have and reaching out to local communities is that we have heard a lot about where our rules—Ray talked about some of them, where our rules stand in the way of sustainability at the local level. In fact, I am not sure which list exactly you might be referring to. We have a list of 300 comments we have gotten from our input around the country that is barriers we ought to try and work on.

Senator MURRAY. Okay.

Secretary DONOVAN. We have begun to work on those. Let me give you just two quick examples. Let me just give you two quick examples of the things that we have started to work on already and the things that we have done.

One of the things we have consistently heard is that our standards, both for ensuring multifamily buildings or subsidizing them require outdated environmental reviews that are not state-of-the-art and often limit how much commercial income a property could have. Well, what are the effects of that?

We make it way too hard to reinvest in existing communities that might be close to transit or other things, and we stand in the way of doing mixed-use development, which is key for livable communities. So that is one example.

A second, by working with—and we have changed that, by the way. We have now begun to incorporate state-of-the-art environmental standards into the work that we do.

A second example is with the Department of Energy. As we started to look at their weatherization funding and whether it could be used on multifamily, what we found was the Department of Energy partners had to go literally family by family and check their incomes to make sure that they were low income, even though HUD is already doing that work each and every year to check their incomes.

It was a big barrier to doing it. So what did we do? We changed it. We put out an MOU with Secretary Chu that says here is a list of 1.5 million apartments in HUD programs that are automatically eligible for weatherization assistance because of the income level.

Those are just two examples of the kind of barriers that we have identified already and moved on. And obviously, there is a significant list of others that we have heard feedback from that we are beginning to work on as well.

Senator MURRAY. Okay. If you could share that with the subcommittee, it would be great. My understanding is there is a joint list developed by DOT and HUD, and if you could share that with us and some of the ones that have been removed or what the challenges are, I would really appreciate it.

Secretary DONOVAN. Yes.

Secretary LAHOOD. Can I just list for the record the six criteria—you know I mentioned cost effectiveness in the past, but we have mobility improvements, environmental benefits, cost effectiveness, operating efficiencies, economic development effects, and public transportation supportive land use. That is the expansion that I was talking about, in addition to cost effectiveness.

Senator MURRAY. Okay, very good.

Well, I appreciate both of your responses to this and look forward to working with you on that.

Secretary LaHood, I have one other question for you that is not about sustainable communities, but that is very important to me. And we will have a number of Senators who will be submitting questions to both of you.

MEXICAN TRUCKS

And Secretary LaHood, I do need to ask you an important question. It is one I brought up with you when you were before our subcommittee before, and that is about the cross-border trucking issue with Mexico and the devastating effect of Mexican tariffs on my Washington State farmers now.

Back in March, I urged you and the administration to move quickly to craft a plan to resume this cross-border trucking in a way that would address the safety concerns that were raised during the pilot and the tariffs that are imposed right now. You told me at that time that a resolution was going to be forthcoming soon.

You should know and I want you to know that the effects of that Mexican tariff have been absolutely devastating to the farmers and families in my home State now. The tariffs are really undermining our farmers' competitiveness. They are killing jobs, devastating communities.

In fact, in the 2 months since we last talked and you came before the subcommittee, the ConAgra potato processing plant that is located in Prosser, Washington, shut down and eliminated hundreds of really good-paying jobs. If we don't address this soon, that is just going to be the first of what we see. We literally have thousands of jobs at stake and are in serious jeopardy over this.

I sat down last week with the Mexican ambassador to the United States in my office because I wanted him to know how harmful this was, and I told him that I feel very strongly that our Washington State farmers and our families should not be punished for a diplomatic dispute they had nothing to do with.

Well, he told me that Mexico's president, as you know, is planning to be here in a few weeks and is bringing this issue up with President Obama. So my question to you this morning is I want to know what you can tell me about the administration's progress toward fixing this problem, are you prepared to resolve this issue with Mexico during the state visit later this month?

CROSS BORDER TRUCKING

Secretary LAHOOD. Well, since the program was suspended, we have worked very hard with the White House and other members of the Cabinet, President Obama's team has worked very hard to put a proposal together. We will be announcing it very soon, and we will come to Capitol Hill and brief every Senator that has an interest in what it says and get feedback.

President Obama's administration's intention is to restart this program. It is a part of NAFTA. It needs to be restarted. We believe if it is restarted that these tariffs will be lifted, which we know have had a devastating effect not only on the State of Washington, but on many other States across the country.

We are very close to briefing you and other Senators on the proposal——

Senator MURRAY. Is "very close" sooner than "soon?"

Secretary LAHOOD. It is closer than "soon."

Senator MURRAY. Okay. Well, this is extremely important to us. So I will stay in touch with you on this.

Secretary LAHOOD. Yes.

Senator MURRAY. And we are hoping with the President coming later this month that we can have a resolution of this and move on.

Secretary LAHOOD. Yes. Thank you.

Senator MURRAY. Okay. Thank you.

ADDITIONAL COMMITTEE QUESTIONS

I would ask at this time that if the subcommittee members have any additional questions that they submit them 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. SHAUN DONOVAN

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

TRANSPARENCY

Question. Secretary Donovan, as discussed during this and previous hearings, I am still waiting for real transparency in the current administration grant making process: in other words, at a minimum, Congress and the American people need to know the substance of the implementation of the program and the decisionmaking through the Internet or the Federal register, including such information as the basic requirements for receiving a grant, a list of all grants awarded, to whom and for how much, and what were the requirements that the grantee met in order to qualify for a grant, how the grant was awarded (who made the decision, under what basis), what are the minimum expectations, and a bi-annual review of the status of each grant including what has been accomplished in contrast to the benchmarks established for a successful grant, and what benchmarks apply for the length of the grant, including in all cases the rate of obligation and the rate of expenditure and whether the expenditures are consistent with the requirements of the grant. It seems to me that cost shares and the leveraging of funds also should be readily available on the Internet so we have access to information about other sources of Federal, State or private funds that may be used to augment these grant awards. In brief, what does HUD believe should be the minimum requirements for transparency? What issues should not be subject to transparency? What steps is HUD currently taking to ensure that HUD grant decisionmaking is open and objective with benchmarks on the award of grants as well as a process to determine whether grants are meeting program goals and requirements? Is there a political review process at HUD which allows political decisionmaking once the underlying objective criteria process is complete?

Answer. For our programs, both NOFAs clearly stated the process that would be used to evaluate and rate projects.

HUD issued an Advance Notice of Funding Availability and the Office of Sustainable Housing and Communities organized a public listening tour with DOT and EPA in advance of the NOFA publication that directly influenced the structure of the funding notices. Each and every application for HUD programs is reviewed, evaluated and rated as stated in the Notice of Funds Availability (NOFA). There is no political process that is done once the objective process is complete.

Additionally, both grant programs will involve a Logic Model that has specific performance indicators and there is also $8.5 million specifically for research and evaluation out of the fiscal year 2010 funding. The $8.5 million is derived by an appropriation of $10 million less $1.5 million for the Transformation Initiative. The evaluation funds will be used to see how the grantees are performing. Specific information can be found on the Sustainable Housing Web site (HUD.gov/sustainability). There is a list of applicants for both grants and a summary of those that were funded. The NOFAs contains what criteria were used and how the grantees applications were weighted.

RELATIONSHIP BETWEEN HUD, EPA AND DOT IN THE SUSTAINABLE HOUSING AND COMMUNITIES INITIATIVES PROGRAM

Question. HUD has established a new Office of Sustainable Housing and Communities with an appropriation of $150 million which will be available for regional planning efforts that integrate housing and transportation decisions as well as to increase State, regional and local capacity to incorporate livability, sustainability and social equity principles into land use and zoning. One hundred million dollars will be for regional integrated planning initiatives. HUD, EPA and DOT are directed to work together to bring coherence to the planning process. HUD is also asking for another $100 million for fiscal year 2011.

This program remains very ambiguous. A dialogue on livability and sustainability represents a good and healthy debate; however, we must be careful about not becoming too prescriptive or start to rely too much on Federal mandates to force certain conclusions. One size does not fit all—instead we must encourage flexibility and not try to purchase conclusions through grants. What is the current relationship between DOT, EPA and HUD as to sustainability/livability? How do the agencies work together and what are the problems?

Answer. When we formed the Partnership for Sustainable Communities, the Department of Housing and Urban Development (HUD), the Department of Transportation (DOT), and the Environmental Protection Agency (EPA) agreed to collaborate to help communities become economically strong and environmentally sustainable. Through the Partnership and guided by six Livability Principles, the three agencies are coordinating investments and aligning policies to support communities that want to give Americans more housing choices, make transportation systems more efficient and reliable, reinforce existing investments, and support vibrant and healthy neighborhoods that attract businesses. Each agency is working to incorporate the principles into its funding programs, policies, and future legislative proposals. The Partnership breaks down the traditional silos of housing, transportation, and environmental policy to consider these issues as they exist in the real world—inextricably connected. This results in better results for communities and uses taxpayer money more efficiently, because coordinating Federal investments in infrastructure, facilities, and services meets multiple economic, environmental, and community objectives with each dollar spent. As part of this effort, the three agencies have been working to identify barriers that exist.

Additionally, in June 2010 HUD and DOT joined together to issue a joint Notice of Funding Availability to support integrated housing and transportation planning to eligible States, tribal governments, regions, and local units of government, making up to $75 million available for these activities.

HUD, EPA AND DOT CONTRIBUTIONS TO SUSTAINABLE HOUSING AND COMMUNITY INITIATIVE PROGRAM

Question. How much is each agency contributing to this initiative and what is the relationship of the different funding streams?

Answer. HUD, DOT, and EPA have identified a set of priorities and roles that guide our individual and joint efforts. Within the Partnership for Sustainable Communities, each agency will incorporate the six Livability Principles into their policies and funding programs to the degree possible and adopt a common set of performance metrics for use by grantees that helps align and leverage Federal funds. As laid out in the agencies' joint fiscal year 2011 budget proposal, the agencies each propose to take the lead in different areas as further described below.

—HUD will take the lead in funding, evaluating, and building the capacity for integrated regional and local planning for sustainable development, and will invest in sustainable housing and community development efforts.

—DOT will focus on building the capacity of transportation agencies to integrate their planning and investments into broader plans and actions that promote sustainable development, and investing in transportation infrastructure that directly supports sustainable development and livable communities.

—EPA will provide technical assistance to communities and States to help them implement sustainable community strategies, and develop environmental sustainability metrics and practices.

REQUIREMENTS FOR RECEIVING A GRANT

Question. What are the underlying requirements for receiving a grant under sustainability?

Answer. We respectfully refer you to the Notices of Funding Availability that were issued on June 24, 2010 for the two Sustainable Communities grant programs, which describe the program requirements for each program.

Sustainable Communities Regional Planning Grant Program.—http://www.hud.gov/offices/adm/grants/nofa10/scrpgsec.pdf.

Community Challenge Planning Grant Program.—http://www.hud.gov/offices/adm/grants/nofa10/huddotnofa.pdf.

SUSTAINABILITY VS. LIVABILITY

Question. Why does HUD call this initiative sustainability and DOT calls it livability?

Answer. DOT uses the term "livable," and by extension "livability," to describe a community where an individual or family does not need to get in a car in order to do such things as go out to dinner, go to a movie, or a park. DOT defines livability to mean building communities that help Americans live the lives they want to live—whether those communities are urban centers, small towns or rural areas. Whereas DOT's definition of livability reflects its transportation mission, HUD uses the terms "sustainable communities" and "sustainability" in its programs because of HUD's broader mission.

Although HUD has not defined the term "sustainability," it defines "sustainable communities" to mean "urban, suburban, and rural places that successfully integrate housing, land use, economic and workforce development, transportation, and infrastructure investments in a manner that empowers jurisdictions to consider the interdependent challenges of: (1) economic competitiveness and revitalization; (2) social equity, inclusion, and access to opportunity; (3) energy use and climate change; and (4) public health and environmental impact."

Given its broader mission, which includes promoting such things as economic competitiveness, social equity, and public health, HUD has chosen to use what it considers to be a term that has a broader meaning. We do not see these terms as being in conflict, but rather represent a coordinated approach between our agencies.

PRIORITIZING FUNDING

Question. Secretary Donovan, as you know, there are significant deficit issues facing the entire Federal Government. As I discussed, we are facing a $1.6 trillion deficit this year; a record $1.6 trillion deficit this year—10.6 of the Nation's GDP—the highest since World War II, and the future only looks worse, especially for future generations. The HUD budget is filled with new agenda items, such as Choice Neighborhood, Sustainable Communities, Transforming Rental Assistance with its future multi-billion out-year costs and Catalytic Investment Competition. How will these stack up with HUD's core programs like HOME, CDBG, public housing and section 8 with the two previous programs requiring increased additional costs for each fiscal year just to preserve the housing safety net for low-income families? There are many other housing and Transportation programs that will also need funding and are widely supported both in the Congress and throughout the Nation. How do you plan to prioritize funding?

Answer. HUD's fiscal year 2011 budget request takes into consideration our core programs such as CDBG, public housing and section 8 rental assistance. In an effort to not only preserve the safety net that many of HUD's programs provide to low-income families and tenants, HUD sought to fundamentally change the way that our programs work to make them more efficient, serve more families and communities and preserve affordable rental housing options.

HUD's request compliments our core programs with new initiatives like Choice Neighborhoods and Sustainable Communities. The Choice Neighborhoods Initiative modernizes the HOPE VI program so that neighborhoods and communities can access funding that will improve existing HUD-assisted housing as well as support other community development needs. The Sustainable Communities Initiative will help regions, communities and neighborhoods create comprehensive development plans that link housing, transportation and job opportunities together. These programs in addition to HUD's core programs will enable States, cities and regions to continue to serve low-income families, create more affordable housing options and spur economic development in a way that makes sense to that area.

LEVERAGING

Question. Secretary Donovan, HUD is looking at requiring or perhaps providing points in the grant process for matching or leveraging of funds or "in-kind" matches. The in-kind matching sounds like little more that crediting an additional staff to a Sustainability program? How do you plan to measure or identify this match which seems hard to quantify?

Answer. Matching funds are not required. However, applicants must provide 20 percent of the requested funding amount in leveraged resources in the form of cash and/or verified in-kind contributions or a combination of these sources. Successful applicants must have the required amount of leverages resources (20 percent) at the time of signing the cooperative agreement. In-kind contributions may be in the form of staff time, donated materials, or services. Please see section VIII.C. for a list of possible in-kind contributions. All assistance provided to meet this requirement must be identified by their dollar equivalent based upon accepted salary or regional dollar values. Cash contributions may come from any combination of local, State, and/or Federal funds, and/or private and philanthropic combinations dedicated to the express purposes of the proposal. Applicants will receive credit for leveraging resources greater than 20 percent of the requested amount, as described in section V., Rating Factor 4. If an applicant does not include the minimum 20 percent leveraged resources with its appropriate supporting documentation, that application will be considered ineligible. Please see section III.F., Threshold Requirements.

We respectfully refer you to the Notices of Funding Availability that were issued on June 24, 2010 for the two Sustainable Communities grant programs, which describe how leveraging is defined and evaluated in each program.

Sustainable Communities Regional Planning Grant Program.—http://www.hud.gov/offices/adm/grants/nofa10/scrpgsec.pdf.

Community Challenge Planning Grant Program.—http://www.hud.gov/offices/adm/grants/nofa10/huddotnofa.pdf.

STAFFING

Question. Secretary Donovan, how many staff do you have in the Office of Sustainable Communities and Housing? How many staff do you expect to hire and by when? Where will they be located and what will be there primary functions? How do you plan to perform grant review and selection? Will you or other political staff be part of the review and selection process? If yes, in what way?

Answer. As of June 15, 2010, 14 of the allocated 19.5 full-time employees (FTEs) have joined the Sustainable Housing and Communities (OSHC). Another FTE will begin work on June 21. The remaining FTEs will join the Office over the next 2 months. They will be located in HUD Headquarters in Washington, DC. The primary functions of staff will be to establish the Office, administer and oversee the two grant programs, and coordinate with DOT, EPA and other Federal agencies involved in the Partnership for Sustainable Communities and related energy efficiency programs.

We respectfully refer you to the Notices of Funding Availability that were issued on June 24, 2010 for the two Sustainable Communities grant programs, which describe the grant review process, selection criteria and rating factors for each program.

Sustainable Communities Regional Planning Grant Program.—http://www.hud.gov/offices/adm/grants/nofa10/scrpgsec.pdf.

Community Challenge Planning Grant Program.—http://www.hud.gov/offices/adm/grants/nofa10/huddotnofa.pdf.

As noted in the NOFAs for both grant programs, a senior review team will be created for each grant program to review qualifying grant applications that receive qualifying scores from review teams comprised of career staff from HUD, DOT, EPA and other Federal agencies. For the Sustainable Communities Regional Planning grants, we also anticipate using representatives from philanthropy as review team members to supplement teams with outside expertise on sustainability and regional planning. The Senior Review teams will review qualifying applications using the same criteria and rating factors, but will not change project scores. The Director of the Office of Sustainable Housing and Communities will recommend selected projects to the Secretary for recommended funding based on the overall review process as described in the NOFAs for both grant programs.

SUSTAINABILITY VS LIVABILITY

Question. What is HUD's relationship with DOT and these Sustainability and Livability programs? One of the primary goals is for DOT and HUD, and to some extent

EPA, to work together on related issues under each department's jurisdiction to assist jurisdictions and joint jurisdictions to find common themes and activities that will facilitate the development of projects and help grow better communities through the interaction of these agencies.

Neither HUD nor DOT appear to be making any real progress in growing their relationship and finding ways to join hands on grants and projects in order to improve the overall quality of life in that jurisdiction or jurisdictions.

I am especially concerned that HUD calls its programs and activities "sustainability" and DOT calls its programs "Livability". Why not a common name and definition? As you know, from a legal viewpoint, the use of different concepts infers that the concepts and activities are different. If the departments cannot come to a common concept for this program, how will you plan to reach a common working relationship?

Answer. Given its broader mission, which includes promoting such things as economic competitiveness, social equity, and public health, HUD has chosen to use what it considers to be a term that has a broader meaning but is still consistent with the objectives incorporated within the term of Livability. We do not see these terms as being in conflict, but rather represent a coordinated approach between our agencies. Within the joint-NOFA issues by HUD and DOT for Community Challenge/TIGER 2 Planning grants, both terms are used and described in terms of eligible activities and a focus on integrated housing and transportation planning.

OVERSIGHT

Question. Secretary Donovan, it appears that Sustainability funding could go to a variety of different activities with the planning grants especially focused on staff and planning costs. These are often difficult funds to verify as to use. What are your plans to provide adequate oversight? This is a particularly sensitive issue now where jurisdictions are often surviving under very tight budgets—how will you ensure these funds are being used well for the intended purpose and not merely to maintain existing staffing?

Answer. Grants made under both grant programs will be in the form of cooperative agreements, providing HUD greater opportunity to provide oversight in working with grantees. Grantees are required to develop detailed work plans within 60 days of grant execution and there are additional bi-monthly reporting requirements, all of which provide HUD the opportunity to verify use of funds and the on-going progress and eligibility of grantee activities. In addition, Congress included $10 million in the fiscal year 2010 appropriation for a joint HUD–DOT research effort that includes a rigorous evaluation of the Sustainable Communities Regional Planning Grant and Community Challenge Planning Grant programs.

STAFF TURNOVER

Question. Secretary Donovan, planning grants at the local level are intended to last 3 years and then hopefully we will reach a project decision in conjunction with a DOT project. How will jurisdictions demonstrate they will be able to transition the cost of staff from Sustainability to other resources?

Answer. You are correct that these are 3-year planning funds. The work plans and budgets developed by grantees cover work to be performed only during that timeframe. Applicants will be rated on their capacity to see these plans through to implementation, which includes plans to address turnover and a limited time horizon for funding toward staff costs.

PROJECT COSTS

Question. After the planning stage, how much does HUD estimate the project stage will cost annually? Rough estimate—how can we be expected to even fund planning if we have no hard cost estimates for project costs especially with expected very tight budgets?

Answer. Given the significant variation that we anticipate to see from each region as it develops its own regional and community plans, HUD is not able to forecast or estimate a number to answer this question. We do not advocate a one-size fits all, cookie cutter approach and these are decisions that will be made at the regional and local level, not by the Federal Government. Furthermore, the plans that will be developed will include consideration of Federal, State, local and private sector finance. As noted in the Livability Principles included as factors within the grant programs, however, the Partnership for Sustainable Communities places a strong focus on leveraging investments and coordinating policies and plans to achieve economic efficiency. We have seen in some regions such as Salt Lake City, UT substantial cost savings from avoided infrastructure costs as a result of integrated regional planning.

CHOICE NEIGHBORHOODS

Question. Secretary Donovan, HUD is proposing to fund Choice Neighborhoods at $250 million in fiscal year 2011 and Sustainability at another $150 million in fiscal year 2011. Both programs require the consultation and integration of program requirements under other agencies, including primarily DOT and HUD. What is the difference between these programs and why fund both when the goals are nearly the same. At a time of tight projects, shouldn't we fund one or the other, not both?

Answer. HUD's Choice Neighborhoods Initiative focuses on the redevelopment, replacement and community integration of distressed public and HUD-assisted housing that cannot be funded through current annual funding formulas. The goal of the Choice Neighborhoods initiative is to provide investment targeted to distressed, high-poverty neighborhoods, to create opportunity in those neighborhoods and improve quality of life for residents. Choice Neighborhoods builds off of the HOPE VI program, which focuses on the rehabilitation and replacement of severely distressed public housing units, but takes it one step further to include HUD-assisted housing and encourage other types of community development. Where possible, HUD will coordinate with the Department of Education's Promise Neighborhoods program, which aims to improve schools and education-related activities in high poverty areas, the Department of Justice's Byrne Innovation program, which has been proposed to replace Weed and Seed, and other Federal programs to help grantees maximize the impact of Federal investments. Improvements in housing, access to educational opportunities and other community amenities will promote economic growth in low-income neighborhoods and resident self-sufficiency.

The Sustainable Communities Initiative focuses more on holistic community planning at the metropolitan, regional, or county level, so that areas can then implement their own community development plans that take into account access to public transportation, community amenities and affordable housing. The Sustainable Communities Initiative is a collaboration with the Department of Transportation and the Environmental Protection Agency to address land-use, housing and transportation planning in order to promote more accessible and livable communities. These integrated plans may serve as a road map for transportation, infrastructure and housing investments in the future.

Each of these initiatives does focus on better community and neighborhood planning and development, however, they have two different goals. The Sustainable Communities Initiative works at a larger geographic scale to assist local governments in coordinating housing, transportation and other amenities to reduce transportation costs and developed mixed-income and mixed-use housing in order to create a more viable community. The Choice Neighborhoods Initiative focuses more specifically, in distressed neighborhoods, on redeveloping and rehabilitating distressed public and/or HUD-assisted housing and improving economic and other opportunities in those neighborhoods.

Senator MURRAY. I want to thank both of you for your work on this issue and for being here today and look forward to working with you in the coming months and years.

Thank you very much.

SUBCOMMITTEE RECESS

With that, this hearing is recessed. We will reconvene on May 13 at 9:30 a.m. with testimony from Commissioner Stevens on fiscal year 2011 budget request for FHA.

[Whereupon, at 10:57 a.m., Thursday, May 6, the subcommittee was recessed, to reconvene at 9:30 a.m. Thursday, May 13.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2011

THURSDAY, MAY 13, 2010

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

The subcommittee met at 9:32 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray and Bond.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

FEDERAL HOUSING ADMINISTRATION

STATEMENT OF HON. DAVID H. STEVENS, COMMISSIONER

ACCOMPANIED BY KENNETH M. DONOHUE, INSPECTOR GENERAL

OPENING STATEMENT OF SENATOR PATTY MURRAY

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

This morning we welcome Commissioner Stevens to his first appearance before our subcommittee as we examine the Federal Housing Administration and its role in the housing market.

As we sit here today, millions of Americans are out of work and many more are struggling with unaffordable mortgage payments, negative home equity, or foreclosure. During the housing boom, millions of Americans achieved the dream of home ownership, but for far too many Americans, these dreams were based on false premises and fueled by investors and lenders that were chasing profit while ignoring risk. The consequences of these risky behaviors have rippled through the national and global economies with mounting foreclosures, a crippled housing market, and a financial sector in turmoil. We continue to clean up the mess created by predatory lenders and Wall Street greed.

Fulfilling the same role as it did when it was created during the Great Depression, the FHA has stepped forward to help provide liquidity and restore stability to the housing market. FHA's increased role in the housing market is as critical as it is daunting. As recently as 2007, when this subcommittee held the first in a series of annual hearings on FHA, its share of the market was only 3 percent. Today FHA represents nearly 30 percent of all new home sales. FHA has played a critical role supporting the housing market while private financing has been nearly frozen.

However, FHA has been plagued by longstanding management challenges, challenges that continue to raise concern about its ability to manage its outsized role in stabilizing the market. Commissioner Stevens, you have acknowledged the challenges you inherited when you took over the agency and have moved quickly to assess and seek solutions to the problems facing FHA. The most glaring of these are antiquated information technology systems and an inadequate workforce, both of which are critical to equipping the agency to meet the challenges that face us. A well functioning FHA is vital to maintaining the solvency of the Mutual Mortgage Insurance Fund and protecting the American taxpayers from having to pay for risky or fraudulent mortgages. This subcommittee provided additional resources to help FHA address its shortcomings both in 2009 and 2010. We provided funding to help FHA modernize its IT systems and hire additional staff to better manage and oversee a growing portfolio.

Equally important to these new tools is fostering a culture at FHA focused on risk. Commissioner Stevens, one of your first actions after taking office was to appoint FHA's first chief risk officer. This position was long overdue and sends an important signal to lenders, borrowers, and taxpayers that FHA understands the risks it faces and is working to mitigate them. I am pleased that the FHA is increasingly using its authority to investigate lenders that are not playing by the rules. It must be absolutely clear to lenders engaging in fraudulent and risky practices that they are not welcome in FHA programs and will not be supported by taxpayer dollars.

Despite some important progress, FHA still faces significant challenges. Foreclosures have taken their toll on FHA's finances, leaving the capital reserve fund below the 2 percent required by Congress. This is a cause for concern since any significant setbacks in the housing market could result in additional and possibly unaffordable losses to the fund.

In an effort to strengthen the agency's finances and protect itself from future risk, HUD has proposed a series of reforms, including increasing premiums, setting minimum FICO scores, increasing downpayment requirements for riskier borrowers, and expanding enforcement authorities. Some of these changes are already underway but others will require legislation.

Today I will have questions about these reforms, what they mean for fulfilling FHA's mission to provide access to affordable mortgages, as well as how they impact the solvency of the MMI Fund as we look to the future. It is clear that the solvency of the MMI Fund and the strength of FHA depend on the recovery of the housing market. This is evident by CBO's re-estimate of receipts that FHA is expected to generate in 2011. Continued uncertainty about the housing market, as well as lingering doubts about FHA's ability to realistically assess its risks, resulted in CBO's much more conservative estimate of $1.9 billion in receipts instead of the $5.8 billion projected by the administration.

The concerns expressed by CBO are real. Relatively stable home prices and increasing home sales suggests the market is stabilizing. Yet, large segments of the housing market remain fragile and there are looming problems that could undermine the progress we have made. Over 2 million homes are currently in foreclosure and that number is expected to grow through 2010.

To date, the administration's Home Affordable Modification Program has had limited success in stemming the tide of foreclosures. There have only been 230,000 permanent modifications made under this program far short of the 3 million to 4 million homeowners expected. And as banks and servicers determine whether a modification is in their best interest, many families are left waiting as they face the agonizing prospect of losing their home. I continue to hear that servicers are unresponsive to borrowers and in some cases unwilling to explain why modifications are denied. Americans trying to get assistance are frustrated and rightfully so. They have watched as banks have received billions of dollars in taxpayer assistance and yet many of these same banks are unwilling to assist homeowners facing foreclosure. This cannot be tolerated. Servicers must be held accountable. At the very least, servicers must communicate with those trying to receive assistance and provide an explanation if borrowers are not approved.

The success of HAMP was also limited because it failed to address two of the major problems facing troubled borrowers today: unemployment and negative equity. I have seen this tragic combination devastate families firsthand in communities across my State. In Clark, Snohomish, and Pierce Counties, communities are struggling with both unemployment and foreclosure, and unfortunately, home prices have yet to stabilize in Washington State, so families are continuing to see the equity of their homes decline. Nearly 16 percent of all Washington homeowners are under water and they are not alone. Over 11 million families in the country today are under water on their mortgages as a result of falling home prices and growing debt. That represents nearly one out of every four mortgages.

Just a few months ago, the administration announced plans to change HAMP in order to address these problems. The plans include offering increased relief for unemployed borrowers as they look for work and get back on their feet, as well as incentives for lenders to permanently write down the principal of these mortgages instead of addressing interest rates. These changes were necessary to more effectively address the foreclosure crisis, but I remain concerned that since this program is voluntary, it will fail to meet its goal.

So I expect the administration to compel lenders to provide real aid to families that want to and, with a fair deal, could stay in their homes. As part of these announcements, FHA's refinance program is also set to be expanded. This is an important tool that will assist homeowners to get into a truly affordable mortgage through incentives and write-downs of both first and second liens. While these loans will be subject to FHA underwriting standards, there is still an increased risk associated with those loans. In order to mitigate the effects of these riskier loans on the health of FHA's insurance fund, the administration has set aside $14 billion in TARP funds.

However, many of the details surrounding this proposal are still being worked out, and I am concerned this could result in additional losses to the MMI Fund, losses the fund simply cannot absorb. So I will have questions today about the design of this program and how we can be assured this program will not cost American taxpayers anything more than what was already set aside from the TARP funds.

Amidst all these efforts to modify mortgages so families can stay in their homes, there are a growing number of homeowners deciding to strategically default. Many of these homeowners can afford their mortgage payments, but because of the severe negative equity, they feel it is in their financial interests to simply walk away. The potential impact of this on home values and market stability would be devastating.

There is also the very real concern about what is called the "shadow inventory." These are houses that are facing foreclosure or have already been repossessed by the bank but are not yet on the market. Hopefully the impact of these will be lessened by an increase in permanent modifications, but if a large number of homes were to suddenly flood the market, all of our gains in home values could be erased.

These issues demonstrate how fragile the housing market remains, but we are beginning to test its stability. The Federal Reserve ended its purchase of mortgage-backed securities at the end of March and the homebuyer tax credit ended last month. Even as we watch with some anxiety as these supports are withdrawn, it is clear the Government cannot continue to play the outsized role in the housing market it has taken on over the past 2 years. The long-term health of the housing market and the economy depend on the return of the private market.

It is also clear we must address the future role of Fannie Mae and Freddie Mac in the housing market. There is no doubt that the GSEs had a hand in exasperating the housing crisis, and just as there needs to be consequences for Wall Street, there must also be consequences for the GSEs. The spigot of taxpayer dollars flowing into the GSEs cannot stay on indefinitely. As the administration debates the future of the GSEs, I like most Americans are growing impatient and my impatience only increases as the cost to the American taxpayers grows with no end in site.

The administration must put forward a real plan on how to reform the GSEs. GSEs currently provide important support to the housing market, and so this plan has to be thoughtfully done with care not to reverse the hard-won progress made to date. The plan must include a clear understanding of how any changes will impact the housing market and Americans' ability to buy a home for their families, but it is simply not enough to say it is complicated and we have a plan soon. It is not easy. It deserves an honest and open dialogue about its future, but there needs to be a sense of urgency that has been lacking so far.

As we try and tackle the complex set of challenges facing the housing market today, the Federal Government must play a role in supporting the market but it must also protect the taxpayers.

Commissioner Stevens, this has been your task since taking on the FHA, and I want to commend your commitment to addressing the challenges at FHA while working to ease the recovery of the housing market. I look forward to hearing your testimony today.

And with that, I turn it over to my partner and ranking member, Senator Bond, for his opening statement.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning, Madam Chair.

And thank you very much, Commissioner Stevens, for being with us today.

The chair has outlined the very significant problems that we have in the whole area of housing, not just in FHA, but I found her comments on the GSEs very similar to my concerns. We are in a real problem, and your efforts with FHA and your guidance on other things may be of help to us in trying to find a way out.

We are pleased to have on the front row Ken Donohue, the HUD inspector general. Over the years, he in particular has been a true partner working with me and others to eradicate fraud and abuse in the mortgage market. And that is not to diminish all the hard work both he and his staff perform in their oversight capacity in the Office of the HUD inspector general. This may be our last time to have a little gathering like this, Mr. Donohue, but you have my sincere thanks for being the uninvited guest at the garden party at so many of these hearings where you have had to tell the truth, and I am just lucky that you—we are both lucky that you did not get tarred and feathered for having warned us in advance of the problems we are facing. Now that we are seeing those problems, we can call you a guru, I guess, for having warned of many of the problems.

Well, with that beginning, Mr. Commissioner, as you know, FHA's history is marked by longstanding challenges in balancing the financial risk to FHA which we are seeing is significant and also very important is the goal of expanding home ownership, especially for low-income and first-time home buyers. This is the promise of FHA.

Unfortunately, much of the financial risk in the housing market, which is a risk to all of us as taxpayers, is uncertain. It is especially problematic since FHA still faces many challenges and is still evolving to limit FHA's financial exposure. Additional reforms we need to discuss, and I am still concerned the FHA is a powder keg that could explode, leaving the taxpayers on the hook for another bailout. To borrow the term from the gulf and the recovery efforts there, I think you are trying to put a cap on the well. We just hope it is more successful than the ones they have tried in the Gulf of Mexico.

As recently as 2007—okay, I stretched it a little bit. Okay, all right. I know when I get that look from the chair she is saying where is he going with this one. That is off the record. You can scratch that.

As recently as 2007, FHA accounted for less than 4 percent of the single family housing market, whereas FHA, as we all know, now dominates market with a share of about 30 percent of new mortgages and another 20 percent of refinances. While this market share may help the Federal oversight of home purchases, there is nothing predictable in FHA's enhanced role in the market for assessing the potential for financial risk to the FHA, the Mutual

Mortgage Insurance Fund, the MMIF that has already been referred to, and those of us as taxpayers.

There is no guarantee the housing market is on the rebound or that it will not collapse again, even though prospects are certainly more encouraging than they were a year ago. But with continuing high unemployment as well as the explosive and escalating Federal debt, I think the problems have not gotten much less severe. One of the essential questions we must ask is are we digging a grave with spending or filling one in.

As recently as late last year, FHA was unable to meet its statutory requirement of holding capital reserves equal to 2 percent of FHA's insurance in force. I am a born optimist and I could be optimistic that FHA will be able to meet this requirement in the future, but there remains wide disagreement as to the health of FHA's MMIF, with OMB's budget estimate for FHA receipts in 2011 at some $5.8 billion, as the chair indicated, which is about $4 billion more generous than the CBO's re-estimate. This disparity both underlines the unpredictability in the future of the overall housing market, as well as uncertainty as the financial risk to FHA's single family mortgage insurance programs.

The CBO re-estimate also means we will likely have to tighten our belts with regard to other programs within the jurisdiction of the THUD appropriations subcommittee. Let me assure you that others coming in here before us have grand schemes of how much money they want to spend, but there is a lot of money in this area we have to spend. So we need to get an idea of how much we will be called upon to produce.

Nevertheless, Mr. Commissioner, I believe you are moving FHA in the right direction, as I told you earlier, and particularly HUD and FHA currently are proposing some significant changes to shore up the FHA single family mortgage insurance program by including an increase to annual premiums, as well as implementing a credit-related risk assessment. That assessment, as I understand it, would allow borrowers with a FICO score of 580 and above to make a 3.5 percent downpayment while home buyers with a FICO score of between 500 and 580 would be required to make a minimum downpayment of 10 percent. Borrowers with FICO scores below 500 would be ineligible for FHA mortgage insurance.

Some people are better off renting until they have the downpayment, and that is a point we have made before. We need to make sure rental housing is available so that people who cannot afford to buy a house do not get pushed into buying a house that they cannot afford. This has been a mistake that has been endemic in policymakers for the last 20 years in Washington. I will not cite the list of Members of Congress who pushed for it. I would say that it has been bipartisan at the administration level, and for 8 years, I fought the Bush administration pushing for the American dream no-downpayment home, which I characterized then, with some little guidance from the inspector general, as being a recipe for turning the American dream into the American nightmare.

But I think that the changes you are implementing, while they continue to promote home ownership, should lower the risk of financial exposure to the Federal taxpayer and the Federal Government. I know you have proposed a number of other reforms designed to protect the integrity of FHA and MMIF, including reforms to the appraisal process and a proposal to increase net worth requirements for FHA lenders.

These are controversial, but I am a firm believer that our financial system will be much stronger if people up and down the line; borrowers and securitizers and everybody else, has skin in the game. You look at Canada; they require a lot of skin in the game. They have a higher percentage of home ownership and much lower problems than we do because people there have to have skin in the game, which is the name of business.

Reforms are important but FHA still faces many challenges. I am concerned about the programs for default mitigation. We do not want to leave homeowners behind unless the financial criteria demand such an approach. If there is no way they can get out, we need to resolve it as humanely as possible and move on.

What role is HUD expecting to play over the next few years with regard to the administration's foreclosure mitigation policies and how will HUD reforms impact these policy efforts?

And while FHA seems to have been the administration's initial choice for implementing the administration and Congress' foreclosure mitigation strategies—congratulations on getting the ball on that one—much of the emphasis now seems to have shifted to Treasury and the GSEs, especially Fannie Mae with their GSE losses buried in TARP payments. It would be very helpful for us to understand Fannie and Freddie's new role in the mortgage crisis, especially since the GSEs recently reported fourth quarter losses, I believe, totaling $18 billion with an overall request of some $76 billion from Treasury's unlimited credit line. That is a number that should scare all of us. Last Monday, Fannie reported losses of another $8.4 billion. That is beginning to mount up to real money.

We cannot fool ourselves that these are just losses from an old book of business. Instead, Freddie was directed by the administration to buy back troubled loans from investors and obviously is taking losses on these mortgages. In fact, this policy appears to bail out lenders on their risky investment but it does little to save a home with a risky loan for a homeowner. And I am asking myself and others why. Why are we bailing out investors? That to me is a major concern.

As of last month, the opportunities to forestall housing foreclosures were virtually limited to wishful thinking where families could receive test funding for foreclosure mitigation but where the majority of these families would not qualify for mortgage reform and more permanent mortgage reform options.

Despite the administration's more optimistic view, without more options by the administration, families are destined to fall deeper in debt and be unable to meet the needed qualification for the mortgage reform permanent option. In other words, it is extremely unlikely that more than a scintilla of homeowners with looming mortgage foreclosures and high debts will qualify for the more permanent, long-term program.

That is bad news. The worse news is the longer we wait, the worse it will get. I think there are a number of other issues that have to be investigated somewhere, and I guess that we are about the only ones interested in it. There have been a number of articles that claim the affordable housing program under which Fannie and Freddie were required by law to invest in low-income housing helped to destabilize the GSEs. More troubling were Congressman Frank's efforts to tax Fannie's and Freddie's profits at more than $1 billion annually to benefit favored nonprofits and I would mention the infamous ACORN. These legislative requirements I think reinforce losses and undermine the financial credibility of the GSEs in the financial markets.

Most important, we need to know the administration's overall plan for revitalizing the housing industry and what will be the overall menu of tools for addressing the mortgage default crisis under FHA, the GSEs, Treasury, as well as other entities.

Finally, not everyone will be eligible for foreclosure mitigation relief, especially those without permanent employment or other income. Nevertheless, as we move forward, it is important that we all understand the contours of the various foreclosure mitigation programs and the potential exposure for additional financial losses in the housing marketplace both to the Federal Government as well as to other entities, families, and individuals.

I am very interested in how many homeowners we are likely to help and how many are likely to lose their homes. The answer is likely to be very troubling, as evidenced by a very negative report in March by the National Association of Homebuilders in its index which tracks home purchases.

FHA STAFFING SHORTFALLS

In addition, I am anxious to hear how FHA is addressing its staffing and expertise shortfalls as well as its plans to update fully the FHA IT systems. While there have been a number of comprehensive briefings with congressional staffs on these issues with FHA recently submitting a comprehensive staffing plan to Congress on its progress toward hiring an additional 118 FTEs for FHA-related activities, much remains to be done. The sooner we understand fully HUD's capacity and funding needs in these areas, the better we will able to respond through appropriations to the needs of HUD and FHA.

Finally, congratulations on your efforts on the mortgage and the mortgage insurance fraud. We cannot understate the fact that enforcement against mortgage fraud remains an area of overall weakness throughout the Nation, the mortgage market and likely FHA. I understand, however, FHA is making substantial progress with reforms in its mortgage programs, especially by eliminating the participation of bad lenders in the FHA program that should not be there.

In the predecessor to this subcommittee, the VA, HUD subcommittee, Senator Mikulski and I learned that these reforms are likely to be the tip of the iceberg, and now I would urge HUD and the HUD inspector general to continue to work with the Department of Justice and Treasury, along with other agencies, to develop a set of coordinated plans to put predatory lenders who are criminally at fault in prison. Seeing some of these people in orange jumpsuits may be one of the best remedial actions we can take.

Now not only does FHA require larger net worth requirements for all of its FHA lenders, it is also reviewing lender enforcement activities. In particular, as your written testimony indicates, since July 2009, FHA has referred some 365 cases of mortgage fraud or negligence to the Mortgagee Review Board. These investigations have resulted in the withdrawal of approval to underwrite FHA loans for some 354 lenders and the suspension of underwriting authority for another 6 lenders. It would be helpful to know what additional legislative authorities may be needed by HUD and the HUD inspector general to stop mortgage fraud and abuse around the Nation, including the laws that require jail sentences when some form of mortgage fraud is the subject of criminal action.

With that pessimistic statement, I look forward with optimism and enthusiasm to hearing your testimony, Commissioner Stevens.

Senator MURRAY. Thank you very much, Senator Bond.

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

STATEMENT OF HON. DAVID H. STEVENS

Mr. STEVENS. Thank you, Chairwoman Murray and Ranking Member Bond. And thanks for the opportunity to be here to testify about the Federal Housing Administration's recent reforms, legislative proposals, contributions to the 2011 budget, and any other subjects that may be of interest.

I also do want to recognize, as you did, Senator, the involvement of the inspector general. He has been a very valuable advisor to me coming into this role with all the challenges we face, and we have had some great opportunities to partner. I share the zeal for enforcement on fraud and other issues, not just in the single family area, but the inspector general has been helpful in advice on multifamily issues and health care issues as well. So it is a critical partnership that I value very highly.

I appear before you at a moment when it is clear that the housing market has made significant progress toward stability. With the past year's record-low mortgage rates, thanks in large part to the administration's initiatives, more than 4 million homeowners have refinanced their mortgages to more affordable levels. This helped save homeowners more than $7 billion last year. More than 1 million families are saving an average of $500 per month through the administration's mortgage modification program, otherwise known as HAMP. Home equity has increased on average by more than $13,000 for homeowners in the last three quarters of 2009, and these efforts have begun to restore the confidence we need to get the economy moving, creating 290,000 jobs last month, the largest monthly increase in 4 years.

FHA

There is also encouraging news relating to foreclosures. Just this morning, RealityTrac released its latest monthly U.S. foreclosure report which shows foreclosure activity actually decreased 9 percent in the month of April. And FHA's second fiscal quarter numbers show our early delinquencies are better than expected. The number of loans in early default and claims has declined 15 percent since December, a strong indicator that the loan quality is improving.

The FHA has been essential to the improved outlook in the housing market. In the past 18 months, FHA protected 650,000 families from foreclosure, enabled more than 1.1 million homeowners to refinance into stable, affordable, fixed-rate mortgages, and insured 1.4 million new purchase loans, more than 80 percent of which were first-time home buyers. Indeed, as access to private capital has contracted in these difficult times, borrowers and lenders flocked to FHA, and the increased presence of FHA has help support liquidity in the purchase market, helping us ride through these difficult times until private capital returns.

During that time, Fannie and Freddie under conservatorship have also played an important role in stabilizing the market. The administration strongly supports the need for reform of the Government-sponsored enterprises and looks forward to working with Congress to enact meaningful reform in a manner that does not disrupt the Federal housing markets, nor increase the cost and reduce the availability of mortgages for American households. Toward this goal, we strongly support efforts to require thoughtful and thorough review, public commentary, and final study of reform options going forward.

While progress is clearly being made on many fronts, we continue to see challenges. The administration's strategies to address the housing crisis has evolved because our challenges have evolved. On March 26, we announced the FHA refinance option in conjunction with provisions to the HAMP modification program to tackle the challenge of underwater borrowers, one of the biggest threats to our continued recovery. The FHA refinance option will provide more opportunities for lenders to restructure loans for families who owe more than their home is worth due to price declines in their communities. These adjustments support principal reduction efforts already underway in the private market and offer incentives to expand their reach. The vast majority of the burden of writing down these loans will fall where it belongs, on lenders and investors, not the taxpayer. It is because FHA is in a stronger position today that we are able to facilitate these efforts to help more struggling homeowners.

With FHA's increased role, however, there is risk and responsibility. In addition to several policy changes that I have made since taking office on January—or we have made since January 20 of the year, we proposed several reforms to mitigate risk and replenish FHA's capital reserves. Some of these steps require legislative authority.

Thank you for the opportunity to explain these proposals in more detail in conjunction with the contributions to HUD's budget for the fiscal year 2011.

These policy changes have three guiding principles that we are balancing in all of them. First is how does it improve the capital reserves of FHA. Second, how does it impact the broader housing market and the recovery? And third, how does it impact FHA's role to provide opportunities for the underserved?

So first, we are asking Congress for authority to restructure FHA's mortgage insurance premiums. We would like to reduce the up-front premium to 100 basis points and increase the annual premium to 85 or 90 basis points, depending on the LTV. To more substantially increase FHA's reserves and facilitate the return of private capital to the mortgage market, these changes are needed.

We greatly appreciate the cooperation of Congress in support of these reforms, and on April 27, the House Financial Services Committee passed H.R. 5072, the FHA Reform Act, on a voice vote. The bipartisan authorizing bill would enable FHA to enact these proposed changes, which will further strengthen FHA's reserves and overall stability. And we look forward to working with this subcommittee and the Senate Banking Committee to enact similar legislation in the Senate as quickly as possible. If these changes are adopted during this current fiscal year, they would increase the value of the MMI Fund by approximately $300 million per month, which would replenish FHA's capital reserve even faster than if the authority was provided through the annual appropriations process.

Second, FHA is producing a two-step FICO floor for FHA purchases. Purchase borrowers with FICO scores of 580 and above would be required to make the minimum 3.5 percent downpayment. Those with FICO scores between 500 and 579 would be required to make a 10 percent downpayment. Anything below 500 would not be allowed.

Some have suggested that FHA raise the minimum requirement to 5 percent across-the-board as a way to improve loan performance. As you can see, we have gone further to 10 percent for low FICO scores to ensure that we are only insuring responsible loans. We determined, after extensive evaluation, that an across-the-board 5 percent proposal would be inadequate to control risk for some borrowers and excessive to control risk for responsible borrowers, which would adversely impact the housing market recovery. Increasing minimum downpayments to 5 percent across-the-board would translate to 300,000 fewer responsible first-time home buyers having access to home ownership and would have significant negative impacts to the broad housing market recovery. It would forestall the recovery of the housing market and potentially lead to a double dip in home prices by significantly curtailing demand. The policy changes that FHA has instead proposed in the 2011 budget would contribute an additional $4.1 billion in additional receipts to FHA and continue to support the broader housing market recovery.

The third policy change we are proposing is to reduce maximum seller concessions from its current 6 percent to 3 percent, which is in line with industry norms.

Our fourth proposal is to increase lender enforcement. In our 2009 fiscal year actuarial review, the independent actuary projected more than 71 percent of FHA's losses over the next 5 years will come from loans already on our existing books. That is why we have renewed our focus on enforcement and accountability, and since 2009, we have taken more action on more than six times the number of lenders than FHA had done in the past decade.

This year, we are requesting an appropriation of $250 million for FHA's reverse mortgage product. The HECM program provides seniors with a means to access their home equity to make ends meet and provide funds to pay for long-term health care and afford necessary home repairs and housing expense. We have conducted extensive analysis to identify the maximum policy changes we could perform to reduce risk to the taxpayer and maintain viability of the program. Without the budget request, we would be forced to reduce the amount of funds that would be available to seniors by more than 30 percent, which is an average of $23,000 to $27,000 in impact. Given the value of the program in assisting this critical population, HUD has requested an appropriation to maintain viability of the program for seniors while we are evaluating a broader range of program changes that may be necessary to ensure the success of HECM for the long term.

Finally, as you know, the CBO released its re-estimate of the 2011 budget, including the review of the FHA changes. Although the CBO estimate includes a significantly more conservative assessment of how these new changes made through the FHA's MMI Fund will perform in the coming years, both CBO and the administration forecast that with our proposed FHA changes, such credit activity will result in net receipts to the Government. We differ, however, on the amount. While the President's budget forecasts $5.8 billion in receipts, CBO re-estimated those net savings at $1.9 billion. In addition, CBO agreed with our forecast that Ginnie Mae and our GI SRI fund will result in roughly $1 billion more in net receipts.

While recognizing such a difference with CBO complicates budget resolution development, it is important to note that the $5.8 billion in receipts forecast in the President's budget will determine any receipts transferred to FHA's capital reserves. This will help the fund get back on track to be capitalized with the statutorily mandated 2 percent of insurance in force. I would also note that we remain confident in our forecast.

PREPARED STATEMENTS

I have submitted a more detailed testimony for the record, but Madam Chairwoman, as you can see, we have proposed a comprehensive set of reforms to improve loan performance, hold lenders accountable, and increase revenues to the FHA fund, while also ensuring that FHA continues to support the overall recovery of the housing market, continues to serve its mission of providing home ownership and financial opportunities for responsible borrowers and seniors. We look forward to working with Congress closely on all the issues and hope to gain your support for our budget proposal and legislative requests to further reduce the risk to the American taxpayer.

And with that, I am happy to answer questions.

[The statements follow:]

PREPARED STATEMENT OF HON. DAVID H. STEVENS

Chairwoman Murray, Ranking Member Bond, and members of the subcommittee, thank you for the opportunity to testify today regarding the Federal Housing Administration's (FHA's) recent reforms, legislative proposals, and contributions to the HUD fiscal year 2011 budget request. FHA remains focused on providing access to home ownership, while minimizing the risk to the American taxpayer is of the utmost importance.

HELPING PREVENT AN ECONOMIC CATASTROPHE

As you know, when this administration took office just over 15 months ago, the economy was hemorrhaging over 700,000 jobs each month, housing prices were in free fall, residential investment had dropped over 40 percent in just 18 months, and credit was frozen nearly solid. Many respected economic observers warned that a second Great Depression was a real possibility, sparked of course by a crisis in the housing market. Meanwhile, communities across the country—from central cities to newly built suburbs to small town rural America—struggled to cope with neighborhoods devastated by foreclosure, even as their soaring jobless rates and eroding tax base crippled their ability to respond.

As we move beyond the peak of the recent global financial crisis, though there is still a long way to go, it is clear that the Nation's housing market has made significant progress toward stability. Through the combination of coordinated efforts by Treasury, HUD, and the Federal Reserve to stabilize the housing market, we are seeing real signs of optimism.

As measured by the widely referenced FHFA index, home prices have significantly stabilized since last April. As recently as January 2009 house prices had been projected to decline by as much as 5 percent in 2009 by leading major macro-economic forecasters. This housing stabilization is all the more surprising since most forecasters had underestimated the rise in unemployment that has occurred over the past year.

Homeowner equity started to grow again—increasing by over $1 trillion by the end of December, or $13,000 on average for the Nation's nearly 75 million homeowners, and helping our economy grow at the fastest rate in 6 years in the fourth quarter of last year.

And mortgage rates which have been at or near historic lows for more than a year have spurred a refinancing boom that has helped nearly 4 million borrowers in 2009—freeing up an additional $7 billion annually, some of which will be spent in local economies and businesses, generating additional revenues for our Nation's cities, suburbs, and rural communities.

FHA—FACILITATING RECOVERY

While there remains uncertainty about whether this progress will continue at this pace going forward, what is not in doubt is that the FHA has been central to much of this improvement.

Created by President Franklin Roosevelt at a time when two million construction workers were out of work and housing prices had collapsed, the FHA was designed to provide affordable home ownership options to underserved American families and keep our mortgage markets afloat during tough times.

And by insuring almost 30 percent of purchases and 20 percent of refinances in the housing market, FHA is certainly doing so today.

We know the critical role first-time home buyers are playing in the market, including purchasing REO and vacant properties, helping stabilize home prices and communities alike. More than three-quarters of FHA's purchase-loan borrowers in 2009 were first-time home buyers, and nearly one-half of all first-time buyers in the housing market in the second half of last year used FHA loans.

FHA provides mortgage insurance to help lenders reduce their exposure to risk of default. This assistance allows lenders to make capital available to many borrowers who would otherwise have no access to the safe, affordable financing needed to purchase a home.

As access to private capital has contracted in these difficult economic times, borrowers and lenders have flocked to FHA and the ready access it provides to the secondary market through securitization by Ginnie Mae. The increased presence of FHA and others in the housing market, including Fannie Mae and Freddie Mac, has helped support liquidity in the purchase market, helping us ride through these difficult times until private capital returns to its natural levels.

And with 51 percent of African Americans home buyers and 45 percent of Hispanic families who purchased homes in 2008 [1] using FHA financing, FHA is far and away the leader in helping minorities purchase homes.

FHA has stepped up to fulfill its countercyclical role—to temporarily provide necessary liquidity while also working to bring private capital back to credit markets. Indeed, the FHA has in the past year alone helped more than 800,000 homeowners refinance into stable, affordable fixed-rate mortgages.

At the same time FHA has taken steps to reverse falling home prices, it has also worked to help families keep their homes, deploying its loss mitigation tools to assist a half million families at risk of foreclosure.

Not only is FHA ensuring the availability of financing for responsible first time home purchasers, it is also helping elderly homeowners borrow money against the equity of their homes through the Home Equity Conversion Mortgage (HECM). This

[1] Federal Financial Institutions Examination Council (FFIEC) 2008 Home Mortgage Disclosure Act (HMDA) data. Published on December 23, 2009, this is the most recent data available.

program has grown steadily in recent years, to a volume of $30.2 billion in fiscal year 2009.

And finally, FHA is playing an important role in protecting homeowners and helping prospective homeowners make informed decisions. It is providing counseling to homeowners to help them avoid falling into unsustainable loans. And it is fighting mortgage fraud vigorously on all fronts, having taken enforcement actions on more than six times as many lenders since fiscal year 2009 than those over the fiscal year 2000–2008 period combined.

The central role of housing in the U.S. economy demands that Federal agencies involved in housing policymaking rethink and restructure programs and policies to support housing as a stable component of the economy, and not as a vehicle for overexuberant and risky investing.

With that in mind, the President's budget for 2011 represents a careful, calibrated balancing of FHA's three key responsibilities: (1) providing home ownership opportunities to responsible borrowers, (2) supporting the housing market during difficult economic times and (3) ensuring the health of the FHA Mutual Mortgage Insurance (MMI) fund.

With this budget, HUD is projecting that FHA will continue to play a prominent role in the mortgage market in fiscal year 2011. Accordingly, it requests a combined mortgage insurance commitment limitation of $420 billion in fiscal year 2011 for new FHA loan commitments for the Mutual Mortgage Insurance (MMI) and General and Special Risk Insurance (GI/SRI) funds. The proposed total includes $400 billion under the MMI Fund, which supports insurance of single family forward home mortgages and reverse mortgages under HECM; and $20 billion under the GI/SRI Fund, which supports multifamily rental and an assortment of special purpose insurance programs for hospitals, nursing homes, and title I lending. The budget requests a direct loan limitation of $50 million for the MMI fund and $20 million for the GI/SRI fund to facilitate the sale of HUD-owned properties acquired through insurance claims to or for use by low- and moderate-income families.

The budget also includes $88 million for the Housing Counseling Assistance program, which is the only dedicated source of Federal funding for the full spectrum of housing counseling services. With these funds we also plan to continue our work to expand the number of languages in which counseling is available. In addition, the budget continues FHA's Mortgage Fraud initiative ($20 million) launched in fiscal year 2010 as well as implementation of sweeping reforms to the Real Estate Settlement and Procedures Act (RESPA) which began in January 2010 and the Secure and Fair Enforcement (SAFE) for Mortgage Licensing Act beginning in June 2010.

REBUILDING FHA'S CAPITAL RESERVES

As important as FHA is at this moment to our Nation's economy, FHA has not been immune to the hard times for the housing sector. Late last year, we reported to Congress that FHA's secondary reserves had fallen below the required 2 percent level—to 0.53 percent of the total insurance-in-force. However, when combined with reserves held in the Financing Account, FHA reported with its fiscal year 2009 actuarial review that it holds more than 4.5 percent of total insurance-in-force in reserves—$31 billion set aside specifically to cover losses over the next 30 years.

As such, the independent actuary concluded that FHA's reserves will remain positive under all but the most catastrophic economic scenarios.

Further, while its Capital Reserve Account has decreased too quickly, FHA is not "the next subprime" as some have suggested.

Subprime delinquencies are 240 percent higher than FHA's for a reason—subprime loans had much weaker underwriting standards than FHA. While others participated in investor-owned markets or were exposed to exotic mortgages such as option-ARMs and interest-only loans, and while some tolerated lax underwriting standards, FHA stuck to the basics during the housing boom: 30-year, fixed rate traditional loan products with standard underwriting requirements. Unlike subprime lenders, FHA requires that borrowers demonstrate they can pay their mortgage by verifying their income and employment.

All of that said, Madam Chairwoman, we've learned from recent history that the market is fragile, and we have to plan for the unexpected. That uncertainty is complicated by an organization we inherited that, to be honest, was simply not properly managing or monitoring its risk.

Credit and risk controls were antiquated. Enforcement was weak. And our personnel resources and IT systems were inadequate.

Little of this may have been obvious when FHA's market share was 3 percent as recently as 2006. But when our mortgage markets collapsed, and home buyers increasingly turned to the FHA for help, the potential consequences of these lapses in risk management became very clear.

REFORMS TO DATE

From my first day as FHA Commissioner, I began a thorough review of our loan practices and organizational capacity and gaps. We have already taken several steps within our existing authority to shore up the FHA and continue to improve our operations to ensure that taxpayers are not put at risk.

In addition to steeply increasing lender enforcement, we've strengthened credit and risk controls—toughening requirements on our Streamlined Refinance program, made several improvements to the appraisal process, and published a final rule in the Federal Register on April 20 to increase net worth requirements for all FHA lenders.

Long overdue, FHA hired its first Chief Risk Officer, Robert Ryan, to provide the most comprehensive and thorough risk assessment in the organization's history—and ensure that the assumptions going into our modeling reflect the most current economic conditions.

In addition, with Congress' help, we are working to increase staffing and technical capacity and upgrade our technology systems—and though we still have a long way to go, we delivered FHA's first comprehensive technology transformation plan to Congress in September. We have continued to make progress on both fronts. We recently issued and received several responses to a Request for Information to begin upgrading our risk and fraud tools and we delivered a FHA Staffing Report to Congress, which outlines our significant progress toward hiring the 118 FTEs that we thank Congress for appropriating to FHA in fiscal year 2010, along with details on an aggressive training and human capital development plan that includes managerial and technical skill building training as well as on-the-job mentoring.

Lender Enforcement

Under the Obama administration, FHA has significantly increased its lender enforcement activities to protect the MMI Fund, consumers, and address a number of bad actors that were previously not held accountable.

Since July 1, 2009, the Mortgagee Review Board (MRB) has investigated 365 cases, resulting in withdrawal of approval for 354 lenders and suspension of an additional 6 lenders. The number of cases that have been investigated by the MRB since July 2009 are greater than those investigated in the years 2002–2008 combined.[2] We take our responsibility to oversee lenders with the utmost seriousness. I would also like to emphasize that FHA's intent is to protect the Fund through a commitment to lender enforcement, but FHA in no way intends to punish responsible lenders. We are working closely with lenders to identify best practices and share them among the lending community, proactively identify problem situations and identify means to improve performance, to the benefit of lenders, consumers, and the FHA.

JANUARY POLICY ANNOUNCEMENTS AND LEGISLATIVE REQUESTS

On January 20 of this year, I proposed taking the following steps to mitigate risk and augment the MMI Fund's capital reserves: increase the mortgage insurance premium (MIP); impose a firm floor on allowable credit scores, and further tighten the minimum credit score required for borrowers with low down payments; reduce the maximum permissible seller concession to match the industry norm; and implement a series of significant measures aimed at increasing lender responsibility and enforcement. Thank you for the opportunity to explain these policies in more detail.

I would like to be clear that many of these reforms were long overdue as FHA did not respond effectively to changes in the marketplace that happened during the housing boom and the subsequent decline—inaction was and is not an option. In addition to the Congressional mandate to take action to bring FHA's capital reserves back up above 2 percent, FHA also has a responsibility to protect consumers from irresponsible lending practices, protect the taxpayer from excessive claims on the MMI fund, and facilitate the return of private capital to the mortgage market. We take these responsibilities seriously, as evidenced by the series of policies that we have already enacted and those that we request Congressional authority to enact.

FHA conducted an exhaustive review of loan performance in its portfolio and a thorough policy development process to ensure that these policy changes balance three guiding principles: (1) improve FHA loan performance and capital reserves, (2) continue to support the broader housing market and recovery, and (3) preserve

[2] See Appendix for Historical Data on Mortgagee Review Board Actions.

FHA's role in providing home ownership opportunities to responsible underserved borrowers. Each one of our policy changes fulfills these three priorities. Additionally, FHA evaluated several dozen other policy options which ultimately were not chosen as they did not strike the appropriate balance. With these factors, in mind, FHA has proposed a series of balanced policy proposals that fulfill our responsibility to the American taxpayer and recognizes the important role that FHA is currently playing in the recovery of the housing market.

Restructuring FHA Mortgage Insurance Premiums

First, insurance revenues from single family loan guarantees will grow by increasing the upfront premium to 225 basis points across all FHA forward product types (purchase, conventional to FHA refinances, and FHA to FHA refinances). The upfront premium increase was implemented by mortgagee letter issued on January 21, 2010 and became fully effective in the market for all applications received on or after April 5, 2010. I would like to thank Congress for providing FHA with the flexibility to increase the upfront premium to a maximum of 300 basis points through passage of the Housing and Economic Recovery Act (HERA) in 2008. While we have not chosen to increase the upfront premium to the maximum, this flexibility has enabled FHA to take immediate action to begin rebuilding our capital reserves. Similarly, we request flexibility in our legislative proposal to increase the annual premium to 150 basis points although we have not proposed to increase the annual premium to that level in our fiscal year 2011 budget proposal.

As noted in the proposed budget, while HUD is moving to increase the upfront premium to 225 basis points we are ultimately planning to reduce that premium to 100 basis points, offset by a proposed increase in the annual premium to 85 basis points for loans with loan-to-value ratios (LTV) up to and including 95 percent and to 90 basis points for LTVs above 95 percent.

This change to the annual premium will require legislative authority. We are extremely grateful that the House Financial Services Committee recently passed H.R. 5072—the FHA Reform Act of 2010—which provides this authority as well as several other provisions to further strengthen FHA. This legislation is now awaiting passage by the full House of Representatives. Given the importance of these issues to FHA's ability to facilitate our housing recovery while protecting the taxpayer, we hope that the Senate will similarly move to pass this legislation as expeditiously as possible.

We believe this new premium structure is sound policy—more in line with GSE and private mortgage insurers' pricing, and is intended to facilitate the return of private capital to the mortgage market.[3] Indeed, if these changes are adopted during the current fiscal year, the estimated value to the MMI fund would be approximately $300 million per month, which would replenish FHA's capital reserves even faster than if this authority was provided through the annual appropriations process.

This restructuring of FHA's mortgage insurance premiums will accomplish two very important goals: (1) increase the homeowner's equity in each mortgage transaction and reduce the risk to the FHA fund; and (2) facilitate the return of private capital to the mortgage market.

Increasing Equity in FHA Loans

As stated earlier, if granted legislative authority to increase the annual mortgage insurance premium, FHA proposes to reduce the upfront mortgage insurance premium from 225 basis points to 100 basis points. Borrowers typically finance the upfront mortgage insurance premium in their loan balance, increasing the effective loan-to-value and reducing the amount of equity in their home. The reduction of the upfront premium will lower the loan balance as well as add an additional 125 basis points of equity to each loan purchase.

Facilitating the Return of Private Capital to the Mortgage Market

As noted, the elevated role FHA is currently playing in the market is temporary. In addition to being more equitable for borrowers and generating more receipts for FHA, this change to the FHA premium structure brings FHA's pricing more in-line with the private mortgage insurance industry and enables more robust private competition. In fact, in response to FHA's announced policy changes, MGIC, the largest U.S. private mortgage insurer, announced on February 23 that it would be adopting a new pricing scale.[4]

[3] See Appendix for detailed information about the effect of proposed premium rate changes on home buyers.

[4] "MGIC Lowers Rates to Compete With U.S.-Backed Mortgage Insurers," Bloomberg, February 23, 2010.

Updating Credit Score/Downpayment Guidelines

FHA is also proposing a "two-step" FICO floor for FHA purchase borrowers, which would reduce both the claim rate on new insurance as well as the loss rate experienced on those claims. Purchase borrowers with FICO scores of 580 and above would be required to make a minimum 3.5 percent down payment; and those with FICO scores between 500–579 would be required to make a minimum down payment of 10 percent. Applicants below 500 would be ineligible for insurance. FHA plans to publish the two-step FICO proposal in the Federal Register soon, with implementation planned later this fiscal year.

Careful analysis of the existing FHA loan portfolio shows a clear performance difference between loans that were made below the proposed FICO/LTV guidelines. Loans below the guidelines are currently more than four times as likely to be seriously delinquent than loans above the guidelines. Loans below the guidelines demonstrate a seriously delinquent rate of 31.1 percent, while loans above the guidelines currently demonstrate a seriously delinquent rate of 7.6 percent. Of the total FHA loan portfolio, approximately 6 percent of loans fall under the proposed guidelines; however, due to improved quality of recent FHA loans, only 1.5 percent of loans endorsed in fiscal year 2009 would be excluded under the proposed guidelines.

LOAN PERFORMANCE BASED ON PROPOSED UPDATED CREDIT SCORE/DOWNPAYMENT GUIDELINES

[In percent]

Proposed Two Step Rule	Outstanding Loans	30-Day	60-Day	90-Day	In Foreclosure	In Bankruptcy	Seriously Delinquent (90-Day+)
Excluded	6.2	12.1	6.7	19.9	8.1	3.0	31.1
Still Qualify	93.8	5.0	2.1	4.9	2.0	0.7	7.6
Total	100.0	5.5	2.4	5.9	2.4	0.8	9.1

Source: U.S. Department of HUD/FHA; February 2010.

If implemented, in combination with the proposed mortgage insurance premium structure, the updated FICO/LTV guidelines are projected to result in the $4.1 billion in additional offsetting FHA receipts as reflected in the President's budget.

Minimum Downpayment for FHA Loans

Some have suggested that FHA raise the minimum required downpayment to 5 percent across the board and also remove the option of financing the upfront insurance premium into the loan balance for all transactions as a means to increase homeowner equity. We share the goal of increasing equity in home purchase transactions, but determined after extensive evaluation that such a proposal would adversely impact the housing market recovery.

To determine the impact of requiring a minimum 5 percent downpayment for all transactions, FHA evaluated the loan files of a large sample of past endorsements to identify the number of borrowers who had sufficient assets at time of loan application to contribute the additional 1.5 percent of equity at closing. As illustrated in the table below, such a policy change would reduce the volume of loans endorsed by FHA by more than 40 percent, while only contributing $500 million in additional budget receipts. This translates to more than 300,000 fewer first-time home buyers and would have significant negative impacts on the broader housing market—potentially forestalling the recovery of the housing market and potentially leading to a double-dip in housing prices by significantly curtailing demand. In contrast, the combination of policy changes proposed by FHA in the fiscal year 2011 budget would contribute an additional $4.1 billion in additional receipts to FHA while having a much more moderate impact on the broader housing market.

IMPACT OF FISCAL YEAR 2011 POLICY OPTIONS ON FHA RECEIPTS AND LOAN VOLUME

[In billions of dollars]

Policy Option	FHA Receipts	FHA Loan Endorsements
Baseline without policy changes	1.7	246
Minimum 5 percent downpayment for all transactions	2.2	139
Fiscal Year 2011 Budget Proposal with all proposed policy changes	5.8	223

Source: U.S. Department of HUD/FHA; February 2010.

Furthermore, downpayment alone is not the only factor that influences loan performance. The combination of downpayment and FICO score is a much better predictor of loan performance than just one of those components alone. For instance, loans with a loan-to-value (LTV) above 95 percent and a FICO score above 580 perform better than loans with LTV below 95 percent and a FICO score below 580, while loans with a LTV above 95 percent and a FICO score below 580 perform significantly worse than all other groups, as illustrated below.

FHA SINGLE FAMILY INSURED LOAN CLAIM RATES RELATIVE EXPERIENCE BY LOAN-TO-VALUE AND CREDIT SCORE VALUES [1]

[Ratios of each Combination's Claim Rate to that of the Lowest Risk Cell [2]]

Loan-to-Value Ratio Ranges	Credit Score Ranges [3]			
	500–579	580–619	620–679	680–850
Up to 90 percent	2.6	2.5	1.9	1.0
90.1–95 percent	5.9	4.7	3.8	1.7
Above 95 percent	8.2	5.6	3.5	1.5

[1] Based on experience of the fiscal year 2005–fiscal year 2008 insurance cohorts, as of February 28, 2010. These ratios represent averages of the cell-level ratios in each cohort.

[2] Claim rates in the first row and last column are the low-risk cell and are represented by a ratio value of 1.00. Values in all other cells of this table are ratios of the cell-level claim rate to the claim rate of the low-risk group.

[3] Loan-level scores represent the decision FICO scores used for loan underwriting. This analysis includes all fully-underwritten loans, purchase and refinance, but excludes streamline refinance loans.

Source: U.S. Department of HUD/FHA; March 2010.

It is for these reasons, rooted in a thorough review of actual FHA loan performance data, that FHA has decided to reduce the upfront mortgage insurance premium, which is financed into the loan balance in the vast majority of transactions, and increase the annual mortgage insurance premium, which is paid over time and not financed into the loan balance, which is more aligned with the premium structure of private mortgage insurance companies.

In particular, we have proposed to permit loans to borrowers with FICO scores above 580 with a minimum 3.5 percent downpayment and loans to borrowers with FICO scores between 500 to 579 with a minimum 10 percent downpayment. It is also worth noting that these downpayment guidelines are minimums and many borrowers do in fact have significantly lower LTVs—in the fourth quarter of fiscal year 2009, more than 21 percent of endorsed loans had a LTV lower than 90 percent.

Reducing Seller Concessions

We are also proposing a third policy measure to reduce the maximum permissible seller concession from its current 6 percent level to 3 percent, which is in line with industry norms. The current level exposes the FHA to excess risk by creating incentives to inflate appraised value. As seen in the table below, FHA's experience shows that loans with high levels of seller concessions are significantly more likely to go to claim. Experience to-date on loans insured from fiscal year 2003 to fiscal year 2008 suggests that claim rates on high-concession loans are 50 percent higher or more than those on low-concession loans.

FHA SINGLE-FAMILY INSURANCE TO-DATE CLAIM RATE COMPARISON LOW (0–3 PERCENT) VS. HIGH (3.1–6 PERCENT) SELLER CONCESSIONS [1]

[As of December 31, 2009]

Endorsement Fiscal Year	Low Concessions (percent)	High Concessions (percent)	Ratio High/low
2003	6.5	10.7	1.65
2004	6.6	11.6	1.76
2005	7.2	11.2	1.54
2006	6.5	9.5	1.46
2007	4.6	6.3	1.36
2008	1.0	1.5	1.60

[1] As a percentage of the home price. This analysis is only for home purchase loans.

Source: US Department of Housing and Urban Development, Federal Housing Administration; January 2010.

Increasing Lender Enforcement

In its fiscal year 2009 Actuarial Review, the independent actuary projected that more than 71 percent of FHA's losses over the next 5 years will come from loans already on our existing books, rather than from newly insured loans. That's why an important step we can take to minimize losses to capital reserves in the near term is to step up enforcement and make lenders more accountable. As mentioned earlier, we have renewed our focus on enforcement and lender accountability.

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 the error may have impacted the original loan decision, or in which fraud or misrepresentation were involved. FHA currently has this authority for loans originated through the Lender Insured (LI) process, which accounts for 70 percent of FHA loan volume, but only 29 percent of FHA-approved lenders. FHA is asking that Congress grant explicit authority to require indemnification for loans that were improperly originated for the remaining 71 percent of FHA-approved lenders. FHA is simply requesting that Congress permit FHA to hold all lenders to the same standard; FHA is not asking for expansion of authorities beyond those already granted to FHA to oversee lenders participating in the LI program.

As you can see, we have proposed a comprehensive set of reforms to improve loan performance, hold lenders accountable, and increase revenues to the FHA fund, while also ensuring that FHA continues to support the overall recovery of the housing market and continue to serve its mission of providing home ownership opportunities for responsible borrowers. We look forward to working with Congress closely on all these issues and hope to gain your support for our legislative requests to further reduce risks to the American taxpayer.

CBO SCORING

On March 5, the Congressional Budget Office released its re-estimate of the President's 2011 budget. Although the CBO re-estimate includes a significantly more conservative assessment of how new loans made through FHA's MMI Fund will perform in coming years, both CBO and the administration forecast that such credit activity will result in net receipts to the Government. We differ, however, on the amount. While the President's budget forecast $5.8 billion in net receipts resulting primarily from insurance premia and other fees assessed on FHA loans, CBO re-estimated those receipts at $1.9 billion. Accordingly, CBO's scoring suggests our policies will cost $3.9 billion more than we estimated in our submission to you.

While recognizing that such a difference with CBO complicates budget resolution development, we remain confident that the $5.8 billion in receipts forecast in the President's budget will be realized and transferred to FHA's Capital Reserve Account. This will help that fund get back on track to be capitalized with the statutorily mandated 2 percent of insurance in force.

HOME EQUITY CONVERSION MORTGAGE (HECM)

This year, we are requesting an appropriation of $250 million to support FHA's reverse mortgage product—the Home Equity Conversion Mortgage, or HECM, program. The HECM program provides seniors with a means to access their home equity to make ends meet. A survey conducted by AARP in 2006 showed that the product provided seniors with much-needed financial relief and was primarily used to pay for long term healthcare, enable home repairs, and provide piece of mind that housing expenses could be met.[5] Another study, conducted by the National Council on Aging in 2005 showed how the program can help seniors access in-home healthcare services, an arrangement that allows households to "age in place" rather than undergoing disruptive transitions into nursing homes or other types of public facilities to receive health-related assistance. Keeping seniors in their homes and communities, close to familiar support networks, puts less pressure on our Nation's overextended nursing home infrastructure and the public resources that support it.

We have performed considerable analysis to perform the maximum policy changes that we could perform to reduce risk to the taxpayer and maintain the viability of the program, which is why we have proposed for fiscal year 2011 an increase in the annual mortgage insurance premium from 0.50 percent to 1.25 percent and a further reduction in the principal limit factors (PLFs) of approximately 1 to 5 percent depending on the age of the borrower, on top of the 10 percent reduction in PLFs that was implemented at the beginning of fiscal year 2010.

Without the budget request, we would be forced to reduce the PLFs by an additional 21 percent in fiscal year 2011. This would significantly reduce the amount of funds that would be available to seniors (more than 30 percent), which is on average a $23,000 to $27,000 impact.

Any additional steep cut to the PLFs will result in serious decline in program level as HECMs would no longer be viable to many seniors who need to access their home equity while staying in their homes. It is important to note that the need for this type of program is greater now than it's ever been, due to increasing medical costs, declining employment/incomes, and less "savings" in various types of pension funds/retirement accounts.

Forecasts suggest that future house prices will grow more slowly than in the past, and the HECM program costs are very sensitive to future house prices. As such, we have also assembled a working group with the Department to see what other kinds of broader program changes could be made going forward to make the program more viable even under stressful economic times.

Given the value of this program in assisting this critical population, HUD has requested an appropriation to maintain the viability of this option for seniors while we evaluate the range of broader program changes that may be necessary to ensure the success of the HECM program into the future.

HUD'S CENTRAL ROLE IN PREVENTING FORECLOSURES AND STABILIZING NEIGHBORHOODS

On March 26, as part of the administration's continued efforts to assist homeowners to avoid foreclosure, HUD announced adjustments to the FHA program, referred to as the FHA refinance option, that will allow lenders to provide additional refinancing options to those borrowers who owe more on their home than it is worth if combined with a principal write down by their lender or mortgage investor. These adjustments will provide more opportunities for qualifying mortgage loans to be responsibly restructured and refinanced into FHA loans as long as the borrower is current on the mortgage and the lender reduces the amount owed on the original loan by at least 10 percent. We have also expanded the FHA loan modification program, known as FHA HAMP, to provide incentives for servicers to modify loans in-

[5] "Reverse Mortgages: Niche Product or Mainstream Solution? Report on the 2006 AARP National Survey of Reverse Mortgage Shoppers," AARP Public Policy Institute Paper #2007–22. and "Use Your Home to Stay at Home," National Coalition on the Aging, 2005. http://www.ncoa.org/news-ncoa-publications/publications/reversemortgagereportpublications.pdf.

sured by the FHA. With the issuance of new rules on March 26 (Supplemental Directive 10–03), TARP-funded incentives will be available to borrowers and servicers whose loans are modified under the FHA–HAMP guidelines, corresponding to the pay-for-success HAMP incentive structure. In addition to efforts to improve the execution of the administration's Making Home Affordable program, HUD is utilizing long-existing mechanisms as well as additional authority provided in recently enacted legislation to aid distressed homeowners and to address community blight resulting from foreclosed and abandoned properties.

FHA Refinance Option.—To address the challenge of underwater homeowners, we have made adjustments to Federal Housing Administration (FHA) programs that will permit lenders to provide additional refinancing options to homeowners who owe more than their home is worth because of large falls in home prices in their local markets. These adjustments will provide more opportunities for qualifying mortgage loans to be responsibly restructured and refinanced into FHA loans as long as the borrower is current on the mortgage and the lender reduces the amount owed on the original loan by at least 10 percent. This option will be made available in the market in early fall.

The new FHA loan must have a balance less than the current value of the home, and total mortgage debt for the borrower after the refinancing, including both first and any other mortgages, cannot be greater than 115 percent of the current value of the home—giving homeowners a path to regain equity in their homes and an affordable monthly payment. By requiring a meaningful principal write-down in conjunction with the newly refinanced loan, borrowers will have a more sustainable loan that will be more affordable. Additionally, borrowers will have an opportunity to refinance into current interest rates, which remain low.

The new loan must conform to FHA's underwriting requirements, so performance would likely fall within acceptable risk thresholds for FHA. That being said, there is reasonable concern that there may be a performance differential—these loans may perform worse than refinanced loans that were not previously underwater. As such, loans that conform to all guidelines of the FHA refinance option will be counted separately toward lender performance monitoring through Credit Watch—the system by which FHA suspends or terminates lenders for high default rates. Originating these loans will not hinder a servicer's ability to pursue other lines of business, mitigating a potential barrier to servicers' and investors' willingness to offer principal writedowns to borrowers.

Of the $14 billion of TARP funds allocated to support the FHA refinance option, a portion will be made available to provide coverage for a share of potential losses on these loans, mitigating detrimental impacts to FHA's capital reserve from facilitating the private sector to provide principal writedowns to underwater borrowers in conjunction with these refinancings. No TARP funds will go to the FHA itself for any loans.

This refinancing will help homeowners by setting monthly payments at affordable levels and decreasing the mortgage burden for families owing significantly more than their homes are worth. Keeping more responsible families in their homes should support the continued recovery of the housing market.

Established FHA Loss Mitigation Efforts.[6]—Homeowners of FHA-insured loans have long been eligible for a variety of loss mitigation programs to help protect them from foreclosure. In 2009, more than 450,000 families were assisted through a variety of methods, including forbearance, partial claim, loan modification, pre-foreclosure sale, and deed-in-lieu of foreclosure. In the first quarter of fiscal year 2010, FHA assisted more than 122,000 through these programs. Servicers of FHA-insured loans are required to notify delinquent homeowners about the option(s) that are available to help them make their monthly payments and to implement loss mitigation efforts before they take the final step of initiating foreclosure proceedings.

FHA-Home Affordable Modification Program (FHA–HAMP).—When initially introduced to the public, the Making Home Affordable program excluded FHA-insured mortgages and stated that FHA would develop its own stand alone program. On July 30, HUD announced final rules implementing the FHA's program—the FHA Home-Affordable Modification Program (FHA–HAMP)—which is an important complement to MHA and provides homeowners in default (or at-risk of imminent default) with greater opportunity to reduce their mortgage payments to a sustainable level. All servicers were expected to begin offering FHA–HAMP by August 15. This new loss mitigation program was authorized under the "Helping Families Save Their Homes Act of 2009," signed into law on May 20, and allows FHA to give qualified FHA-insured borrowers the opportunity to obtain assistance under terms roughly comparable to borrowers in other segments of the market, without increasing

[6] See appendix for description of FHA's loss mitigation programs.

costs to the taxpayer. This program allows HUD to permanently reduce a family's monthly mortgage payment to an affordable level by offering a partial claim of up to 30 percent of the unpaid principal balance. This defers the repayment of the mortgage principal reduction through an interest-free subordinate mortgage that is not due until the first mortgage is paid off.

At the initiation of FHA HAMP in August 2009, it was projected to provide assistance to over 45,000 households over the next 3 years. As of January 31, 2010, lenders have sent over 15,000 trial plans and over 10,000 borrowers have made at least 1 payment on their trial plan. FHA–HAMP loan volume is currently above projections for the 3 year milestone and all but one major lender has borrowers under a trial program.

Pay for success payments were included for borrowers and servicers that utilized the conventional HAMP. However, at the time of its announcement, FHA–HAMP did not include Pay for Success payments for servicers or mortgagors that made on time payments as it required regulatory action to be eligible for FHA-insured mortgages. We have worked diligently to complete this process and FHA issued a mortgagee letter that enables FHA–HAMP borrowers and servicers to be eligible for Pay for Success payments. Consequently, it is expected that demand for FHA–HAMP will increase.

Assistance for Borrowers Facing Imminent Default.—On January 22, 2010, FHA announced that it was exercising authority granted to it by Congress through the Helping Families Save Their Home Act of 2009 to use its loss mitigation tools to assist FHA borrowers avoid foreclosure to include those facing "imminent default" as defined by the Secretary. Homeowners with FHA-insured mortgage loans who are experiencing financial hardship are now eligible for loss mitigation assistance before they fall behind on their mortgage payments. Previously, these homeowners were not eligible for such assistance until after they had missed payments. Now servicers will have additional options for those borrowers who seek help before they go delinquent, which increases the likelihood that the borrower will be able to retain their home.

The borrower must be able to document the cause of the imminent default which may include, but is not limited to, one or more of the following types of hardship:

—A reduction in or loss of income that was supporting the mortgage loan, e.g., unemployment, reduced job hours, reduced pay, or a decline in self-employed business earnings. A scheduled temporary shutdown of the employer, (such as for a scheduled vacation), would not in and by itself be adequate to support an imminent default.

—A change in household financial circumstances, e.g., death in family, serious or chronic illness, permanent or short-term disability

Improving Servicer Outreach and Performance in Preventing Foreclosures.—FHA is working closely with lenders and servicers to improve their outreach and performance in assisting borrowers to avoid foreclosure. In February 2010, FHA's Office of Single Family Asset Management and the FHA National Servicing Center began conducting lender visits to identify best practices that could be shared with the broader servicing community to improve foreclosure mitigation across the industry. The visits were conducted with five overall objectives: (1) better understand in specific detail the process variations that exist at each lender for providing a delinquent FHA borrower with options to avoid foreclosure; (2) discuss specific borrower trends the lenders are experiencing; (3) identify borrower circumstances that prevent them from being qualified for various foreclosure prevention options; (4) receive suggestions from the lender that might improve the process for FHA loss mitigation; and, (5) understand the differences in default/foreclosure statistics as compared to national averages. Several findings have already been identified and FHA has begun to share them with servicers, while continuing to meet with additional lenders to identify additional best practices that will enable underperforming servicers to improve their success with preventing foreclosures. It is worth noting that these best practices are not limited to the FHA population, and HUD's efforts in this area will benefit all homeowners, not only those with a FHA-insured mortgage, by collaborating with the servicer community to improve their foreclosure prevention activities across the entire industry.

Counseling.—HUD is utilizing its vast network of counselors and other nonprofits to provide critical assistance to the record number of homeowners at-risk of foreclosure. It is estimated that more than one-half of all foreclosures occur without servicers and borrowers ever engaging in a discussion about potential options to prevent foreclosure. That is why we have directed HUD-approved counselors to educate homeowners about their various options, promote the MHA program in local communities, and assist distressed homeowners with navigating the system so they can reach servicers and obtain assistance to avoid foreclosure.

HUD-approved counselors are located across the Nation and provide distressed homeowners with a wealth of information. The counselors provide assistance over the phone and in person to individuals seeking help with understanding the Making Home Affordable program, explain options available to FHA-insured homeowners, and often work with borrowers eligible for the administration's refinance or modification program to compile an intake package for servicers. These services are provided free of charge by nonprofit housing counseling agencies working in partnership with the Federal Government and funded in part by HUD and NeighborWorks® America. In addition, HUD, working with Treasury and the Homeownership Preservation Foundation, encourages distressed borrowers to contact the Homeowner's HOPE Hotline at 866–995–HOPE to receive counseling and advice on avoiding foreclosures. The 24 hours a day, 7 days a week hotline utilizes many HUD-approved counselors who can also help the homeowner reach and resolve issues with servicers.

Neighborhood Stabilization Program (NSP).—HUD recognizes that concentrated foreclosures can wreak havoc on once-stable communities and is working to insure that the nearly $6 billion appropriated by Congress for NSP plays the intended role of helping to stabilize housing markets and combat blight through the purchase and redevelopment of foreclosed and abandoned homes and residential properties. NSP is starting to generate real results and is emerging as a vital resource in facilitating the transformation of foreclosed homes into affordable housing and other useful properties. HUD continues to monitor program activities, identify strategies that produce real results, and work to make program modifications that will help ensure that this funding is deployed quickly, wisely, and effectively. Additionally, FHA and HUD's Office of Community Planning and Development have created a working group to assist NSP grantees to better coordinate the use of NSP funds for the purchase of FHA REO properties.

FACILITATING OUR RECOVERY, BUT PROTECTING THE TAXPAYER

Madam Chairwoman and Ranking Member Bond, shoring up the FHA won't solve all our housing challenges—one reason the administration is working to produce a more balanced, comprehensive national housing policy that supports home ownership and rental housing alike, providing people with the options they need to make good choices for their families.

Further, as important as the FHA is at this moment, I want to emphasize that the elevated role it is playing is temporary—a bridge to economic recovery helping to ensure that mortgage financing remains available until private capital returns.

That means that while we must remain mindful that qualified, responsible families need the continued ability to purchase a home, the changes and legislative requests that we have announced are crafted to ensure FHA steps back to facilitate the return of the private sector as soon as possible. Until the private sector can step back up, they need the FHA—and so does our housing market.

So, Madam Chairwoman, while FHA must remain a key source of safe mortgage financing at a critical moment in our country's history, we recognize the risks that we face and the challenges of this temporary role that we play in today's market. And the bottom line is this: the loans FHA insures must be safe and self-sustaining for the taxpayer over the long-term. With these reforms the administration is committed to ensuring that they are today—and into the future. Thank you.

APPENDIX.—MORTGAGEE REVIEW BOARD HISTORICAL ACTIONS BY FISCAL YEAR

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total Number of Cases	61	92	14	63	47	38	21	18	95	593	360
Fact Based Cases	61	92	14	63	47	38	21	18	30	21	40
Recertification Cases	....	....	....	....	....	....	....	....	65	572	320
Actions Taken:											
Withdrawal of Approval	15	29	2	4	8	10	3	3	27	268	314
Suspension	1	1	....	....	....	....	....	....	1	6	1

Fact Based Cases.—Are those referrals to the board as a result of a review of the lenders origination, underwriting and/or operations; primarily the result of the Single Family Quality Assurance Division's lender monitoring reviews, but the board also receives referrals from the OIG, Multi-Family, etc.

Recertification Cases.—Are referrals to the MRB from the Office of Lender Activities Lender Recertification branch and are the result of a lender's failure to follow our annual renewal process. The addition of this new category in fiscal year 2008 was primarily due to the new requirements issued from the decision by HUD's Administrative Law Judge in fiscal year 2008 that all lenders that do not comply with FHA's annual renewal requirements must go before the Board for administrative action.

Withdrawal of Approval.—Terminates the FHA-approval of a lender, e.g. lenders lose their FHA Approval Status and have no authority to originate and/or underwrite FHA loans.

Suspension.—Temporarily suspends an FHA-approved lenders ability to originate and/or underwrite FHA loans. It does not terminate their FHA Approval, just the ability to use it.

FHA SINGLE FAMILY INSURANCE EFFECT OF PROPOSED PREMIUM RATE CHANGES ON HOME BUYERS WHO MAKE THE MINIMUM CASH INVESTMENT

Home Price and Mortgage Payment Components	With Current MIP Values (175/55)	With Interim 225/55 MIP Plan	Difference from Current Values	With Proposed 100/90 MIP Plan	Difference from Current Values
House price—Average Value	$176,000	$176,000	....	$176,000	....
Base Loan Amount (96.5 percent LTV)	$169,840	$169,840	....	$169,840	....
Loan Amount with UFMIP	$172,812	$173,661	$849	$171,538	−$1,274
Interest Rate (percent)	5.50	5.50	....	5.50	....
FHA upfront MIP rate (percent)	1.75	2.25	....	1.00	....
FHA annual MIP rate (percent)	0.55	0.55	....	0.90	....
Principal and Interest payment	$981	$986	$5	$ 974	−$7
PITI payment [1]	$1,355	$1,360	$5	$1,348	−$7
PITI + FHA Mortgage insurance payment (full mortgage payment)	$1,434	$1,439	$5	$1,475	$42

[1] This assumes that property taxes and hazard insurance payments (TI) amount to 2.55 percent of the property value. This figure is backed into from the difference between the average mortgage payment ratio of FHA-insured borrowers and the payment without the TI portion. PITI refers to principal, interest, taxes, and insurance.

Source: U.S. Department of HUD/FHA; February 2010. Average values are for FHA-insured home-purchase borrowers, October–December 2010.

DESCRIPTION OF HUD'S LOSS MITIGATION PROGRAM TOOLS

Formal Forbearance

A short term repayment plan to postpone, reduce, or suspend payment due on a loan for a limited and specific time period. A formal forbearance is normally entered into when a borrower is in imminent default or early delinquency and can be as simple as a promise-to-pay.

Special Forbearance

A long term repayment plan that may provide for periods of reduced or suspended payments when there is reasonable likelihood the borrower can resume normal or increased payments.

Mortgage Modification

Provides a permanent change in the monthly mortgage payment by capitalizing the accumulated arrears and establishing a new mortgage term of up to 30 years.

Partial Claim

A promissory note and subordinate mortgage to cover the advance for delinquent mortgage payments is issued in the name of the Secretary of HUD. Mortgagee advances funds on behalf of the Mortgagor in the amount of the Partial Claim advance to reinstate the delinquent loan.

FHA–HAMP

FHA–HAMP allows qualified FHA-insured borrowers to reduce their monthly mortgage payment to an affordable level by permanently reducing the payment through the use of a partial claim combined with a loan modification. The partial claim defers the repayment of a portion of the mortgage principal through an interest-free subordinate mortgage that is not due until the first mortgage is paid off. The remaining balance is then modified through re-amortization and in some cases, an interest rate reduction.

Pre-foreclosure Sale

Homeowner sells the property at a price less than the outstanding mortgage balance and HUD pays an insurance claim to the mortgagee for the resulting loss.

Deed-in-lieu of Foreclosure

Voluntary transfer of property title to the lender or directly to HUD.

PREPARED STATEMENT OF KENNETH M. DONOHUE

Chairman Murray, Ranking Member Bond, and members of the subcommittee, thank you for inviting me to submit written testimony today. I very much appreciate the opportunity to speak on the importance of the role of the Federal Housing Administration (FHA) in addressing the housing crisis currently confronting our Nation. It was a year ago, when I last testified before you on this topic and much has transpired during the intervening time as well as some aspects, such as the stagnancy of the housing market, unfortunately remaining the same. We have not yet weathered the economic storm but hopefully in its aftermath we will see some clearer skies and renewed prosperity. This much is known 1 year later however—the current degree of FHA predominance in the market still is unparalleled.

BACKGROUND

The mission of the Department of Housing and Urban Development (HUD) is to increase home ownership, support community development, and increase access to affordable housing free from discrimination. The FHA provides mortgage insurance to private lenders that finance single family homes, multifamily projects, healthcare facilities, loans for property improvements and manufactured homes. The FHA has provided mortgage insurance to over 37 million single family homes and over 51,000 multifamily projects since its inception over 75 years ago. Most of the industry has adhered to the FHA and industry standards in assisting the American home buyer. Unfortunately, there are those that seize upon the opportunity for "greed" in exploiting the system.

As I stated previously, the last number of years have seen enormous and damaging developments in the mortgage market: the dissolution of the subprime and Alt-A loan markets; dramatic drops in housing prices in most areas of the country; a concomitant rise in default and foreclosures arguably drawing comparisons to levels of distress experienced in the Great Depression; financial insecurity in the mortgage-backed securities markets represented by the Government takeover of Fannie Mae and Freddie Mac; the collapse of credit markets; and, as a primary vehicle to address these issues, an urgent reliance on the FHA to bolster the mortgage market.

The FHA was established under the National Housing Act of 1934 to improve housing standards and conditions, to provide an adequate home financing system by insuring mortgages and rental projects, and to stabilize the mortgage market after the devastation of the Depression and massive losses of home ownership during that time. It was created to be the standard setter and the standard bearer for the mortgage and housing communities in areas such as underwriting standards and ethical behavior. It had, in my estimation, as history will attest, abdicated this important role—too often slow on the upside, as we saw during the recent expansion of FHA in the marketplace, and slow on the downside. It had a responsibility which frankly it sidestepped.

HISTORICAL PERSPECTIVE

The FHA Commissioner in his testimony a number of weeks ago regarding policy and legislative reforms, stated that ". . . many of these reforms were long overdue as FHA did not respond effectively to changes in the marketplace that happened during the housing boom and the subsequent decline." In his view ". . . inaction was and is not an option." I applaud these remarks and state for the record that in my 8 years as HUD inspector general, this FHA Commissioner has tried to do more in the last year than I saw in all the previous years combined. As you know from my many years of testimony before this subcommittee and others, I agree with his statement that the "organization they inherited was simply not properly managing or monitoring its risk." Many of his proposals and initiatives are long overdue and meritorious. That said, we still have much to do and have much uncertainty facing this Department—some within the control of departmental officials and some outside their sphere of influence. While it is difficult to predict the future—as an old adage goes if you have five economists in the room you'll have eight different forecasts—I am not as optimistic as some are with where we are today or even going in the near future but I do agree that the program is attempting to move ahead in a good direction.

In late 2008, a BusinessWeek article generated a buzz with a picture of a wolf on the cover representing the pernicious side of the mortgage industry coming at the FHA. I was quoted at the time expressing my concern about the groundswell of loans that were going to come in to the program and the types of loans that might be coming with the onslaught of new lenders. The FHA disputed my statements. Also quoted in the article was Michael Ashley, a chief official of a New York mortgage lending firm who had switched its strategy from subprime to FHA-backed mortgages. The article reported that in 2008 alone the company, Lend America, made $1.5 billion in loans and Ashley is quoted as stating that the "FHA is a big part of the future." I was perturbed reading his blatant bravado regarding how the FHA had become his meal ticket because of our open investigation of him and his company at the time and our previous prosecution against him years earlier for engaging in similar activity.

When I highlighted this case to you in previous testimony, I was frustrated with the vulnerabilities in the FHA approval system that allowed Mr. Ashley to come back into the program and to publicly and brazenly brag about his participation. I am pleased to state, however, that we did receive an injunction against Mr. Ashley banning him permanently from ever engaging in Federal mortgage programs. A local newspaper reported when we took initial action against him that there was a Mercedes Benz car in the company parking lot with a license plate "RefiFHA." Hopefully, with the actions that the FHA is trying to put into place today we will not see such bombastic industry behavior. I am also pleased that this Commissioner has recently taken action against over 300 lenders sending a very distinct message to the lending community. I had highlighted in reports that the Department's Mortgagee Review Board was broken and I applaud his action to reinvigorate the process. I do think that this Commissioner is dealing with the consequences of departmental inactions that took place prior to his tenure and that our perceptions at the time have, despite the agency's attempts then at refutation, come to pass in terms of volume, types of participants, and ramifications to the portfolio.

For example, another recent OIG case underscores large fraud schemes and losses to the program. At Taylor Bean and Whitaker (TBW) Mortgage Corporation and Colonial Bank we uncovered various schemes. Federal search warrants were simultaneously executed at both TBW and Colonial Bank. The FHA then suspended TBW from participation and the company filed for bankruptcy. Colonial Bank was taken over by the FDIC and then sold to BB&T Bank. HUD's suspension was based on TBW failing to submit an audited financial statement, misrepresenting that there were no unresolved issues with an independent auditor and its failure to disclose it was the subject of two examinations into its business practices. At the point of seizure, TBW was servicing Federally insured and guaranteed loans with a remaining principal balance of about $26 billion.

Lastly, I had said that, through the multitude of our work in auditing and investigating many facets of the FHA programs over the course of many years, we have had, and continue to have, concerns regarding FHA's systems and infrastructure to adequately perform its current requirements and services. This was expressed by the OIG to the FHA through audits and reports regarding a wide spectrum of areas prior to the current influx of loans coming into the program and prior to the consideration of the numerous proposals that expanded its reach. Some of these were longstanding concerns that went back to unresolved issues highlighted in our work products from as far back as the early 1990s.

THE CURRENT LANDSCAPE

The past 2 years have certainly produced a lot of changes and initiatives. In response to increasing delinquencies and foreclosures brought about by the collapsing subprime mortgage market, the FHA Secure program to refinance existing subprime mortgages, the Housing and Economic Recovery Act's (HERA) Hope for Homeowners program, the Helping Families Save Their Homes Act, and The Making Home Affordable Program were created to assist homeowners.

As we turn to today's environment, the size of the Single-Family FHA-insured loan portfolio has enlarged by nearly 50 percent from $466 billion in fiscal year 2008 to over $697 billion in fiscal year 2009. During the month of March of this year, the FHA's total mortgage in force was over $6.1 million with an aggregate outstanding balance of over $800 billion. Single-Family market comparisons from the first quarter of fiscal year 2010 show that FHA's total endorsements have increased to 74 percent of the insured mortgage market which includes both home sales and refinances. As recent FHA testimony states, the FHA program is insuring almost 30 percent of purchases and in the past year alone helped more than 800,000 homeowners refinance.

I still remain concerned that the FHA will be challenged to handle its expanded workload or new programs that require the agency to take on riskier loans than it historically has had in its portfolio. The surge in FHA loans is overtaxing the current infrastructure, making careful and comprehensive lender monitoring difficult. Through our cases we see the consequences of allowing in dubious lenders who then inflicted the program with problematic loans. In addition, our experience in prior high FHA volume periods (such as from 1989–1991 and 1997–2001) shows that the program was vulnerable to exploitation by fraud schemes, most notoriously flipping activities, that undercut the integrity of the program. I support many of the recent initiatives proposed by the Secretary and the FHA Commissioner, of which I will elaborate on later, and a new departmental attitude to address these issues head on.

We testified last year that the FHA had to contend with a significant and complex situation in balancing the risks to, and fiscal vitality of, the Mutual Mortgage Insurance (MMI) Fund against the need to assure financial mortgage markets continue to function properly during the downturn of the economy. Among the issues we spoke to were the adequacy of resources available to FHA for staffing, training, oversight, and system enhancements. We cited the increasing risks the FHA faced that needed to be addressed by both its front-end risk assessment processes as well as its back-end monitoring and corrective action processes.

Since that time the FHA has undertaken a number of actions to mitigate some of those risks and protect reserve fund balances. The FHA has banked on the accuracy of its actuary's projections in assessing the health of the Fund and has faith that it is experiencing improved performance with its 2009 and 2010 portfolio. Economists cannot agree the direction the economy is going and I equally am not a proficient prognosticator. We are in a fluid and dynamic situation that too often has not been predictable or readily knowable. The FHA, like the average American, is still searching for clearer horizons and a break in the tempest.

The FHA's latest report shows that for last quarter, the net losses on claims were averaging close to 60 percent which is 13 percent higher than was predicted. In layman's terms, the FHA is recovering only 42 cents on the dollar (i.e., what it loses after it pays a claim and sells foreclosed property). In the State of Michigan, however, it is only recovering 16 cents on the dollar. It currently has approximately 45,600 properties at a value of $5.7 billion in the real estate owned (REO) inventory. Moreover, its credit subsidy rate is one-half percent which after adjustment for present value means revenues are a one-half percent ahead of claims. That's positive but by a very slim margin. The FHA is taking a number of steps to mitigate losses and keep the fund positive.

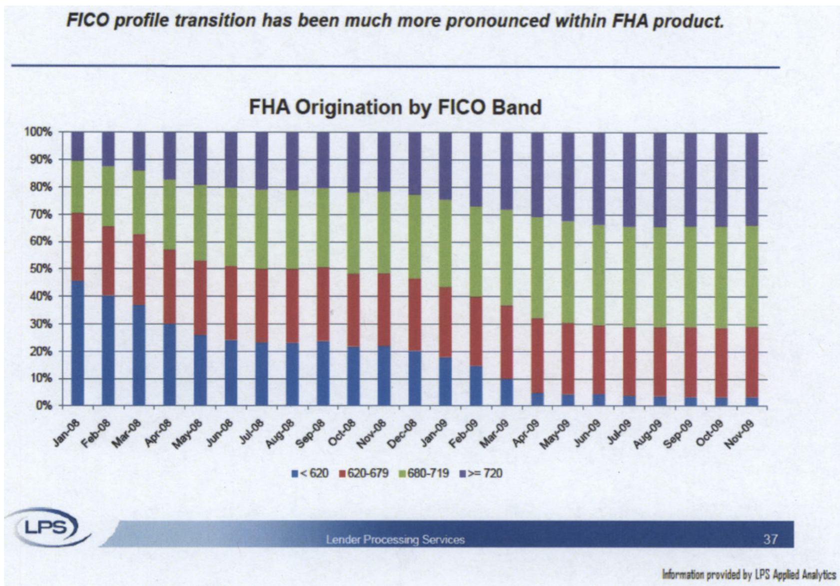
While the FHA's confidence in actuarial numbers brings it hope, we believe vigilance is needed until the marketplace has stabilized. Like any American family in today's uncertain times, the FHA will have to continuously monitor its financial position and take proactive steps to keep ahead of the curve when reality dictates corrective action is required. The FHA has a number of tools at its disposal to increase revenue or to reduce losses accomplished through mechanisms such as loss mitigation or vigilant oversight of lenders and brokers. Most of the major actions proposed to mitigate risk will not go into effect right away so we need to understand that such actions may have little effect on loans already in the portfolio. With the current state of the economy, will there be enough new loans to bail out the old loans? This is where due diligence today is imperative as well as an overall proactive approach.

FHA POLICY CHANGES TO ADDRESS RISK AND STRENGTHEN FINANCES

New Loan-to-value and Credit Score Requirements

Loans to borrowers with a credit score of less than 580 will require a minimum 10 percent down payment. Loans to borrowers with a credit score of 580 or above will require the traditional minimum of 3.5 percent down payment. This change, if approved, will go into effect this summer after going through the Federal Register notice and comment process.

We are in general agreement with the move to strengthen down payment requirements. We, however, believe there are some caveats. While this requires borrowers with the riskiest loans (below 580) to put more, to quote an earlier comment by Senator Bond, "skin in the game," this will more than likely have minimal impact on the Fund in terms of bringing in additional premiums. Loans for borrowers with credit scores below 580 are less than 1 percent of new activity. So these additional requirements may likely end most activity in this category. It might, however, reduce future claims but the volume of these loans will not bring in a significant amount of premium payments to cover current losses. The chart below from LPS Applied Analytics shows the proportion of FICO credit scores over the last 23 months.



As seen in the lowest color segment of the bar chart for FICO scores below 620, the percentage of loans that would be potentially subject to the new 10 percent down payment requirement has steadily decreased to less than 1 percent. This is both good news and bad news because it shows that from a financial perspective the FHA's riskiest business is falling off but from a social perspective the potential homeowners that it traditionally has served may be priced out of the market. Importantly, we are also seeing defaults and claims affecting higher credit score loan holders and there are some vocal advocates who think a higher down payment may be required for a wider spectrum of credit score categories. Further, the 580 credit score threshold is well into what is traditionally considered subprime territory in the conventional marketplace with 620 being the usual demarcation for subprime. We believe that to have a higher down payment requirement at the 620 level may have a more meaningful impact due to the larger volume of loans at this level.

In assessing the most recent year's book of business, it needs to be understood that underwriting is like a three-legged stool. FICO scores are only one leg—the other two legs are the value of the property and the future employment of the borrower. While it is true that FICO scores have risen from an average of 626 in fiscal year 2008 to 695 in the first quarter of fiscal year 2010, we should also note that the loan-to-value ratios have also gone up during this timeframe. In FHA's recent Quarterly Report, the loan-to-value ratio for the 96–98 percent category had risen from 48.8 percent of the loans written in the first quarter of fiscal year 2009 to 69.1 percent in the first quarter of fiscal year 2010. This may mean that any gains realized from reduced risk for having higher FICO scores may be offset by the increased risk of higher loan-to-value ratios. In other words, borrowers are putting less of a down payment into purchased homes. As we said in previous testimony opposing seller-funded down payment assistance plans, less "skin in the game" often means that there are increased chances for the owner to walk away if delinquencies occur. Further, any benefit from the increase in the average FICO scores may be tempered by a commensurate rise in claims generated from those loans.

So while the FHA believes that they may have an improved book of business in terms of increased volume and FICO scores, the jury is still out if the additional cash generated by the new book of business will be sufficient to cover the unknown amount of losses in the short term or if the premise that high FICO scores are equivalent to soundly underwritten loans still holds. Economic instability is creating counter-intuitive trends in consumer behavior.

Up-front Mortgage Insurance Premium Increased to 2.25 Percent

The FHA is pursuing legislative authority to increase the statutory cap on the annual Mortgage Insurance premium. OIG supports this change in the premium structure. Any business needs to be able to adjust its pricing in order to continue to operate efficiently. The FHA needs the ability to adjust premium prices without requiring legislative action each time that may impede its ability to react quickly. The FHA will need, however, to ensure that a process is developed to link future insurance premium changes to actuarial forecasts.

Reduce Allowable Seller Concessions From 6 Percent to 3 Percent

The FHA is seeking an action to conform to industry standards and to reduce potential value inflation. It is anticipated to go into effect this summer after appropriate notice and comment time. The OIG supports this measure. We believe that the FHA needs to be consistent with industry practices so as to avoid pressure to raise prices to cover seller concessions.

Increase Enforcement Efforts to Ensure Compliance With FHA Guidelines and Standards

The FHA: (a) Will use a scorecard system to evaluate and report lender performance to compliment current information available from Neighborhood Watch data (this was implemented in Mortgagee Letter 2010–03); (b) will enforce indemnification provisions through section 256 of the National Housing Act and cover those loans found to contain material errors in underwriting (this is anticipated to go into effect this summer after posting and comment periods); (c) asked for legislation to apply section 256 to require indemnification provisions for all direct endorsement lenders in order that all approved mortgagees assume liability for the loans originated and underwritten by them; and (d) will move to increase capital requirements from $250 thousand to $1 million in 1 year, and then to $2.5 million after the final rule is published, and hold the lender responsible for the final underwriting.

We support the FHA's decision to enhance risk management by, among other things, hiring a senior level risk management officer. Its decision to use a scorecard system will certainly assist it in uncovering problem companies. We note that the FHA has returned to conducting a 5 percent sample of lender endorsement reviews by its contractors. The number had slipped to 2 percent last year because it could not keep up with the volume. We also support FHA's request for legislative authority to create separate areas for the purpose of review and termination under the Credit Watch Initiative.

The FHA's intent to strengthen enforcement of its indemnification provisions in section 256 is important to an overall enhanced enforcement strategy. OIG reviews of indemnifications found recovery was hampered by firms going out of business, thereby rendering some indemnifications worthless. In a recent OIG Inspection and Evaluation report, we found that the FHA serviced $187.5 million of indemnification and civil money penalty debt due from lenders for the period fiscal year 2005 through fiscal year 2008. The FHA collected $124.4 million or a 66 percent recovery rate (a collection rate that compares favorably with that of the Veterans Administration's Housing-Guaranteed and Insured Loans program and private collection agencies), however $8.7 million was uncollectable primarily the result of the debtor lender going out of business.

—*OIG Concerns Regarding Anti-flipping Waiver*.—One change the FHA recently instituted this year was the decision to waive its anti-flipping provisions for 1 year. This action was not vetted with us through normal departmental clearances and we, unfortunately, had no opportunity to opine on the matter. While we understand the underlying reasoning to turnaround foreclosed properties in a quicker manner, we believe its imposition may open a new round of fraud-related flipping abuse and we would have liked to express our concerns or to press for more compensating controls.

Current housing market conditions have created a bulge in HUD's real estate owned inventories that provide a ready source of properties for potential flipping schemes. To eliminate inventories, lenders and the FHA's own contractors often significantly discount the sales price from acquisition costs and appraisal values in a more normal housing market. The discounts provide the necessary margin for flipping opportunities, legitimate as well as illegitimate. Historically, the illegitimate flip involved a conspiracy between investors, loan officers and appraisers, allowing for the financing of the re-sale to be done at an inflated value, justified by market conditions of increasing housing values.

When the anti-flipping rule had been originally promulgated, the FHA, primarily at the request of the OIG, sought to protect the MMI Fund from this vulnerability by prohibiting financing of property re-sales until 90 days had elapsed after the purchaser acquired the property. This waiting period effectively protected the FHA from flip abuses such as "double escrows" and same day closings. The FHA states the waiver is designed to help reduce REO inventories. There is, however, a real risk that the waiver could serve as an invitation to investors willing to engage in abusive schemes or to try to skirt the rules. Indeed, we almost immediately saw discussions on the Internet among investors. Moreover, with the increase in the FHA's loan limits to greater levels, high-end, as well as traditionally low-end, properties could be targeted by the unscrupulous.

While an attempt was made by the FHA to mitigate improper activity by requiring an explanation of any price increase over 20 percent, as a law enforcement agency we know that it can be just as easy to fabricate documents for this as it can be to inflate the appraisal itself. We see little to deter the wide-scale flipping that occurred before the practice was stopped by a 90 day waiting period. While we recognize that keeping the status quo may delay closing, we believe that it is preferable to the alternative risk that such an action may unleash. A safer approach may be to limit the wavier to GSE-held properties or to those sold through State and local rehabilitation programs such as the Neighborhood Stabilization Program where closer scrutiny of rehabilitation costs can be made.

—*Enhanced Up-front Reviews*.—We believe it is important that the FHA become more aggressive in the areas of monitoring and detection and analysis of red flags. We endorse FHA's Mortgage Fraud Initiative which seeks to use fraud detection technology to identify loans likely to contain fraudulent information. We have stated previously our belief that FHA needs to take advantage of commercial off-the-shelf pre-screening loan software. We have also long voiced our concerns that the process to become an FHA approved lender and correspondent was not rigorous enough to keep out the known bad actors. When the conventional markets started to decline, we expressed our concern that the same individuals and companies that precipitated the conventional market collapse would seek shelter in the FHA markets and use similar tactics that led to poor underwriting. We believe that this did in fact occur.

In the case which I referred to earlier in this testimony regarding the New York company Lend America, Michael Ashley, who carefully did not place himself as a principal in the firm but as a business strategist, had had a long history of legal troubles (including with the HUD OIG) and was working as a top manager for one of the most rapidly growing lenders in the FHA's portfolio. Court filings show that Ashley fostered an environment that encouraged sales staff to originate FHA loans even when the borrowers were not eligible. Sales staff could make 10 times the commission on FHA loans than on standard mortgages and almost 4 times the commission than on a subprime loan.

Mr. Ashley pled guilty in 1996 in Federal court to two counts of wire fraud relating to a mortgage scam at another company his family once owned. He was sentenced to 5 years probation and ordered to pay a fine and his father was sentenced to nearly 4 years in prison. He appealed his suspension and debarment with HUD which later was reduced to a ban that expired in 1998. Once served, the FHA allowed him to resume operations. He then went to another firm that again HUD issued a notice of violation. After leaving that firm, he became affiliated with the most recent company. Although this case is still open, it is clear to say that the Federal court would not have permanently banned Mr. Ashley if it were not concerned about the current operations of his affiliated company. The President of the company was also debarred at the same time but for a specific period of time—in this case 18 months.

This again calls for the establishment of a new mindset at the FHA to know your participants and not just the entity. It can be a very arduous process for the OIG acting as the investigators for the Department of Justice to work to get a court-ordered injunction. Mr. Ashley was quoted in the press as grumbling that the inspector general's office tried its best to constantly go after him and put him out of business. Although he was complaining to the judge at the time, his quote is revealing in that we had to keep following him from one dubious enterprise to another. It can be frustrating. If current regulations and statutes are impeding the FHA's ability to create a watch list or to know its providers complete backgrounds or to keep out permanently those from entering whom it does not want to participate in its program—it has a duty to let Congress know it needs legislative relief to enhance its administrative remedies (i.e., more permanent debarment authority, enhanced civil monetary penalty fines) in order to accomplish this goal. I do not believe in years past, when it was striving to increase its market share, that this was a goal. But I do believe that with the large influx of loans and lenders coming at the program recently it may now see how imprudent such inaction can be.

A systemic weakness revealed in this case and others showed that FHA-related monitoring and oversight reports typically cited the lending firm without naming the individuals associated. The FHA had argued that without specific citations against individuals it could not link principals of a defunct company to those same individuals who would go on to form new entities. We see this type of maneuver too often and it makes the FHA program too easy a target for those intent on abusing the program. We recommend that FHA ensure in a more significant way that those individuals affiliated with lender entities (either as principals or as staff) are clear of indictment, conviction, debarment and suspension, limited denials of participation and unpaid Federal debt before applications are approved.

The FHA should also consult with other HUD offices to determine whether applicants are subject to unresolved findings and ensure that application fees received are reconciled with the related applications. More importantly, if the Mortgagee Review Board concludes that a company has participated in improper activities and recommends removing the company's ability to participate in the FHA loan program, the Board also needs to recommend permanent removal of the principals and other individuals involved from any future FHA and HUD programs. I know in my conversations with the Commissioner this is an area on his radar screen.

The Commissioner testified at his recent hearing, and I lauded earlier in my testimony, that over the last year the FHA has withdrawn 300 licenses from poor performing lenders. We believe that many of these could have been screened more vigorously at the time of their application before the consequences of their admission came to bear in terms of losses or resources applied to investigate and to prosecute. Only time will tell how many more significant failures are yet to be uncovered but we do see more on the horizon. We believe that more stringent requirements, in addition to enhanced net worth requirements, are needed to keep predatory firms and individuals from conducting FHA business.

I would like to take the opportunity to also draw a parallel issue with the Government National Mortgage Administration (Ginnie Mae) approval process. We believe Ginnie Mae equally needs to strengthen its approval process. While the funding level for its reserves are in a better financial position than that of the FHA, it too has experienced increasing default rates and has suffered unusual substantial losses due to the failure of Taylor, Bean and Whitaker and Lend America. More due diligence needs to be done by Ginnie Mae in approving and recertifying its issuers and I look forward to seeing meaningful recommendations for statutory and regulatory improvements akin to what the FHA has recently proposed. It also has to shift its mindset away from a business-oriented mentality to let problem issuers remain in the program while they work out the details. This attitude toward the industry is no longer feasible unless it wants to absorb large losses. I will speak more to my concerns with Ginnie Mae later in the testimony.

We commend the FHA for endeavoring to expand its enforcement and note that it has very much needed to implement a more robust early warning system that would alert FHA to precipitous sales price increases. We also see the need for FHA to enhance its Neighborhood Watch system (i.e., allow for tracking of information relating to loan officers, loan processors, and real estate agents) and the Credit Watch Termination Initiative.

—*Lack of Affirmative Certification Statement*.—In this same vein, we would like to update the subcommittee on a matter we brought before you a year ago. At the time, I shared with the members an exhibit showing the current application form to become an approved FHA lender or Ginnie Mae issuer. I pointed out to the subcommittee that unlike the Ginnie Mae section which contained an affirmative statement that required the applicant to attest that they had not knowingly made a false statement and could be subject to applicable civil or criminal penalties, and despite the large volume of new applicants coming into the FHA program, the FHA certification and recertification inexplicably contained no such requirement. Even more puzzling is the FHA's response from the Director of the Office of Lender Activities to my recommendation in an audit of the lender approval process. The FHA stated it did not agree with the finding and stated that "the OIG has not sufficiently demonstrated that because of its certification language FHA is unable to successfully take legal action against lenders violating its program requirements" and requested its removal from the audit.

The Department of Justice as chair of the National Procurement Fraud Task Force has recommended that all agencies put in language for grantees of Federal funds the requirement that the participant certify that the statements made in the application are true and correct and that it understands that any false statements made as a part of these certifications can be prosecuted.

Requirements to Better Manage Brokers Such as New Rules for Audited Financial Statements and Adequate Capitalization

OIG supports this initiative. We also believe that the annual financial statements for lenders lag too far behind to be useful. We believe there should be quarterly unaudited financial statements similar to the SEC's publicly-traded company requirement and suggest that there also be an effective review process of these statements. Billions of dollars flowing through the FHA are riding on the financial health of these firms. Timeliness of information is essential in making decisions and we would encourage such a change.

OPERATION WATCHDOG

On January 12, 2010, FHA Commissioner Stevens and I jointly announced a new OIG initiative focusing on mortgage companies with significant claim rates against the FHA mortgage insurance program. This initiative was prompted in part by the Commissioner who was alarmed by the incidence of excessive default rates by a number of poor performing FHA lenders and reached out to the HUD OIG for assistance. Our office served subpoenas to the corporate offices of 15 mortgage companies in 11 States across the country demanding documents and data related to failed loans which resulted in claims paid out by the FHA fund. We identified these direct endorsement companies from an analysis of loan data focusing on companies with a significant number of claims, a certain loan underwriting volume, a high ratio of defaults and claims compared to the national average, and claims that occurred earlier in the life of the mortgage. These may be key indicators of problems at the origination or underwriting stages. The firms were not selected for indications of wrongdoing on their part but we will aggressively pursue indicators of fraud if they should be uncovered during the analysis. We are a principal member of the President's Financial Fraud Enforcement Task Force and this initiative reflects our commitment to seek information on red flags that may arise from data analysis.

While we are still in the data recovery and analysis phase, and cannot discuss at this time the initial results of our review, we do believe that this initiative will continue. We will carry out our line of inquiry until we have conclusive results to provide to the FHA, to the Congress and to the American taxpayer. It is important to know for the long-term viability of the FHA program whether these skewed high claims and default rates are a result of a weak economy or if companies are ignoring, or even purposefully violating, FHA regulations. We want to send a very distinct message to the industry that as the mortgage landscape has shifted, we are watching very carefully, and that we are poised to take action against bad performers. The American taxpayer demands, especially after the lessons of the subprime collapse, that oversight and monitoring must be rigorously implemented. While we may disagree from time to time with some of the actions the FHA has taken, we both share a common resolve to preserve home ownership at the same time as protecting the American taxpayer from further economic instability.

In an audit on Single Family insurance claims, we found that the Department received and paid claims on loans for which the lender did not show the borrower was able to make the required monthly payments, made the minimum investment in the property, and was creditworthy. It paid the claims and did not review the loan files for compliance with requirements, fraud, and/or misrepresentations. Our initial review under Operation Watchdog reinforces the concerns we found in this claims audit. The Department should review claims for eligibility and, if feasible, independently determine that loans comply with program requirements and seek, from lenders, recovery or adequate support for final costs associated with those claims.

Loan Binder Retention.—One issue that has arisen in our reviews of these poor performing lenders is the ramifications of the prior administration's policy to allow lenders to maintain original records. Through the issuance of a Mortgage Letter in 2005, the FHA enabled certain direct endorsement lenders to endorse FHA loans without a pre-endorsement review and generally relieved those lenders from the responsibility of submitting loan origination case binders to the FHA. The Federal Bureau of Investigation (FBI) and the HUD OIG, vigorously opposed the FHA's directive (as did HUD's own General Counsel at the time) to allow lenders the ability to retain documents. As a law enforcement and auditing agency, we were concerned that such a relaxation of control would hinder our ability to gather information for evidence if documents were tampered with or destroyed. Further, the guidance allowed lenders to maintain the files for only 2 years after closure. Statutes of limitations run 5 years in criminal fraud and generally 6 to 10 years in civil fraud matters.

Unfortunately, our fears expressed then in testimony and in a letter-writing campaign are indeed coming to fruition today. As we proceed with Operation Watchdog, we have had difficulty obtaining files from a number of these lenders including encountering instances of missing case files despite OIG subpoena demands. We strongly recommend that the FHA again revisit this directive to ensure information critical to the loan origination and underwriting process is available for detection of issues and/or potentially fraudulent activity. In a time when the American public demands our mortgage industry is free of waste, fraud and abuse, such a policy change is essential.

FHA FINANCIAL CONDITION

The results of the latest actuarial study produced last fall show that HUD has sustained significant losses in its Single Family program making a once fairly robust program's reserves smaller. The study shows that the FHA's Fund to cover losses on the mortgages it insures is contracting. As of September 30, 2008, the fund's economic value was an estimated $12.9 billion, an almost 40 percent drop from over $21 billion the year before. By September 30, 2009 the reserve level dropped below the statutorily mandated 2 percent requirement to 0.53 percent. The Fund's economic value was $3.64 billion compared to the $685 billion of outstanding insurance in force.

Since its inception in 1934, FHA has been self-sustaining and premiums paid to the fund have covered the losses due to fluctuating defaults and foreclosures. We testified last year that given the current economic conditions, it is critical that the assumptions used to derive the current estimate of the health of the fund be supportable and not overly optimistic. We stated to the FHA during our audit of its financial statement that the model embraced by the FHA should include the study of past and current delinquencies and the ultimate resolution as to cures or claims. The current model is designed for long term claim projections and is based on historical claims paid experience. Therefore, the model does not reflect recent delinquency development and lacks the corresponding adjustment to the claims paid. We recommended that the FHA expand its financial cash flow model validation to include seriously delinquent aged loans data, case level historical recovery data, and other leading indicators; and to track reasons for default and determine whether other economic indicators, such as unemployment claims, may be useful to support near term estimates for claim payments.

An assessment of the first quarter of fiscal year 2010 shows some trends that merit examination. With FHA's greatly increased Single-Family insured volume (a 24 percent change from the prior year and currently at more than three-fourths of a trillion dollars in insurance) comes an increasing default and claims paid rate. Add to this an increasing inventory of real estate owned properties that are managed by the FHA—with a falling recovery rate that has FHA now only recovering slightly more than 40 cents on the dollar and a "days in inventory" average of close to 200 days—and the picture becomes more disquieting. A significant problem facing the FHA, and the lenders it works with, is the fallout from decreasing home values. This increases the risk of default, abandonment and foreclosure, and makes it correspondingly difficult for the FHA to resell its REO properties.

Approximately 8.8 percent of FHA loans are currently in default (i.e., more than 90 days non-payment status, foreclosure or bankruptcy), an increase from the prior fiscal year to date. A major concern is that even as FHA endorsement levels meet or exceed previous peaks in its program history, FHA defaults have already exceeded previous years. Claim rates have also increased and though numerically still quite small, it must be noted that many of the new defaults are still in the pipeline. We may see increasing claim rates on the horizon. The Secretary and the Commissioner hope to stave off the consequences of this trend with new approaches to business, but the congressional and executive branch budget offices' disagree with the impact of these approaches.

In our estimation, this only reinforces the importance for FHA-approved lenders to maintain solid underwriting standards and quality control processes in order for the FHA to withstand severe adverse economic conditions. Another extensive problem confronting the FHA has been its inability to upgrade and replace legacy (developed in the 1970s and 1980s) application systems that had been previously scheduled to be integrated. The FHA systems environment remains at risk and must evolve to keep up with its new demands though there has been increased funding and new plans formulated. I know in my conversations with congressional staff that they are frustrated with the amount of resources expended and the pace with which such replacement plans have proceeded over the years.

INCREASED RISKS TO FHA

Mortgage Fraud.—Last year during testimony before this subcommittee, I highlighted a variety of traditional mortgage fraud schemes impacting both the FHA and the conventional loan market including schemes in areas such as appraisal fraud and loan origination fraud, and identity theft as well as new forms of fraud such as rescue or foreclosure fraud (to include equity skimming and lease/buy-back plans), bankruptcy fraud, and Home Equity Conversion Mortgage (reverse mortgage) fraud (to include schemes involving flipping, annuity sales, unauthorized recipients, and onerous fee payments/consumer fraud). As the Department of Justice recently testified, all types of mortgage fraud are on the rise and we are working closely with other agencies in the President's Financial Fraud Enforcement Task Force and as part of the National Mortgage Fraud Team. We currently have over 2,290 case subjects involving Single Family investigations. We have also recently created a more robust civil fraud enforcement initiative to assist the Department of Justice in enhancing civil mortgage anti-fraud prosecutions. For example, we recently assisted the Department of Justice in filing a complaint against Capmark Finance Inc, a large originator of HUD-insured loans, for making false statements in connection with applications used to acquire two nursing home facilities (a discussion of nursing home issues appears later in this testimony). The following represents a sample of a few of the criminal fraud cases we have recently pursued:

—In Operation Mad House, we conducted an undercover investigation to deal with the problem of escalating mortgage fraud in the Chicago area that had consistently placed it as one of the top five geographic areas for fraud. We received allegations that a number of mortgage operatives were involved in loan origination fraud including the creation of fictitious bank statements, false employment and inflated appraisals and we targeted an organized group of real estate industry professionals at all levels. We tracked the inflated appraisal and phony origination as well as the closing proceeds and how it was distributed. This investigation resulted in 22 individuals in 9 separate indictments being charged with multiple counts of fraud and a spin off whereby 4 new subjects were indicted late last year. All told, 26 principals in the mortgage industry including attorneys, brokers, loan officers, loan processors, appraisers, recruiters, and accountants have been charged.

—Earlier this month in Atlanta, three members of a reverse mortgage fraud ring were indicted by a Federal grand jury for altering real estate records, using fake documents, and posing as realtors in an abuse that took money away from qualified seniors. The defendants in this case faked required down payments by senior citizens to establish the equity needed in the home to qualify for the reverse mortgage. They did this by using bogus gift letters in amounts between $50,000 and $105,000 and using fake HUD–1 Settlement Statements reflecting the sale of non-existent assets closed by fictitious law firms to show the source of the required down payments. All the down payments were actually supplied by the defendants, not the senior citizens, to be returned to the defendants upon the reverse loan closings along with profits far in excess of the true sales prices of the properties. Such payments were disguised as seller proceeds or lien payoffs and all the mortgages contained fraudulently inflated appraisals.

—In another reverse mortgage case, on April 13, 2010, in Kansas City, Missouri, the Jackson County Prosecutor charged an individual with financial exploitation of an elderly/disabled person and forgery related to a fraudulent HECM (home equity mortgage conversion) loan. Our investigation revealed that the defendant allegedly obtained a quit claim deed on a Kansas City property belonging to an elderly man suffering from Alzheimer's disease and subsequently took out a fraudulent reverse mortgage in the victim's name. As a result of the scheme, the defendant deposited, by means of a forged Power of Attorney, reverse mortgage proceeds into a personal bank account as well as obtained a loan against the victim's life insurance policy.

—In February of this year, the former president of a mortgage company was sentenced in Federal court in California to 156 months in jail, 5 years probation and ordered to pay almost $30 million in restitution to victims for a fraudulent loan origination scheme that knowingly caused loan applications containing fraudulent documents to be submitted to various lenders for FHA insurance so that unqualified mortgagors would appear qualified. His actions caused over 900 fraudulent loans to be FHA insured and subsequently default resulting in a substantial loss to the program.

Nursing Homes/Section 232.—The FHA insures mortgage loans (section 232) to facilitate the construction and rehabilitation of nursing homes, intermediate care facilities, board and care homes, and assisted living facilities. It also allows for the purchase or refinancing of existing projects not requiring substantial rehabilitation. It insures lenders against the loss on mortgage defaults. As of the end of calendar year 2009, HUD had 2,327 projects with an outstanding principal balance of $14.6 billion. This represents close to a 36 percent increase in projects receiving initial endorsements from the previous year. As we noted in last year's testimony, the current section 232 regulatory agreement does not prevent transfer of the Transfer of Need associated with the property; does not include receivables in any security documents (which is a significant asset to the properties and can limit HUD's loss when retained); and does not require a lessee operating the project to abide by the same requirements as the owner. This allows lessees to use project funds for non-project expenses to the point of default with no recourse.

With such a vulnerable population involved, the OIG has been recommending for years in numerous audits and investigations that the regulatory agreement needs to be changed. This status has not changed since approximately the fall of 2006. It is our hope that this can be done expeditiously.

Appraiser Oversight.—Our review of the FHA appraiser roster identified critical front-end weaknesses as evidenced in the quality control review and monitoring of the roster. The roster contained unreliable data including the listing of 3,480 appraisers with expired licenses and 199 appraisers that had been State sanctioned. In a further review, we found that HUD's appraiser review process was not adequate to reliably and consistently identify and remedy deficiencies associated with appraisers. The FHA's current Single Family insured exposure totals over $800 billion representing over 6 million in FHA insured mortgages. Inflated appraisals correlate to higher loan amounts. If the properties foreclose, the loss to the insurance fund is greater.

With significant increases in volume and new responsibilities in the mortgage marketplace, and appraiser fraud a significant problem highlighted in national studies, we do believe it may be time for the Department to return to an FHA Appraiser Fee Panel similar to the one dismantled by statute in 1994. It is essential if the mortgage industry wants to overcome perceptions regarding its integrity and its role in the current economic crisis that it ensures true market values are correctly estimated. Such a move would relieve pressures on appraisers to return predetermined values and would change a system based on misplaced incentives. A study indicated that 90 percent of appraisers had felt pressure "to hit the number" provided (i.e., on the sales contract). The old FHA Fee Panel was rotational and guaranteed work as long as the appraiser met certain HUD requirements. As can be deduced from the many cases and problematic issues discussed in this testimony, inflated appraisals often are at the heart of the scheme or of the questionable arrangement.

Late Payment Endorsement Requirements Changed.—Last year, we testified on results from a number of other key audits that have noted significant lender underwriting deficiencies, inadequate quality controls, and other operational irregularities. We spoke to an audit in which we analyzed the impact of FHA late endorsement policy changes affecting FHA insured loans. Unfortunately, this still remains an issue and bears repeating. On May 17, 2005, the Federal Housing Commissioner issued Mortgagee Letter 2005–23, which significantly changed the requirements for late endorsements for Single Family insurance. A request for endorsement is considered late whenever the loan binder is received by the FHA more than 60 days after mortgage loan settlement or funds disbursement, whichever is later. The Mortgagee Letter removed the prior 6-month good payment history requirement for these loans and provided an additional 15 days grace period before the current month's payment was considered late.

We conducted a review of this rule change and found that, although FHA asserted the change did not materially increase the insurance risk, FHA did not perform a risk analysis to support this determination. Our review of the performance of loans from seven prior OIG late endorsement audits (i.e., Wells Fargo, National City Mortgage, Cendant, etc.) found a three and one-half times higher risk of claims when loans had unacceptable payment histories within the prior 6 months. Since the issuance of the Mortgagee Letter, we found that the default rate for loans submitted late had increased and was significantly higher than the default rate for loans submitted in a timely manner. The HUD Handbook itself acknowledged the risk of unacceptable payment histories by stating that "Past credit performance serves as the most useful guide in determining a borrower's attitude toward credit obligations and predicting a borrower's future actions."

In 2006, we recommended that HUD rescind the Mortgagee Letter until appropriate rule changes could be designed that were supported by an adequate risk assessment. The FHA disagreed with our audit report and declined to implement the recommendations. We referred this matter to HUD's Deputy Secretary who concurred with our recommendations on February 27, 2007 and ordered the FHA to immediately rescind the Mortgagee Letter.

Initially, the FHA agreed to implement the Deputy Secretary's directive but failed to take action, instead taking efforts to again dispute our audit results. This continued until April 2008, when the Deputy Secretary's office again intervened, at our request, and instructed the FHA to publish the proposed rule change in the Federal Register reinstating the 6 month payment history requirement for late endorsements. In June 2008, the proposed rule change was published in the Federal Register for comment.

Although the final rule rescinding the Mortgagee Letter was never published, FHA nevertheless closed the audit recommendation. In a memorandum dated March 18, 2009, we informed the FHA that, given the amount of time that had lapsed and the absence of a corrective action, the OIG would report this in our next Semi-Annual Report to Congress. Given the current mortgage crisis, concerns over losses to the insurance fund, and requirements for transparency, we believe that this is an important recommendation that should not be dismissed.

Capturing Key Information in, and Upgrading, Data Systems.—Another major concern, touched on previously in testimony, is the integration and upgrading of FHA legacy systems which bears repeating since our original premise has not been acted on. While there has been much discussion of an overall plan, and what particular types of systems are needed to go forward, it would be useful at this juncture to reposition the discussion to ascertain which data should actually be collected, and maintained, in the system in order to control the new demands placed on the program. Our audit work and our investigative "Systemic Implication Reports" transmitted to the Department over the years, makes it clear that, at a minimum, we need the system to track identifying information on key individuals involved in the transaction such as the originating loan officer, loan processor, and real estate agent.

The loan officer, for example, is central to the origination of the loan where due diligence should be exercised on the application material (i.e., credit scores, appraisal information, etc.). It would be useful to record the person's name and corresponding identifying information (i.e., license) in the same system the FHA uses to track underwriter and appraiser details. This will allow the FHA and OIG to key in on a vital part of the loan process—origination—where fraud typically can occur. If the system could also capture information on other key players such as the real estate agent for the seller and buyer, and other parties to the transaction, that too would be helpful for purposes of increasing integrity in the processes in our investigative and audit functions. It would also be valuable to the FHA in strengthening its risk management and monitoring efforts.

Further, it could be beneficial for the FHA to participate more significantly in a unified lender oversight consortium with Fannie Mae, Freddie Mac, the Federal Deposit Insurance Corporation (FDIC), and Ginnie Mae in order to, among other things, create standardized forms that could produce common machine-readable data fields with consistent information as well as to leverage existing data systems.

Earlier in the testimony, we described the TBW case and the weaknesses that it exposed in the FHA and the Ginnie Mae programs. As we are discussing the need for Federal entities to come together in a more unified manner, we would also like to highlight an issue that came to forefront in this case. Ginnie Mae mortgage-backed securities (MBS) are the only MBS to carry the full faith and credit guaranty of the United States. If an issuer fails to make the required pass-through payment of principal and interest to MBS investors, Ginnie Mae is required to assume responsibility for it. Typically, Ginnie Mae defaults the issuers and assumes control of the issuer's MBS pools.

The FDIC temporarily froze the Ginnie Mae custodial bank accounts at Colonial Bank as well as the bank's mortgage payment lock box account. As a result, Ginnie Mae was forced to make an approximately $1 billion pass-through payment (principal and interest) to investors. There needs to be better coordination between the FDIC and other Federal Government agencies so that losses absorbed because of its action can be mitigated by more cooperative and forward-thinking behavior. We are also very concerned with the extent that future bank failures and bankruptcies could have on the Ginnie Mae program. The FDIC stated in a recent report that over 200 banks are predicted to fail this coming year.

The other disconcerting aspect of the TBW case involves the fact that Fannie Mae became aware of some unsettling practices at TBW, made it replace some loans and then stopped doing business with it. TBW then sold their servicing rights to another company and started doing business with Freddie Mac. Then, down the line, Ginnie Mae accepted pools from TBW. It appears that Fannie Mae's only interest was self-interest. A number of years ago, I testified before the House of Representatives regarding a case called First Beneficial in which Fannie Mae did not tell other entities of its discoveries at First Beneficial and then, by its silence and inaction, caused losses to the Ginnie Mae program. There needs to be mandated requirement of notification and penalty for failure to notify or we will continue to see instances of fraud cases being perpetrated on unknowing securitizers.

CONTINUING CONCERNS

Though there have been incremental increases in funding to the FHA for a variety of staffing and system needs, including a planned increase of over 100 FTEs from fiscal year 2010 to fiscal year 2011, we believe there remains a need for either more, or a proper placement of, resources to the FHA in light of the dramatic percentage of increased loan volume and of its increased relevance to the eventual stabilization of the conventional mortgage marketplace. We would like to see more personnel dedicated to the Home Ownership Centers, which are responsible for monitoring loan origination and servicing practices, setting underwriting standards, and overseeing the disposition of HUD-owned properties, as well as to headquarters systems and technology until the IT infrastructure can be put in place in order to manage the program changes, and away from such activities as marketing since FHA has already proclaimed it wants to retreat from such a prominent place in the marketplace.

We still remain concerned that increases in demand to the FHA program are having collateral implications for the integrity of Ginnie Mae. Like FHA, Ginnie Mae has seen an augmentation in its market share. For example, in December 2009, its Single Family issuances totaled nearly $40 billion and it had a remaining principal balance of over $880 billion. By comparison, its balance in December 2007 was exactly one-half at slightly over $440 billion. It too has stretched and limited resources to adequately address this increase.

CONCLUSION

Mortgage industry behavior was a precipitating factor in the present economic turmoil. As the Department has written about in its assessment of the foreclosure crisis, industry participants encouraged borrowers to take riskier loans with a high risk of default due to the high profits associated with originating the loans and packaging them for sale to investors. These lenders had little or no risk in the loan. There were many factors that made it possible for the mortgage market to make so many miscalculations and missteps. A primary factor was development during this period of the growth of the asset-backed securities market, which shifted the primary source of finance from Federally regulated institutions to mortgage banking institutions that acquired funds through the broader capital markets and were subject to much less regulatory oversight.

Clearly the regulatory structure was not changing rapidly enough to keep with the pace of growth. Fraud may have had a significant contribution and analysis shows that there was a lack of adequate underwriting controls by lenders to oversee brokers' activities. The general regulatory structure did not work to provide adequate oversight to oversee the origination and financing of mortgages. The consequences were high risk lending and a resulting surge in delinquency and default. The lessons of the conventional side of the industry should not be lost on that of the FHA and Ginnie Mae programs as they too are now experiencing increasing delinquencies, defaults and claims. And it should not be lost on those tasked with rectifying the vulnerabilities that clearly came to the foreground regarding the lapse in oversight of the Fannie Mae and Freddie Mac Government sponsored enterprises.

The conventional mortgage market is going back to the basics. It is embracing full underwriting standards including accurate verifications of income, employment and appraisal; it is demanding adequate cash down payments from borrower's own funds; and it is seeking rational debt-to-income ratios. Observations of current historic contagions of risk suggest that, in the marketplace today, yesterday's lower 600's FICO score is now today's higher 600's FICO score and that FHA's floor may be set too low. Nevertheless, this has to be weighed against the FHA's traditional mandate to assist homeowners that are low to moderate income and who may have poorer FICO scores. It also suggests that even high FICO borrowers with significantly distressed properties still default because of the rational choice to prevent years of principal payments just to break even. This makes it all the more important to have an active risk management department to monitor and rapidly develop policies as the traditional "black-boxes" adapt to the "new."

Finally, we remain concerned that, although not within the control of the FHA, the fact that our nationwide mortgage lending system is fragmented with separate players embracing differing requirements creates opportunities for waste, fraud and abuse that a more unified approach could potentially ameliorate. We have not seen enough progress or initiative to try to overcome the vulnerability that lapses in coordination among Federal entities creates. Of one thing, however, we are sure—those intent on unscrupulous behavior know full well how to exploit the weaknesses in the system and to profit from such disorder. We do very much look forward to the implementation of many of the Secretary's efforts designed to mitigate many of the difficulties we have been highlighting in the last number of years and to working with him and the Department to try to improve programs so increasingly relied on by our citizenry during these trying economic times.

As Chairman Murray has stated, stabilizing and improving the housing market is critical to the Nation's economic recovery but FHA's participation must be done in a way that it can effectively manage the loans that were made during the height of the housing boom so that it can provide a much-needed boost of liquidity to the market. We thank you for the opportunity to relay our thoughts on these important issues based on the body of our work and of our experience, and greatly appreciate the activities of the Congress to protect the Department's funds from predatory and improper practices and to ensure an effective response on oversight at this critical time.

MMI FUND

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

Let me just start. This is your first appearance before our subcommittee, but FHA has been the subject of annual hearings since I have become chairman here. And together, Senator Bond and I have sounded the alarm on FHA and the solvency of the MMI Fund, and because of our concern, we did provide FHA with additional resources both for IT improvements and for increased staffing in order to give FHA the tools that they needed to protect the agency from fraud and risk and make sure that taxpayers never have to subsidize these mortgages.

So I am, obviously, very concerned that FHA's capital reserve account has now fallen below the mandatory 2 percent required by Congress. In your testimony, you outlined several reforms that are designed to recapitalize the reserve fund and protect the solvency of the MMI Fund, some of which you said are already in place.

But I would like you to share with us what is the current state of the MMI Fund and how does it compare with the projections that were set forth in the audit that Congress got last fall.

Mr. STEVENS. Thank you for the question.

Let me just start with the—we released to you the first quarterly report of the fiscal year to Congress a month and a half or so ago. The second quarterly report will be released here in the next few weeks, so you will get some detailed information on the status of the MMI Fund.

In particular, the current total reserves are actually higher than we reported when we announced that we had fallen below the 2 percent statutory level for the capital reserve fund. So today we are sitting at about a little over $32 billion. When we reported in the fall, it was about $31 billion. So they have actually increased.

I will tell you that there are a couple of key drivers that will impact the fund the most. The first are, obviously, the real foreclosure numbers that will impact the real actual reserves in the fund. We are actually behind what was forecasted for the year at this point in time, but we did forecast that we would have 125,000 total defaults for the fiscal year, and given the trend line, I believe we still will be on track to hit the 125,000 number, based on the trend line that we are seeing now. But I do not expect us to exceed that number.

The other impact to the fund will be the severity rate or the recovery rate, however you look at that. While we have some concerns in that area, the current recovery rates are generally remaining on track with what was forecasted.

So in total right now, I would tell you that the overall dollars in the fund are growing, not shrinking, but we still remain on track with everything that was projected by the actuary when we released it in the fall.

Senator MURRAY. Do you know when you are going to hit that 2 percent level?

Mr. STEVENS. The forecast for the 2 percent level was forecasted to be in 2013, I believe. As you know and as I would strongly caution, there are so many moving parts in the market that go into these forecasts, that we could hit that sooner or later, obviously depending on market conditions.

One example I would give you. In our actuarial forecast, our home price index expected roughly a 9 percent drop in home prices in the first quarter of the 2010 fiscal year. That has not been realized. However, there is still enough instability in the market that we do not know when the new actuarial study is done for the next upcoming fiscal year, what the home price forecast will look like. And if stability is on the horizon, we could end up having a better view of when the capital reserve will be hit. If the forecast is worse, it could put in jeopardy our existing forecast, and those are critical components that we are watching closely.

RECOVERY OF LOSSES

Senator MURRAY. You noted in your testimony that most of the expected losses are the results of mortgages from previous years, and while you are limited in your ability to effect the performance of older loans obviously, you can hold lenders accountable for losses on FHA mortgages that were improperly or fraudulently underwritten. How successful have you been in recovering losses from some of those mortgages?

Mr. STEVENS. I think this is a real challenge, part of which is there are some limitations to what FHA is allowed to do. Fortunately, the inspector general has some additional authorities which have been implemented. I would tell you at this point that some of the measurements of that are the number of institutions that we have either withdrawn approval from or suspended completely. As was noted, there were 300 institutions in the fiscal year. There have actually been another 200 on top of that, in total well over 500 institutions that are no longer allowed to originate loans in the FHA.

Our ability to go after performance on previous book years, borrowing fraud or misrepresentation or violations of the law, continues to be somewhat limited, and that is why we are asking for additional approvals to go after institutions whether they are DE lenders or LI lenders to be able to require indemnification at the institution level and that will help greatly. I do commend the inspector general.

Senator MURRAY. That will take legislation.

Mr. STEVENS. That will take legislation.

But addressing fraud issues has been a significant concern of mine, and we have a lot more work to do going forward. Obviously, we made some great visibility with companies like Taylor, Bean & Whitaker, shutting them down in the first few weeks while I was on the job, and Lend America, which really required partnership with the inspector general to get done. And these were stand-out institutions, but what people do not see are the little institutions committing fraud like the reverse lender in Hawaii who was taking reverse mortgages out for seniors and investing them in their own annuity investment fund which they owned and operated. Well, we got them too. That's just not a big headline-maker.

And so it is a big job and it requires a lot of work. And that is why the first investment we are making on the technology front is in the fraud tools area. We released our RFP last week and it is a 30-day process. So we have bids coming in right now for that work, and that will be in the market hopefully as quickly as possible.

GSES REFORM

Senator MURRAY. Well, as we now work to reform Wall Street and the financial sector and prevent any future housing crisis, it is really clear that we have to address the future of the GSEs. During the housing boom, Fannie Mae and Freddie Mac kind of lost sight of their primary mission of facilitating liquidity for safe and affordable mortgages. Instead we saw their zeal for profit drive them to take some unnecessary risks.

So we know reform is necessary and there has to be a clear plan for ending this unlimited taxpayer assistance for Fannie and Freddie. I think we need a very thoughtful approach as we do this. We have to protect our American taxpayers, but thoughtful deliberation cannot turn into delay or inaction. And we need to see the administration recognize the urgency of reforming GSEs.

So I wanted to ask you, when can we expect to see the administration's plan for reforming the GSEs?

Mr. STEVENS. Senator, what I would respond by saying is to reiterate what you said in your opening statement, that this needs to be thoughtfully done with care not to disrupt the housing market, and we completely agree with that.

We strongly agree with the need for reform. We all recognize that the housing system and the role of the GSEs or whatever structure exists going forward will not be the same as it was coming into this crisis. That is clear.

And we support Senator Dodd's recommendation strongly to do a study with recommendations early next year.

So to that extent, everything we do now has to be very carefully balanced with the need not to disrupt the markets because the GSEs are playing a critical role in the issuance of mortgages and mortgage-backed securities to keep the market stable under the current format.

Senator MURRAY. Well, any kind of radical change in the role of the GSEs could also mean a dramatic change for FHA and Ginnie Mae, and I am concerned about the prospect of FHA taking on significant increase in new business, given all the current challenges we have.

How do you see FHA fitting into this debate?

Mr. STEVENS. Without question, the needs in the future of the housing finance system under any normal view would have to consider all the participants that in some way, shape, or form have involvement by the U.S. Government, whether that is Federal Home Loan banks, FHA, Ginnie Mae, Freddie Mac, Fannie Mae, and whatever other solutions ultimately get considered.

So the fundamental belief we have for FHA is in isolation. FHA plays a critical role, as it always has since the Depression, when it was first created. It is a countercyclical role. It has been consistent in the marketplace when other financing vehicles have not been available. Its role is too big today. It is unhealthy to run at 30 percent market share as it currently does. The emergence of private capital to be sustainable in a recovery market is absolutely the most important step to help FHA's role in the market begin to shrink back to more normalized levels.

Senator MURRAY. Thirty percent is too much. We all agree with that. What do you think the market share for FHA should be?

Mr. STEVENS. You know, I think targeting a market share for FHA is something that gets any institution in trouble, but I will say that 2 percent was also an unhealthy level. That was a sign of subprime mortgages and option ARMs and private label securities wrapped by rating agencies and sold into various debt obligations to unknowing investors. That was an unhealthy world as well.

So if you look back through normal times, going back through the decades of FHA, during traditionally stabilized markets, it typically runs in the 10 percent range, maybe low teens, and that is sort of the range where I think FHA would be shown as a healthy participant in the mortgage context.

Senator MURRAY. How long would it take us to get from 30 down to 10—low teens?

Mr. STEVENS. Well, I think that is why the dialogue is so frustrating, as you said in your opening comments, and both of you have articulated this concern about even decisions around the GSEs. We are in a very unique period now. Freddie Mac, Fannie Mae, and FHA are consuming about 95 percent of the mortgage finance system for single family housing, and we need private capital to emerge. The first sign, as you said, Senator Bond, in your comments, was that—or Senator Murray. I cannot remember whose comments—who made the point. But as the Fed steps out of buying mortgage-backed securities out of the market which have kept interest rates low, that range of movement in mortgage spreads will be a clear indication of the private sector's interest in getting back into the mortgage markets. And we will see. We have a variety of thought leaders that we have talked to.

Senator MURRAY. So we do not know what the withdrawal of these supports is going to be. Yet, we are all kind of looking out there. Do you have a guess what it is going to do to——

Mr. STEVENS. Guessing is a dangerous game. I have been in this industry for 3 decades.

Senator MURRAY. How about a thoughtful——

Mr. STEVENS. Here is my thoughtful view, Senator. I actually do not expect mortgage rates to back up as significantly as some of the extreme negative views are when the Fed steps out. That will be the first sign of health. The first-time home buyer tax credit ends here. The last applications are at the end of the month. It expires at the end of June completely. That will be an interesting move because 2.2 million Americans filed for tax benefits under the First-Time Homebuyer Tax Credit Act. And so that will be a next test.

Redwood Trust has already issued one mortgage-backed securitization in the private sector in the last couple of weeks. They are getting ready to do another one. The trade levels of those trusts we are looking at very closely.

Each of these are indicators to me as to what will happen. Having been through a lot of—I lived in the oil patch crisis in Colorado and had branches in Missouri at the time many, many years ago working for a bank, and I do recall the impacts of going through that kind of cycle. You know, it takes confidence for investors to return. Private capital will come back when they believe there is strong regulation, that the rules of the road are clear, and that they believe that home prices are past the point of severe instability. There will always be variations, but stability is what people will invest in. The markets do not like instability whether it is in the equities markets or in the housing market.

Senator MURRAY. Thank you very much.

Senator Bond.

FHA LOSSES

Senator BOND. Thank you very much. Your questions and your responses raised a whole bunch of interesting areas.

Let me start off. What are the current losses that FHA is realizing under the MMI Fund? How does it compare to last year, and what is your projection for the future?

Mr. STEVENS. If you give me just a moment, I would like to be as accurate as possible.

Senator BOND. Okay.

Mr. STEVENS. So through the end of March, we have actually seen current delinquency rates have dropped for January—or excuse me—for February and March, we saw delinquency rates drop fairly significantly, 15 percent, over where they were in December. So while we are seeing delinquency rates drop, we are seeing foreclosures, actual, real foreclosures increase. And so what we expect to have occur for the year is 125,000 foreclosures with an expected severity rate on each of those losses of somewhere in the range of 50 percent. And so, the specific losses to the fund at year end—and George, I do not know if you know the number that is in the MMI.

SPEAKER. No, but like you said earlier, the capital resources have been increasing.

Mr. STEVENS. Yes. I mean, the reality is our capital resources have been increasing. So let me step back. We reserve very differently than a bank does. A bank under a Basel standard will hold for loan loss reserves for anywhere from 2—sometimes 1 year to a

3-year period they will hold for loan loss reserves. So the FHA's reserves function is we hold capital in reserves for a full 30 years' worth of losses. Much of that loss expectancy will not hit until peak default periods, 2, 3, 4, or 5 years into the amortization of a mortgage.

So when we reported that we were below our 2 percent capital reserve, it was not our total capital, Senator. It was our secondary loss reserve, which is an additional loss reserve above our primary reserve account. And the two combined reserve accounts are actually in excess of about 4.5 percent of total capital. The 2 percent reserve requirement is based on the secondary account, which contributes to that. That is what had fallen below 2 percent, but our primary reserve account actually continues to grow simply because we are not seeing the losses that were fully expected when the actuarial audit was done.

So without trying to sound evasive, the reality is that we are not seeing the real losses as yet. Our actual reserves are growing. The forecast is that under the existing book of business, we will exhaust the entire amount down to that remaining capital reserve of .53 percent. That forecast assumed that we do not originate any new loans. So as we continue to originate new loans of such high quality, the fund is actually rebuilding faster with better assets offsetting that loss reserve.

Senator BOND. Have you got a number? How many billions will you experience in loss this year?

Mr. STEVENS. In this year?

Senator BOND. You must have some forecast.

Mr. STEVENS. Do we have a forecast, George?

SPEAKER. We are not forecasting.

Mr. STEVENS. Yes. So we forecast the reserve number. We do not forecast this current year number. But, Senator, if it would be all right, I would like to give you a more thoughtful answer.

Senator BOND. Yes, we would like to know because we need to get a handle on this somewhere. We have got reserve accounts and reserve accounts are growing, but losses are out there. There is no question that there are losses out there, and we need to have a handle on where all this is going.

Mr. STEVENS. Senator, if I may, I would tell you that we would expect by year end that the fund would be either about where it is now or higher. The actual reserves will be about where they are now. What it will impact, unfortunately, from a budget standpoint will not be our actual losses. It will be what is forecasted in what we have to reserve against. So those will be very different numbers in terms of how we look at it. But I will submit to you a more thoughtful response to that question.

Senator BOND. Okay. You mentioned that you are still confident in the official $5.8 billion estimate or whatever it was that OMB came up with. CBO came in with a $1.9 billion in receipts. What is the difference? How do we resolve this? We are kind of looking at hither and yon, but we need to have where we are rather than hither and yon.

Mr. STEVENS. So the challenge is both analyses are based on views on various performance characteristics. The difference in the CBO score, in particular, can be mostly isolated into two variables.

One is they assumed much higher prepayment speeds on our portfolio than was in the OMB estimate. Interestingly, prepayment speeds are a derivative of interest rates. If interest rates drop dramatically, you get much higher refinancing and loans will pay off earlier. If interest rates remain stable or rise, you would actually expect prepayment speeds to be slower. And so depending on that forecast, you are going to have an impact to prepayment speeds, that combined with default rates.

So that is one variable that is very different, and I would question the prepayment speed assumptions, but I am sure they are based on rational logic.

The other one is the severity rate. So on your losses, you know, what is going to be percent of loss on each actual unit of real estate that goes into foreclosure. And the CBO score expects higher severity rates than the OMB score does. In that particular measure, I would say there is probably a little truth to both, and we will look at that very closely.

But it is interesting that the prepayment speed issue—if you assume you are going to have losses and worse severities over the long term, you would assume that the market is worsening. My own internal logic would say that if interest rates are dropping, you are probably going to have increasing volumes of new home sales which may actually level or spur recovery.

So while there may be some natural conflict there, I think both are based on rational input. Both expect positive receipts from FHA in either case. The amount differs because of those two variables.

Senator BOND. You said in your first element was the prepayment, and that if interest rates go down, prepayment goes up. So you get better returns. But I do not see how, with the problems we have, which are too much like Greece's problems with our debt with an unending series of spending and declining tax revenues, somewhere those interest rates are going to go up. And I do not see—even though the Federal Reserve has been accommodative, perhaps overly accommodative, I do not see any prospect that interest rates are going to get lower. Are you predicting lower interest rates rather than higher?

Mr. STEVENS. I am not predicting lower interest rates. I think we would have to ask the CBO what variables they assumed for faster prepayment speeds on our portfolio than the OMB view was, or quite frankly, our own independent actuary had as well similar prepayment speeds to OMB.

Senator BOND. I tell you what. We probably are not going to hash this out.

Mr. STEVENS. Yes.

Senator BOND. I have got a staff that loves to get into those things, and maybe they can work with your staff and we can see if we can find some way to resolve those. And we will ask the inspector general and your actuary and everybody to get together and have a whole lot of fun working those things out.

Mr. STEVENS. That sounds great.

Senator BOND. If you do not mind.

Mr. STEVENS. That is wonderful.

FINANCIAL REFORM

Senator BOND. Now, while we are asking easy questions, as you have indicated and the chair has indicated, as you know, we are debating a financial regulation bill on the floor, and from what I have learned—and granted, some of it comes from the book, The Big Short—the problem of shaky subprime mortgages was exacerbated in Wall Street by creating mirror derivatives based on the subprime securitized mortgages. And these—I call them computer game shadow derivatives—magnified the impact. In other words, Wall Street was making a whole bunch of money on derivatives that mirrored the subprime but these were not actually based on the subprime loans themselves. But when the subprime loans went down, all of the value of those derivatives, which for some reason were successfully marketed to people who were willing to go out on a limb—is that an accurate assessment of what happened in the financial system?

What kind of regulation would be necessary to rein in the risk that the excessive Wall Street manipulation of derivatives will not impose in the future the same kind of serious risks to the financial marketplace we have seen not just in America, but we managed to poison a lot of the world's economic systems?

Mr. STEVENS. Which question was easier, this one or the last one?

Here is just a view that I would articulate, that the financial reform bill is critical. The risk retention component, just as one example, clearly under any of the amendments that are being offered, would require risk retention for those kinds of programs. Looking back at how these products were created and manufactured and being in the private sector and watching that occur, there was clearly a lack of alignment on incentives, short-term gain based on models that were not tested, and there was no recourse or skin in the game for that creation.

I think to that end, whatever ultimately comes of the amendments on sort of vanilla programs or things offered by the Landrieu amendment or some of the other amendments that have been offered, I think one of the most critical values that will come of financial reform, if it gets passed, which I strongly encourage, is that without question, no one is carving out the products that you address. I think to that end, having to hold capital against loss is clearly—and you made that point about capital reserves that we are requiring at an institutional level. In my opinion, capital reserves on risk assets, putting a risk-based weighting against those, is the clearest way to require that skin in the game and interest in making sure that your evaluations of risk are appropriate to the real risks that you ultimately see.

Senator BOND. I have run over my time.

But the SEC has now come in full force in going after these. But it is my understanding that they or—I think they are the ones that should have been regulating these. And I heard a great Texas country band called Asleep at the Wheel recently and I was thinking about how that might be a good moniker for what went on in the regulatory agencies. Is the regulation of risk an SEC function? What agency should be doing this?

Mr. STEVENS. Without going back to the past and the multiple regulators——

Senator BOND. Okay. Going forward, who ought to——

Mr. STEVENS. Going forward, one of the things that I think is also important about the financial reform bill is the creation of a CFPA, having a single regulator to oversee mortgage products that are directed to consumers. You know, I think to some degree you have articulated a very important point. When you have multiple regulators, specific ownership of specific risk attributes may become murky. And I am not sure that is the case in the past. I have personal opinions, but I know that Secretary Donovan and Secretary Geithner would have clear statements to that effect. But I would say that that is another value proposition in the financial reform bill to get this through, is to identify a single regulator responsible for regulating mortgage products.

Senator BOND. Thank you, Madam Chair.

MAKING HOME AFFORDABLE PROGRAM

Senator MURRAY. Thank you. Thank you very much.

About a year ago, the administration launched their Making Home Affordable to help homeowners with foreclosure. One of the programs is this HAMP, Home Affordable Modification Program, was designed to make mortgages more affordable, lower interest rates, spread mortgages out, now by writing down principal. We were told that that program was supposed to help 3 million to 4 million families by 2012, but as of the end of March, only about 230,000 homeowners had received any kind of permanent modification, which is far short, I think, of expectations.

Can you tell us at what rate do we need to see permanent modifications occur in order to reach that 3 million to 4 million goal?

Mr. STEVENS. So if I may, I would just like to back up to the initial program and kind of where we are today. When the program was first rolled out, we all know that adoption was slow in the program. Bank readiness to manage the HAMP program was not developed at a pace that was acceptable to the administration.

In July of last year, both Secretaries Geithner and Donovan, asked in what became the infamous fly-in where all the CEOs of the banks involved in HAMP flew into Washington, and a lot of pressure was put on to get the program up and going and the announcement of the scorecard at that point.

From July until the end of the year, there was a rapid ramp-up in trial modifications. Unfortunately, a lot of the initial modifications done by some of the institutions were modifications first without getting the appropriate documentation to ensure that they would be sustainable into permanent mods.

And so what we may see is a relatively higher cancellation rate of that initial population.

Since then, through a learned process, we have transitioned to where documentation and qualification is now going to be done upfront at the trial modification period, and we believe that there will be a high transition from trial to permanent mod on all mods going forward.

So I just wanted to put that out there. We just this week had another fly-in with the executives of all the institutions in HAMP and reiterated and went through the details of the new process. I left with the feeling of confidence that at least that portion is done. We will not have that high fallout.

I would say that we still have well over a million homeowners saving $500 a month in trial modifications, of which, to your point, the 230,000 have converted to permanent mods. We have 108,000 more that have accepted a permanent mod and are waiting to sign documents. You will see some rapid activity over the next 60 days because the institutions all involved in HAMP have pledged to clear out their pipelines of backlogs from that initial phase over the next couple of months. So we will see a big transition there.

Senator MURRAY. So by the end of the summer, we will see better numbers?

Mr. STEVENS. I think we will see some interesting numbers for the next couple of months, as we see the backlog of nonpermanent modifications either go permanent or go into portfolio modifications that are not part of HAMP or perhaps pure cancellation. So there will be some noise there as they clean out the pipelines.

We will then see, I believe, a regaining of activity on trials and permanence. That, combined with our enhancements to HAMP, which we just recently announced and the FHA program we believe will remain on track to hit the 3 million to 4 million homeowners that the administration committed to by 2012.

Senator MURRAY. All right.

At home I am hearing from a lot of counselors and homeowners about the problems that they are facing in getting permanent mortgage modifications. It is very frustrating. In fact, it is actually anger, especially when we hear about the profits that a lot of these banks are making in large part due to Federal taxpayer assistance. Since a lot of these banks have received direct or indirect Government assistance, is there anything the administration is doing to make sure that they are working in good faith now to assist these troubled homeowners?

Mr. STEVENS. There are several things that have occurred and I would be eager to follow up with either of your offices with additional information, but let me just say a couple of things.

One is, I think you are all aware we have the Making Home Affordable Web site. We also have the Making Home Affordable hotline where consumers can call in, if they are not getting the response they think they need from their banks, and we have teams that will triage those and respond to them fairly quickly. So they do have a direct, non-institution channel if the point of frustration comes. So that is a backstop at the point where they are probably already frustrated.

On the front end, that was one of the——

Senator MURRAY. My front desk in my Seattle office would tell you that that is not working very well.

Mr. STEVENS. The hotline is not working?

Senator MURRAY. Yes.

Mr. STEVENS. Okay, that is good feedback. I would love to hear more about that. We actually talked about that in our meeting this week.

You know, the other issue that has gone on with the HAMP program is the banks did not staff up. People would call initially. They could not get someone on the phone. They would send in packages. We have heard stories of lost documents. We have done several things to try to address that environment.

Senator MURRAY. Banks not returning phone calls forever.

Mr. STEVENS. That is right. And I get a lot of personal e-mails and phone calls from just consumers that I have to get involved with, just as I am sure your offices do, and their frustration level is very high.

There are several things we are working on in the banks. One, from a readiness standpoint, they are clearly better off today than they were even 60 days ago. So we are hopeful that will happen; that they are onboard. We have made them all designate a czar or a head of the HAMP program within their institutions that is solely accountable for HAMP and has the authority to make decisions around HAMP. That was a directive of the meeting this week.

Senator MURRAY. Will we know who those people are so we can direct our constituents to them?

Mr. STEVENS. I will work with that office, and we will try to make sure that list is made public for you.

Senator MURRAY. If it is just one more phone number that they call that they cannot get to, it is not going to be very helpful.

Mr. STEVENS. Right, I recognize that.

This is a directive. So we have asked them to identify that individual, make it clear. We want to assemble who the head of that is, and we are going to have a much increased frequency of meetings between the Treasury Department and HUD to meet with these heads for all the institutions to make sure they are staying onboard with the HAMP process.

We have changed documentation standards. We have done field checks. We have gone out and done individual field visits with each of the institutions to investigate their process. We are sharing best practices.

But without question, the frustration is real. The lack of activity and readiness was absolutely there. They were not ready. They continue to get ramped up and onboard from an operational standpoint. And then there are a lot of issues in just getting access to the homeowners, having them understand the paperwork involved from the trial modification to transition to the permanent modification.

So all of these are real challenges, Phyllis Caldwell, who is heading up the office for Treasury, is a great resource and is very focused on it on a full-time basis solely on HAMP to try to make sure that these problems are resolved, but without question, I mean, quite frankly this was a huge program that was implemented. It has never been done before. The banks did not get ready quick enough. We have all collectively learned about what was not working through the process. I think a lot of——

Senator MURRAY. Well, I guess from my point of view, I want to know that the banks are working to do this rather than doing everything they can to make it not work or stall it or not get involved.

Mr. STEVENS. We agree, and we made that point. I can assure you that the meeting that was held this week, which was attended by mostly CEO levels of all the major lenders—Assistant Secretary

Herb Allison was very direct on that subject, as were all of us at the table about their needing to be ready to stop these customer responses, these consumer responses that are so frustrated. And I have personally spoken to them myself as well, and I feel without question their frustration and pain. They have committed to going there. They all acknowledge there are still going to be some missed—just because of the vast number of people, but we need to do as much as we can to eliminate that frustration.

If it would be okay, I would actually like to have Phyllis Caldwell draft a response for you on this question——

Senator MURRAY. I would really like that.

Mr. STEVENS [continuing]. To lay out with specificity what is going on so that if there are questions or concerns you have from there, we can respond further.

Senator MURRAY. Okay, and to give her our feedback that this is a huge frustration for a lot of our constituents right now.

Mr. STEVENS. Yes. And she knows it and we have had meetings with many Senators and Members of the House on this issue. We all get it. We all know the score now, and the pressure has to be on these banks to get ready to view this as the same priority as they would originating a new loan through their sales force. They have pledged their commitment. They re-pledged it at a meeting that we made them fly in for this week. It was a very stern discussion on the subject. So we share your concern. We share the frustration, and it is a full court press from both Secretary Donovan and Secretary Geithner.

Senator MURRAY. It may take more than being stern.

Mr. STEVENS. It might.

Senator MURRAY. Also in my last few seconds of my time, there is an FHA HAMP program which applies only to FHA mortgages, and that is the one you have just been talking about. Okay.

And if you want to, please comment on that, and I will turn it over to Senator Bond.

Mr. STEVENS. Yes. The HAMP program I was referring to was not FHA. It was the broader HAMP program, but that does include the FHA numbers. The FHA HAMP numbers are actually very small. They are in the low thousands, and I think the reason for that is FHA has a loss mitigation program that has been so successful and has been in the market for many, many years. We have just a greater experience with dealing with loss mitigation, and to that extent, we have addressed over 600,000 in-distress homeowners in the last year on our own outside of HAMP. And I would be glad to report the resolution numbers on those, if you have interest.

Senator MURRAY. That would be good.

Mr. STEVENS. Okay.

Senator MURRAY. Thank you.

Senator Bond.

Senator BOND. Thank you, Madam Chair. That was an area that I wanted to explore, and you have done that, and we thank you very much, Commissioner, for your comments on it.

Let me ask in a related area. It is my understanding Freddie Mac was directed to buy back troubled loans from investors, taking the losses on the mortgage. It seemed to me that that policy was designed to bail out lenders on their risky investments but did little to save a home with a risky loan for the homeowner. Am I missing something here? You want to keep the investors happy, but if they are losing their skin in the game, should we be bailing them out?

Mr. STEVENS. I apologize. I do not have the specifics on that. I will tell you that in meetings with Freddie Mac and Fannie Mae, which we have had, this week, the vast majority of their efforts are not there. The vast majority of their efforts are in working on the HAMP initiatives and modification and HAFA, the refinance program, and very little on the buybacks. I could guess, but I would rather not guess for you and get specifics back on what assets they bought. I do not know the size of it.

HUD INSPECTOR GENERAL EFFORTS ON FRAUD AND ABUSE

Senator BOND. We are interested in getting a handle on this because, as you have indicated, there are so many moving parts in this that we want to try to get a handle on as many as possible.

We talked about the fraud and abuse efforts. Is there a joint oversight program with Justice, Treasury, HUD inspector general, and other agencies? You talked about 365 cases have been referred to the Mortgage Review board. Do you know how many of those cases have—question No. 1, is there a joint effort? Question No. 2, how many criminal indictments? Do you know offhand?

Mr. STEVENS. Senator, I would probably defer to the inspector general who is playing a huge leadership role in the fraud joint task force. So I would encourage——

Senator BOND. Maybe we could invite Mr. Donohue to come to the table, if you do not mind, just briefly on this one.

Mr. DONOHUE. First off, may I thank you very much. I would be remiss, Senator, if I did not respond back to your first comments. I am so grateful to you for your support. I would be remiss in not mentioning Senator Mikulski and Senator Sarbanes and Senator Murray as well and John Kamarck of your staff and Megan from yours, Senator Murray.

This is not possible. You mentioned seller down payment assistance. I think if seller down payment continued, we would be having a different discussion here today. It is a result of your leadership that that is possible in support of that effort.

We are very heavily engaged with the Department of Justice. We are involved in a major Federal fraud task force that I sit in with Attorney General Holder and his deputy staff. We had three summits recently: one in Miami, one in Detroit, and one in Phoenix, Arizona. And we had a chance to have people come in from the industry, people who are victims and talk about some of their concerns and also the law enforcement community as well.

The reason I mention that, getting back to Senator Murray's concern, you were talking about the counseling which is very important to you. One of the things I do want to mention to you when you spoke to that is what we are finding and the concern to us is that we are finding fraudulent counseling going on——

Senator BOND. Oh, really.

Mr. DONOHUE [continuing]. Where people are going back out and being contacted and being approached to give certain fees of sorts.

And of course, that person disappears in the night or continues on the fraudulent activity. That came out in all those three summits very actively. So it is not just the challenge of—the statements that the Commissioner made, but also we are seeing a significant amount of fraudulent activity as well.

As far as our cases are concerned, we have about 2,400 civil investigations on right now with regard to cases specific to the FHA fraud activity. We have created a civil fraud initiative. And you mentioned about the other agencies working together. I was on the National Bank Fraud Working Group back in the RTC days. And I think what we are seeing now is a collaboration of law enforcement working together.

I think it is a great challenge, sir. I think that these regulatory agencies talking to each other, working with them collectively—I have spoken to the Commissioner about setting up a consortium with Fannie and Freddie and the other GSEs. The best practice. I would like to see standard forms applying with regard to this mortgage activity. I have spoken to that in my testimony.

So we are very active. We are working well with regard to law enforcement agencies and, like yourself I share the same sentiment. I would like to see a lot more people in orange or red suits as much as I could on these cases.

Senator BOND. I know by the fall of 2008, I was following very closely my home area. The Eastern District of Missouri U.S. Attorney had initiated three major actions with numerous parties involved. I have not had any follow-up or heard how many criminal prosecutions related to mortgage fraud. I do not know if they were all FHA—have been initiated, how many have been concluded with a successful conviction. Do you know that?

Mr. DONOHUE. Well, sir, my semi-annual report I was just given, indictments and information from the period of April 1, 2009 to September 30, 2009, 1,182 indictments and information; convictions, pleas, pretrial diversions, 847.

Senator BOND. Good. That number needs to be publicized because that is the greatest prophylactic to let people know if they are going to do it.

I was concerned to hear your comments about fraudulent counseling. A few years ago, Senator Dodd and I created a $180 million foreclosure counseling effort. I talked with people all over my State who were involved in the counseling, and they were having some success, minimal success. But the one thing they emphasized to me was foreclosure counseling is not good enough. There has got to be pre-purchase counseling before somebody buys a home. We have to have an independent and maybe not a fee-based counseling program set up to sit down with the family, potential home buyer, explain to them what their obligations are, and look at their finances to see if they can buy a home.

Commissioner, obviously you have got some thoughts on that.

Mr. STEVENS. Yes. We share the concern. In fact, I have been hosting meetings with industry participants to talk about financial counseling particularly related to managing personal finances and mortgage finances before you make the decision to buy a home. We have had the help of members of the Housing Policy Council and others come in and show us and make recommendations of how we might go down that path. It is very complicated to institute a whole new way of doing pre-purchase financial counseling as opposed to what most housing counselors are doing today, to your point. Given the huge volume of foreclosures in the market, most housing counselors are overwhelmed with homeowners in distress. So the ability to transition into being able to have the time and scope to do pre-purchase sort of financial literacy becomes more challenging.

The other thing is most of the agencies in Washington that deal anywhere in the financial area have some sort of financial literacy classes that are available on their Web site, and so there is some opportunity to consolidate those together. But we are working on that right now and hopefully will be able to report back on that sometime in the future.

Senator BOND. Well, thank you. I think that is very important. Senator Murray and I are concerned a whole lot about what happens in Washington State and Missouri. And the people on the ground are the ones who really need to do it. In our State, NeighborWorks has been a very good partner. And we look forward to seeing those efforts expand and perhaps more assistance is needed in that pre-purchase counseling.

Mr. Donohue, I am disturbed to hear that there are fraudulent counselors. But again, the best place for them is in Government-restricted housing. I wish you the best in assuring their placement in that kind of facility.

Mr. STEVENS. It is interesting. The President even spoke about this when he first came into office. But if you watch TV and see someone helping someone walk away from their home, I think that was one of the things covered on the recent piece on strategic defaults. They called themselves counselors. They charge a couple $1,000 to counsel a family in distress, and they are not authorized. Free counseling is available, and getting that information to distressed homeowners is the big challenge.

GSE LOSSES

Senator BOND. One quick question. I do not know if you have the answer to this. On the GSEs, do you know how much of the losses are coming from their old books of business as opposed to the new business like foreclosure mitigation efforts like HAMP?

Mr. STEVENS. I recently just looked at some of their performance data, and Senator, like with the FHA portfolio the vast majority of these losses are on older books, 2006, 2007, and 2008 are just terrible portfolios. They are bad for FHA and they are bad for Freddie and Fannie. And it is those portfolios that we are going to be all experiencing losses on and paying the price for several years more to come.

Senator BOND. Thank you very much. I hope that the new business does not catch up with the old business. Thank you very much.

I have a commitment I have got to make, but I appreciate very much your testimony. We have got a lot of interesting follow-up that we are going to ask the staff to do.

Thank you, Madam Chair.

Senator MURRAY. Thank you very much, Senator Bond. And I would just say I have a financial literacy bill that we start teaching basic financial skills back in our elementary schools. You and I probably are the few here who remember our banking Fridays at school where we learned how to balance our checkbooks and how to read basic financial statements and that is lacking in education today.

Senator BOND. The only thing I would add, I took a very high-level law school course on banking and bankruptcy. And I was having trouble with my checkbook, and the instructor said my checkbook never works out right. So I always take the bank's view from it.

HAMP

Senator MURRAY. A prevalent opinion today.

Moving on, thank you very much, Senator Bond.

I wanted to go back for a second to the HAMP program. Originally it was focused on reducing interest payments and spreading mortgages. The administration has changed that, focusing on principal write-downs and relief for unemployed borrowers and an expansion of the existing refinance program.

In order to participate now, lenders are required to write down principal and make sure that a borrower's mortgage is affordable, as measured by total mortgage debt, including both their first and second liens. As I talked about in my opening statement, these mortgages do come with additional risk, and $14 billion in TARP funding has been set aside for that initiative.

Commissioner Stevens, how much additional risk do you expect to find these refinanced mortgages to carry?

Mr. STEVENS. Senator, the way we are looking at the program is the allocation of the $14 billion in TARP funds will be to cover the incremental risk exposure on these loans. While we have modeled various paths of the loans that come in, the variability will be on seeing the actual loans as they are originated. So, for example, as you are aware, we allow a combined loan-to-value where a second lien holder can subordinate up to 115 percent. It is estimated that one-half of all negative equity loans in America have a second lien, but we do not know how many of those will come into the FHA portfolio. Those that have subordinated second liens are going to have a higher risk weighting on our portfolio, as we see them come in, than those that do not.

Likewise, the FICO score distribution can have a wider range, and if the FICO distribution ends up being much lower on the scale, they will have a higher risk weighting than those that do not.

So we have the $14 billion allocation from Treasury. We do not, but that will be assigned to offset the claims from the lenders. As the loan comes in, we will be evaluating that volume coming in. If it skews off the path, we have the ability in the program, as announced, to stop it with little notice. And our Chief Risk Officer, Bob Ryan, is tasked with managing that overview. We will have the data of all the loans coming in as they are being insured. So we will just watch the volume coming in, the distribution of all those attributes that can cause risk, what risk rating we assign to those, and we will stop the program at a point in time if the risk seems greater than what we originally foresaw.

DEFAULT RATE

Senator MURRAY. What is the default rate that you are assuming?

Mr. STEVENS. Without giving specificity—and the reason why I am trying to avoid is there is a wide range of default expectations. There is a high default rate, which would be something similar to what we are seeing on some of our worst books of business from the past years. There are some estimates by some economists who think this is actually going to be a better performing book than even a standard refinance because the borrower incentives to come into the portfolio are that much higher. So to that extent, we know we have a bucket of risk mitigation dollars from TARP that will be available to the lenders to pay their claims, and that is why it is important to watch what comes in because the distribution could be from very low to very high.

It is kind of like stochastic modeling where you are looking at a variety of outcomes. We just know that we are going to use those real loans coming in to identify what path they are coming in on, and that will help us forecast as to when the funds will be exhausted.

Senator MURRAY. How much of the $14 billion will actually cover the costs that are expected to result from additional risk and how much will be used to provide incentives to lenders or help extinguish second liens?

Mr. STEVENS. The only incentives that are being provided at all are incentives for second lien extinguishment. There are no servicer incentives provided in the FHA solution, and there are no first lien principal write-down incentives whatsoever. So the private sector will bear all the costs of writing down the principal balance and refinancing that mortgage into a new FHA mortgage. So the only variable on the $14 billion will be the second lien, and without again trying to be evasive, because of the various paths and what our expectancy is on how many of these will have second liens versus those that will not, we have a wide range. I would say for a simplistic view, we expect the second lien extinguishment portion to be a relatively small percentage of the $14 billion because it only pays pennies on the dollar anyway, and the vast majority of the $14 billion will be to offset risk to the FHA portfolio.

We have pledged to report these numbers and share them with a high level of frequency with the Department of the Treasury. We are both going to be reviewing the actual assets coming in carefully together because our primary focus is not to add incremental risk to the FHA portfolio through this initiative.

STRATEGIC DEFAULTS

Senator MURRAY. In my opening remarks, I mentioned the concern I have about strategic defaults, people who are defaulting because they are just making that decision to do it not because they are personally not able to make their mortgage payment. I am concerned that this could provide some serious instability in the market, and I wanted to ask you, is there any good data today on how serious this problem is or something that you are seeing with FHA-insured mortgages?

Mr. STEVENS. We have done a great deal of research into the strategic default area. There is no history on this. Strategic default is a new anomaly for this recession. And as I am sure you are concerned and I am concerned—I was interviewed on 60 Minutes on Sunday on this subject. There is a significant moral hazard that will pervade the mortgage finance system for decades to come should this become a real problem.

Based on estimates we have gotten from independent third party analysts which include the GSEs' view as well as economists like Mark Zandi, it is estimated that real strategic default risk is in the single digits as a percentage of overall foreclosures. So somewhere between 7 and 9 percent are sort of the current estimates of what are real strategic defaults.

Now, the issue ends up being that negative equity is highly concentrated in five key States, the sand States plus Michigan. And in those States—in Nevada, which is the worst hit, for example, if you look at all negative equity loans, which is somewhere between 11 million and 15 million loans that have negative equity, about one-half of those are either second homes or investor properties, and some small percentage of those are also super-jumbo, million-plus dollar homes. So when you isolate back down to the rest of the borrowers that have negative equity, you break that down into two categories. The greatest category will be those—our default risk will be those that are in distress that have lost their jobs, had income curtailment.

Laurie Goodman of Amherst Securities suggests that negative equity could contribute 1 percent to the unemployment rate because people just cannot accept a job somewhere else because they cannot get out of their home without going into foreclosure. That is where the focus of our efforts is.

But our solution with FHA does allow an investor, if they think a strategic defaulter is going to walk away, to write down their principal too and put them into a refinance, if they will stay. But we do need to track this carefully over time and see, to the extent this becomes a greater hazard because the ramifications, as I am sure you would agree, go far beyond just the foreclosure risk to those communities. It will affect how loans are priced in the future if that is considered a real risk.

Senator MURRAY. And the other question I wanted to ask you about is the so-called shadow inventory. We obviously have an oversupply of housing right now, and there is a concern that with all the newer imminent foreclosures that are coming or banks that are holding repossessed homes if those start flooding back on the market, what kind of impact that would have. Could you talk a little bit about how big perhaps the shadow inventory——

Mr. STEVENS. Again, this is another where there is great research on it. In fact, I have a couple of good studies I would be glad to send to Megan or however you want me to get it back to you that have been done independently.

The shadow inventory is real. And the in-foreclosure numbers are clearly higher than the actual foreclosure numbers. I know that in the FHA portfolio and I see it in the numbers at both of the GSEs. So there are a lot of reasons why that has been built up, part of which is just the overwhelming volume that hit many of these counties that have to process foreclosures, moratoriums placed in various States or areas where the courts put a freeze or bans on foreclosures for a period of time. Clearly the loss mitigation efforts by FHA through HAMP, even portfolio modifications have also slowed the process down, and banks are obviously being much more aggressive to try to delay the foreclosure if they can find any way to work out a borrower's situation in most cases. And so the inventory of in-default is clearly rising.

Now, there are some estimates that based on some home price appreciation forecasts, even modest ones, that a good percentage of those foreclosure problem cases could be resolved just by some slight improvements to unemployment and some slight improvements to home values, in other words, that they are close enough to the line that they could back into an affordability with some involvement on either forbearance or modification efforts that are being done today.

But it is still—without question, the numbers are large. At FHA, for example, our in-foreclosure numbers are about double what they were a year ago in foreclosure, but our actual foreclosures are not double of what they were a year ago. That is why, even though we are behind on actual foreclosures today based on our forecasts, I expect them to rise based on what I am seeing in this shadow inventory that is coming in.

So we are looking at the data very carefully. And again, I would be glad to share at least some independent looks that I may have available with your office.

Senator MURRAY. I would really appreciate that very much.

With that, I want to thank both of you, especially Commissioner Stevens, for your input today. It has been very valuable.

ADDITIONAL COMMITTEE QUESTIONS

There will be questions submitted by a number of our subcommittee members. We will leave the record open in order to have you respond to those.

[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

FHA RISKS

Question. As we have discussed, CBO recently came out with its re-estimate of the receipts that FHA will generate from mortgages insured in fiscal year 2011. The result is a loss of $4 billion in anticipated receipts. This is not the first time that CBO had disagreed with OMB's assumptions for receipts. Do the current models appropriately account for risk?

Answer. FHA spends a great deal of time and effort studying the credit risk of its insured portfolios. The valuation models used for the single family insured portfolio have been developed over a 20-year period and capture all of the essential factors needed to value a national portfolio. Those include borrower credit quality, downpayment rates, house price changes, and interest rate movements.

For its scoring of the fiscal year 2011 budget, the CBO did not have a similar credit risk model for FHA. They are in the process of building such a model for scoring the fiscal year 2012 budget. CBO also, but not unlike OMB, prefers to err on the side of conservative judgments, especially when there is uncertainly involved. The nature of any disagreements on the value of FHA loan guarantees generally comes down to uncertainty with respect to future housing market conditions. There is no right answer. There are only informed judgments, and persons of goodwill can differ markedly in their preference for some risk-adjustment factor in forecasting.

The direct impact of larger economic risk adjustments in a budget forecast is to lessen the expected budget receipts generated from the FHA insurance programs, and thus lower the overall receipts the Congress has when formulating a budget. The indirect impact is to increase the probability that, in future years, there will be beneficial budget re-estimates for the affected cohorts of loan guarantees, and lessen the probability of adverse re-estimates.

FHA PRIORITIES FOR INVESTMENTS

Question. As I mentioned in my statement, improving the information systems at FHA are critical. As you know from coming from the private sector, the systems at FHA are outdated and are in some instances opening FHA to unnecessary risk. Last year, we provided HUD with significant resources to invest in IT systems. This included funding for immediate fraud detection and mortgage fraud tools as well as longer-term investments. How are you prioritizing these IT investments?

Answer. With respect to prioritization for Combating Mortgage Fraud, fiscal year 2010 funds are being used to address a broad range of risk and fraud management efforts within the Department. FHA has worked diligently to put in place contract vehicles which provide access to industry leading tools and professional services that will greatly enhance the Department's capabilities related to fraud detection/prevention and risk mitigation. Specifically, we are focused on the following three functional areas:

—Counterparty Risk Management Functionality
—Analytical Consulting Services for risk and fraud tool evaluation and selection
—Consulting and Contracting Services for Loan-level File Review

Through the acquisition process, HUD has focused on services that address the most critical and immediate areas of need within FHA to reduce the likelihood of insuring fraudulent and high risk loans, detect trouble spots among product types, improve targeting methodology for loans selected for review, significantly improve counterparty due diligence and review, and aggregate key information to make informed and reasoned decisions across the organization. To the extent feasible, these services are designed to have applicability across the FHA enterprise and may well reduce total organization contract expenditures on duplicative tools and services. However, the short-term application of this contract vehicle will be for the Single Family portfolio with downstream usage envisioned for multifamily and hospital financing.

With respect to prioritization for longer-term FHA IT investments, the use of the Transformation Initiative funds for IT purposes requires detailed IT planning per Congressional requirements. Our modernization objectives align with the FHA IT Strategy and Improvement Plan (FHA IT Plan) submitted to Congressional committees in August 2009. As articulated in the FHA IT Plan, with many, if not all, of Housing's IT systems being old and outdated, our priority is to transform and upgrade FHA's infrastructure in line with modern financial services organizations. This initiative is being designed and planned to leverage the specific components of the Risk and Fraud initiative as they become a reality for FHA. This is how all of the Transformation work comes together. Tools selected through the Combating Mortgage Fraud Initiative will fit into the portions of the architecture that house aggregated capabilities for FHA. In addition, counterparty level information, required by the Risk and Fraud initiative, will flow into the front end of the FHA Infrastructure data area and provide valuable insight throughout the insurance lifecycle.

Question. How quickly do you think you can make these IT upgrades?

Answer. FHA has worked closely with internal (e.g., OCIO) and external (e.g., GAO, OMB) organizations to create measurable 6-, 12-, and 18-month deliverables for the FHA Transformation work. While our project planning materials indicate that this initiative will be a multiyear effort that spans longer than an 18-month timeframe, the initiative has been crafted to ensure that measurable value is delivered in as short a timeframe as possible.

NEW SHORT SALE PROGRAM

Question. In the midst of all of the attempts being made to keep families in their homes, the administration recently announced its plans to implement a program to facilitate short sales. Through these sales, lenders and borrowers consent to take a loss by selling a home below the mortgage balance owed in order to avoid foreclosure. How much would this initiative cost?

Answer. As this is an initiative led by the Department of the Treasury, it would be more appropriate that these questions be directed to that agency for response.

Question. As with all of the housing programs, this would be a voluntary program, and lenders already have the ability to do short sales. Why do you believe that the relatively modest amount of incentive payment that would be offered will be enough to increase the number short-sales so that it has a real impact on the housing market?

Answer. As this is an initiative led by the Department of the Treasury, it would be more appropriate if this question was directed to them for response.

Question. Under this new program, participating owners would be required to sell their home if an offer is made at a pre-determined price. Under the proposal, this price would be determined by Real Estate agents. Given the inherent subjectivity of home value determinations, there is a concern that this program could be open to fraud and conflicts of interest. What protections will be put in place to mitigate these risks?

Answer. As this is an initiative led by the Department of the Treasury, it would be more appropriate if this question was directed to them for response.

HOME AFFORDABLE MODIFICATION PROGRAM

Question. One of the problems with HAMP has been the capacity of servicers to process the claims. Do you think that servicers have the capacity to manage a significant increase in short sales?

Answer. As this is an initiative led by the Department of the Treasury, it would be more appropriate if this question was directed to them for response.

SUBCOMMITTEE RECESS

Senator MURRAY. Again, thank you so much, both of you, for your participation today.

With that, this hearing is recessed, and this subcommittee will hold its next hearing on Wednesday, May 19 at 3:30 on the fiscal year 2011 budget request for the Washington Metropolitan Area Transit Authority.

[Whereupon, at 11:09 a.m., Thursday, May 13, the subcommittee was recessed, to reconvene at 3:30 p.m., Wednesday, May 19.]

TRANSPORTATION AND HOUSING AND URBAN DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2011

WEDNESDAY, MAY 19, 2010

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

The subcommittee met at 4:09 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Patty Murray (chairman) presiding.

Present: Senators Murray and Mikulski.

Also present: Senator Cardin.

WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

STATEMENT OF HON. PETER BENJAMIN, CHAIRMAN, BOARD OF DIRECTORS

OPENING STATEMENT OF SENATOR PATTY MURRAY

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

Our apologies for being late this afternoon, we are having votes on the floor and could not get here in time. So I apologize to all of our witnesses and all those who are here, but we are here and ready to go.

And this afternoon, we are holding a hearing on the President's budget request for the Washington Metropolitan Area Transit Authority [WMATA]. We are going to be hearing testimony from Senator Cardin. He is going to be joining us here in just a few minutes.

We will have two panels. The first panel following Senator Cardin will include the Chairman of WMATA Board of Directors, Mr. Peter Benjamin, and Mr. Richard Sarles, the Interim General Manager.

The second panel will consist of three witnesses: Ms. Jackie Jeter, who is the president of Local 689 of the ATU; Mr. Jack Corbett, director of MetroRiders.org; and Mr. Francis DeBernardo, chairman of the Riders' Advisory Council.

I want to welcome all of our witnesses at this time and really appreciate your being here today.

Metro has often been called the jewel of the Washington, DC area's transportation system. It is a web of rail and bus lines that reaches into almost every neighborhood across the region. On a typical work day, it carries passengers on more than 1.2 million trips, making it the second-largest heavy rail and sixth-largest bus transit system in the Nation.

Its trains and buses cross two States and the District, offering mobility, reducing congestion, and reducing air pollution. For those neighborhoods clustered around its stations, it is a proven engine for economic development. Its difficulties—management, financial, and especially safety—have been deeply troubling to this subcommittee, which have long been a champion of public transit and strong supporter of Metro.

In the past year, 13 people have died in 4 separate accidents at Metrorail, including 8 passengers and 5 employees. All of these accidents were preventable, which is a tragic indictment of management and the agency's safety culture.

Like many other transit systems around the country, Metro faces a severe operating budget shortfall, and its Board of Directors is considering significant fare increases that are required to restore the system's financial footing. Given the need to also replace much of Metro's aging rail fleet, parts of which date to the 1970s, and upgrade its track signaling systems, fare increases and other steps to increase revenues and control costs are unavoidable. They are also essential to any future growth of the system since financial stability is a key requirement for support from the highly competitive New Starts program administered by the Federal Department of Transportation.

Tackling these challenges is the responsibility of Metro's board and its new interim general manager, Mr. Sarles, and they clearly have their work cut out for them. Just 2 weeks ago, we saw communications delays and confusion over what could have potentially been a serious incident at Wheaton station.

That said, I am encouraged by the efforts to restore a culture centered on safety, where safety is considered and factored into every decision concerning operations. In recent weeks, Metro has hired a new Chief Safety Officer committed to filling key vacancies in its Safety Division, taken steps to increase track worker safety, and committed to address the findings of the FTA's highly critical review by the end of the summer.

It is still early, and changing any complex organization, even one with large numbers of dedicated workers such as Metro, does not happen quickly. Metro's problems did not develop overnight, and some solutions will require time and commitment. For that reason, Metro must be relentless on this point. Its passengers, employees, and the taxpayers will expect nothing less.

The real test for Metro's new leadership will be its ability to demonstrate continued progress, the most visible sign of which will be the absence of further accidents, as well as upgrading the system to better serve its riders. The Federal Government is supporting Metro's efforts to right itself, both through the technical assistance provided by the Department of Transportation, as well as through direct appropriations.

Last year, Congress provided almost $200 million in stimulus funding on top of the $239 million in formula and bus grant funding awarded to Metro. For fiscal year 2010, Congress added a further $150 million to support Metro capital and preventive maintenance expenses, focusing on those investments that most improve safety. This was in addition to the $85 million appropriated for the Dulles airport extension.

I was pleased to see the administration continue both investments in Metro in its fiscal year 2011 budget, with another $150 million requested for capital expenses and $96 million for the Dulles extension. I trust this strong demonstration of support will encourage Metro's three funding partners to continue to meet their responsibilities toward the system as well.

During this hearing, we will have the opportunity to look into these important issues. It is impossible to imagine the Washington region without Metro. It has transformed the city and the region, and we owe it to present and future generations to not just maintain it, but to make it better.

So I look forward to the testimony today, and I want to thank Senator Mikulski, who has been absolutely wonderful in helping us put this hearing together. Her adamant support of the system and making sure it works right is a real tribute to her work as a Senator from Maryland. And I am delighted she is here today.

Senator Mikulski.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Chairwoman Murray. I want to thank you for holding this very important hearing on the WMATA budget.

I know that we will be very shortly joined by Senator Cardin, and I want to thank those in the audience for their patience while we were working through some parliamentary quagmire on the financial service bill.

We want to thank you for your courtesy to allow us all to participate. As a member of the subcommittee, we appreciate that you have expanded it. Senator Warner is on the Banking Committee and is on the floor with Senator Webb. We hope they will join us.

But Senator Murray, I also would ask unanimous consent, before I begin my remarks, to put into the record a letter from Governor O'Malley. Governor O'Malley wishes to inform you through me that he is committed to providing Maryland's full share for the regional funding to match the statutory Federal investment in WMATA.

There was some confusion about that. He wanted to assure you in the strongest possible way that Maryland will meet its commitment. However, he does call for budget reform with WMATA and encourages that they go to a 6-year capital program, updates on their budget process, and so on. I would like to discuss that with you at a later time, but I ask unanimous consent that the Governor O'Malley letter be in the record.

Senator MURRAY. The letter will be put into the record.

[The information follows:]

OFFICE OF THE GOVERNOR,
State of Maryland, May 18, 2010.

The Honorable BARBARA A. MIKULSKI,
United States Senate,
503 Hart Senate Office Building, Washington DC 20510.

DEAR SENATOR MIKULSKI: The State of Maryland is committed to providing its full share of the regional funding to match statutory Federal investment in the Washington Metropolitan Area Transit Authority (WMATA). In order to qualify for $1.5 billion in Federal funding dedicated for WMATA system preservation over 10 years, the Maryland Department of Transportation (MDOT) Consolidated Transportation Program (CTP) reflects annual on-going contributions of $50 million—100 percent of our share of the region's matching funds.

To ensure these funds are programmed and managed responsibly, we and our partner jurisdictions are calling for WMATA to develop and implement a capital programming process much like the one the MDOT has used for over 30 years. The key elements of the process include:

—A 6-year capital program period;

—Formal annual updates as part of the budget process; and

—Quarterly reviews focusing on project cost, schedule and scope changes, updated project cash-flow projections, and revised estimates of overall capital program components.

I thank you for your efforts to secure dedicated Federal funding for WMATA as we all work to ensure the safety, security and reliability of transit in the national capital region. We were the first of the three jurisdictions to program our matching funds, have always fulfilled our funding commitments to WMATA, and assure you that WMATA funding will continue to be a top priority for Maryland in the years ahead. For further information, you may contact me at any time or direct your questions to MDOT Secretary Beverley K. Swaim-Staley at 410–865–1001.

Sincerely,

MARTIN O'MALLEY,
Governor.

Senator MIKULSKI. And to assure you of that.

Also, Senator Murray, there was concern, and I would want to work with you on this, that as we go forward with our statutory requirement of $150 million, that States and localities do not reduce their money. That this money was in addition to the contributions that were pledged by State and local governments. So we are in addition to. We are not in lieu of what either Maryland, Virginia, or the District of Columbia, the Virginia localities would contribute.

As we work on this bill, I would like to talk with you about a requirement that there be maintenance of effort by all of those who are signatories to their original agreements.

Senator MURRAY. I would be happy to discuss that with you.

Senator MIKULSKI. But, you know, we need the will, a wallet, and a way. While often this hearing focuses on the wallet, we have to talk about what is the way forward, and do we have the will and the methods to accomplishment?

You rightly have identified that Metro's safety and operational reliability is absolutely critical. It affects daily riders for those who come to the Capital, for those who commute from within the region, or others who come from around the world. It is important to those who work at the Metro, operating the trains, fixing the tracks, managing the stations.

Madam Chair, you have to know, and others, that we have been very impatient with Metro; we don't want any more promises, memos, or laundry lists. We need action on safety. I hope at today's hearing we can get into the specifics of what Metro has done already to improve safety? What do they plan to do? And how have we made progress?

I would hope that we could get into their measurements in metrics to really identify, have they made progress in both improving their safety systems, the personnel involved in the safety systems, and in the leadership and the changing of the culture. You might be interested to know that Metro has no line item in its budget for safety, or maybe it has been recently added as a result of some of the new initiatives that we have encouraged them to take.

Like you, I am very impatient over the fact that it has been almost 1 year since the deadly crash at Metro. Thirteen more people have died: eight Metro riders; and five Metro employees. These aren't numbers. These aren't statistics. These are human beings.

We have had audits. We have reports. We have recommendations. We need action. Audits, reports, and recommendations are a pathway, but now we need action.

I remain just as worried about the safety of Metro as I was last June. We are now 11 months from that tragic crash, and we need to have a sense of urgency. What results does Metro have to show? The Federal Transit Administration [FTA] audit found persistent, ongoing, and systemic problems, and a Metro Safety Department, actually, initially barely functional.

At various points, Metro leadership was ignorant of safety when they made budget decisions, and also they were not getting regular safety reports. So, today, I hope we can see what is the change, how has it changed, and for the Federal Government's contribution of $150 million, what kind of change are we going to get for their money?

Madam Chair, I want to acknowledge, both to you and to all here, all of us need to be safety officers. It is not only the people who operate who are charged at the Metro, but also all of us—those of us who fund it, and those of us who have political responsibility for it. We all need to commit ourselves to being safety officers.

We need to know, as I said, what has Metro done to improve the safety, implement the FTA audit recommendations, and what are the mechanisms they have in place to measure their performance?

Metro is America's subway. This is an annual dedicated funding that is authorized. We ask you to continue the $150 million Federal contribution, but for our money, we want safety, operational reliability, and a way that will also be sustained. We really do want to insist on those outcomes.

Senator MURRAY. Senator Mikulski, thank you so much for your opening statement.

I know we are waiting for Senator Cardin. He will be here in just a minute. I would like both of our first witnesses, Mr. Sarles and Mr. Benjamin, to come up to the table, and we will take their testimony while we are waiting for Senator Cardin to do that.

I am going to have to apologize. I have been called back over to the floor, Senator Mikulski. And I will ask Senator Mikulski to chair this hearing and to take the testimony. And if I am not able to return in time, Mr. Sarles and Mr. Benjamin, I do have questions from the subcommittee that I will submit to you for writing.

But Senator Mikulski, if you would not mind, if I could turn the chair over to you for a short while here?

Senator MIKULSKI. Be happy to do it. If you can come back, we will look forward it. If not, we will move expeditiously.

Senator MURRAY. Okay. With that——

Senator MIKULSKI. Mr. Benjamin and Mr. Sarles. Mr. Sarles is the Interim General Manager, and Mr. Benjamin is the Chairman of the Board.

Senator MURRAY. Thank you.

Senator MIKULSKI [presiding]. Okay. Thank you.

You may proceed.

STATEMENT OF HON. PETER BENJAMIN

Mr. BENJAMIN. Senator Mikulski, the comments that you have made and those by Chairman Murray are exactly right, and I am not sure that I can say them much better. I will try anyway to give my testimony.

I am honored to appear before you today as the Chairman of the Board of Directors of the Washington Metropolitan Area Transit Authority. Metro's General Manager, Richard Sarles, will cover this agency's specific initiatives with regard to improved safety and service. I would like to provide the context for Metro's fiscal year 2011 appropriations request by giving the subcommittee some background about the Metro system and our capital needs.

First, let me quote from a letter which President Lyndon Johnson wrote to Congress in 1965. "The problem of mass transportation in the Washington area is critical. It is also a problem in which the Federal Government has a unique interest and responsibility. Improved transportation in this area is essential for the continued and effective performance of the functions of the Government of the United States, for the welfare of the District of Columbia, and for the orderly growth and development of the national capital region."

In 1966, Congress responded by authorizing the creation of the Washington Metropolitan Area Transit Authority as an interstate compact. Today, the Federal Government is uniquely dependent on Metro, something that distinguishes Metro from other U.S. transit systems. One-half of all Metro stations are located at Federal facilities, and over 40 percent of peak ridership consists of Federal employees.

A quick listing of some of our rail stations demonstrates Metro's close connection to the Federal Government—Federal Triangle, Smithsonian, Capitol South, Navy Yard, Pentagon, and Arlington Cemetery, to name a few. The Federal Government is particularly reliant on Metro for special national events, such as inaugurals and state funerals, transportation of visitors to the Nation's capital, and persons doing business with the Federal Government.

Without Metro, it is hard to imagine how this region would have handled the massive influx of visitors who came to attend the inauguration of President Obama in January 2009. Federal disaster recovery plans in this region rely heavily on Metro, and Metro played a key role on September 11 in moving people out of the downtown core.

Congress recognized the Federal Government's unique relationship with Metro when it passed the Passenger Rail Investment and Improvement Act of 2008, PRIIA, which authorized $1.5 billion for Metro's capital and preventive maintenance needs to be equally matched by Metro's State and local funding partners.

I want to thank this subcommittee and your colleagues in Congress for appropriating the first installment of that authorization last year. We are requesting that another $150 million be appropriated in Federal fiscal year 2011, as provided for in the President's fiscal year 2011 budget.

PREPARED STATEMENT

On behalf of Metro's Board of Directors, I thank you for your long history of support for Metro and your leadership in providing funding for the rehabilitation of Metro facilities and the replacement of Metro equipment. It is no understatement to say that just as the Federal Government depends on Metro, the future of Metro depends upon the Federal Government and the funding authorized under PRIIA.

Thank you for allowing me to testify today. I look forward to answering your questions.

[The statement follows:]

PREPARED STATEMENT OF HON. PETER BENJAMIN

Madam Chairman, Ranking Member Bond, and members of the subcommittee, I am honored to appear before you today as the Chairman of the Board of Directors of the Washington Metropolitan Area Transit Authority (Metro). Metro's General Manager, Richard Sarles, will cover the agency's specific initiatives with regard to improved safety and service. I would like to provide the context for Metro's fiscal year 2011 appropriations request by giving the subcommittee some background about the Metro system and our capital needs.

METRO SERVES THE FEDERAL GOVERNMENT

The problem of mass transportation in the Washington area is critical. It is also a problem in which the Federal Government has a unique interest and responsibility . . . improved transportation in this area is essential for the continued and effective performance of the functions of the Government of the United States, for the welfare of the District of Columbia, [and] for the orderly growth and development of the National Capital region.——President Lyndon Johnson, 1965 letter to Congress.

It may surprise you to learn that Metro's relationship with the Congress began over 100 years ago, just a few yards away from where we are sitting today. In 1906, when the subway was built connecting the U.S. Capitol to the Senate Office Building (now the Russell Building), people started thinking about building a subway for the city. The Washington Post published an article in 1909 titled, "Why Not a Real Subway System for Washington?" A 1931 Post article included a map of downtown Washington showing possible subway routes.

In 1955, Congress became directly involved in the discussion, and approved $500,000 to have the National Capital Planning Commission conduct a "Mass Transportation Survey" for the Washington region. The results of that survey led to passage of the National Capital Transportation Act of 1960, which created an independent Federal agency to plan a regional system of highways and mass transit to serve the Nation's Capital. In 1966, Congress authorized the creation of the Washington Metropolitan Area Transit Authority as an interstate compact agency of the State of Maryland, the Commonwealth of Virginia, and the District of Columbia to plan, finance and construct a rail transit system for the region, and early the following year Metro was "born."

Today, the Federal Government is uniquely dependent upon Metro, something that distinguishes Metro from other U.S. transit systems. One-half of all Metrorail stations are located at Federal facilities, and about 40 percent of peak ridership consists of Federal employees. A quick listing of some of our rail stations demonstrates Metro's close connection to the Federal Government: Federal Triangle, Smithsonian, Capitol South, Navy Yard, Pentagon, and Arlington Cemetery, to name a few. It is not surprising that in 2005, a "Blue Ribbon" report found that the Federal Government, the region's largest employer, is the "largest single beneficiary" of Metro.

The Federal Government is particularly reliant on Metro for special national events such as inaugurals and State funerals, transportation of visitors to the Nation's Capital and persons doing business with the Federal Government. Without Metro, it is hard to imagine how this region would have handled the massive influx of visitors who came to attend the inauguration of President Obama in January 2009. Metro carried 1.5 million riders on Inauguration Day, providing attendees with a convenient—albeit crowded—transportation alternative.

Federal disaster recovery plans in this region rely heavily on Metro, and Metro played a key role on September 11, 2001, in moving people out of the downtown core. People were able to rush home to their families because Metro employees stayed on the job, operating trains and buses, staffing stations, and coordinating service from a command center. Other Federal plans, such as the BRAC-related consolidation of Walter Reed Army Medical Center and Bethesda Naval Hospital, also depend upon Metro; the consolidated facility, which will serve tens of thousands of patients and visitors annually, will be located at the Medical Center Metrorail station.

In fact, it is fair to say that Metro is the backbone of daily Federal Government operations. During the recent snowstorms, when it was impossible to operate Metrobuses safely on surface streets and to run Metrorail trains on above-ground tracks, the Federal Government decided to close. With well over 100,000 Federal employees regularly commuting by Metro, and thousands of others using Metro to access Federal facilities every day, the Federal Government depends heavily upon the system.

METRO'S CAPITAL NEEDS

Congress recognized the Federal Government's unique relationship with Metro when it passed the Passenger Rail Investment and Improvement Act of 2008 ("PRIIA", Public Law 110–432), which authorized $1.5 billion for Metro's capital and preventive maintenance needs, to be equally matched by Metro's State and local funding partners. I want to thank this subcommittee and your colleagues in Congress for appropriating the first installment of that authorization last year. We are requesting that another $150 million be appropriated in Federal fiscal year 2011, as provided for in the President's fiscal year 2011 budget request.

Why is this funding so important to Metro? Because we have a 34-year old rail system, which is not like it used to be when it was new. It has old rail cars, track bed, power equipment, and communications systems. More than one-half of our bus garages are over 50 years old and some buses are 15 years old. As the equipment and facilities age they become less reliable, break down more often, and need more maintenance. We have to replace our tracks, trains, and buses, and must rehabilitate our stations, bridges, and maintenance facilities. We have 30-year-old ventilation, lighting, and communications systems which must be maintained or replaced. Some of our station platforms are crumbling, our escalators and elevators need major repairs, and water is leaking into our tunnels. We must do all of the work required while providing service to hundreds of thousands of customers daily.

We have been fortunate in that our funding partners—the Federal Government as well as the State and local jurisdictions that we serve—have demonstrated strong support for Metro's capital program. As a result, Metro has been able to build out and operate a full 106-mile rail system, run a fleet of 1,500 buses, and provide paratransit service to thousands of customers with disabilities. We have also been able to make a number of critical investments in the system, including, for the first time, running 8-car trains. (When the Metro system first opened in 1976, we ran 4-car trains—hard to imagine today!)

Going forward, however, Metro needs increased investment to keep the system in a state of good repair. We are currently developing our capital program for the next 6 years. I expect that our State and local funding partners will not only continue, but will increase, their current level of funding to Metro, and in addition will match the new Federal funding stream authorized in PRIIA. The PRIIA funding itself is essential not just to leverage these additional contributions, but to help us at Metro address our most critical needs, such as replacing our oldest rail cars and rehabilitating our oldest segments of track.

I hope that I have made clear why this funding is important to Metro. I hope that it is also clear why this funding should be important to the Congress. The PRIIA funds will allow us to make urgently needed investments in the aging infrastructure of our system so that we can continue to provide Federal employees, residents of the metropolitan area, and visitors to the Nation's capital from across the Nation and around the world, with safe and reliable service. Annual appropriations under PRIIA are essential if we are to keep our system in a state of good repair.

On behalf of Metro's Board of Directors, I thank you for your long history of support for Metro and your leadership in providing funding for the rehabilitation of Metro facilities and replacement of Metro equipment. It is no understatement to say that just as the Federal Government depends upon Metro, the future of Metro now depends upon the Federal Government and the funding authorized under PRIIA. Thank you for allowing me to testify today, and I look forward to answering the subcommittee's questions.

Senator MIKULSKI. Mr. Sarles, before I call upon you, may I recognize Senator Cardin.

Senator Cardin.

STATEMENT OF SENATOR BENJAMIN L. CARDIN

Senator CARDIN. Thank you, Madam Chair. Senator Mikulski, thank you very much. You don't have to leave the table. I don't mind being associated with Metro, I'm a big supporter of the Transit Authority.

As Senator Mikulski knows, we were interrupted because of some votes, and I apologize for being a few minutes late. But I would ask consent that my full statement and letter that I authored to President Obama in December be made part of the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BENJAMIN L. CARDIN

Thank you Chairman Murray and Ranking Member Bond for holding this hearing, and thank you Sen. Mikulski for inviting me to address the subcommittee about the Federal Government's increased commitment to invest in the Washington Metropolitan Area Transit Authority.

Last year, the Greater Washington Congressional Delegation fought hard for the much needed transportation appropriation we secured for WMATA. In working with the members of this subcommittee and the full committee we were able to get it done and for that I am grateful. I appreciate that the appropriators recognize the important role Metro plays in the function of the Federal Government, including Congress.

In December, I read a letter to President Obama urging him to include Metro in his budget. I ask for unanimous consent that a copy of this letter signed by Senators Mikulski, Webb, Warner and me be submitted for the record. I applaud and support the administration's request of $150 million in fiscal year 2011 for Metro.

This demonstrates the President's commitment to smart growth, his recognition that it is in the Federal Government's interest to alleviate and not contribute to terrible traffic congestion in the Greater Washington Area—ranked the 2nd worst in the United States only behind Los Angeles, how integral a part of the region's transportation network Metro is and more broadly how transit fits into the Nation's transportation goals for the future. His budget request for Metro is in keeping with the October 9, 2009 Executive Order (No. 13514) on Federal Sustainability and the administration's efforts to reduce the Federal Government's carbon footprint, including its workforce.

It also shows the administration's recognition of how important Metro and "America's Subway" system is to the function of the Government. We learned from this February's snowstorms that the Federal Government in fact cannot function without Metro. The Office of Personnel Management based its decision to shutdown the Federal Government on WMATA's inability to operate above-ground rail lines during the storms. This not only points out the Federal Government's reliance on Metro, but also highlights Metro's lack of resources to operate in weather conditions that other city transit systems like Chicago, New York or Boston could work through.

Every work day, Metro provides tens of thousands of Federal employees rides to work. During peak ridership, more than 40 percent of riders on Metro are Federal employees and 10 percent of the overall ridership serves Congress and the Pentagon alone. Metrorail's alignment was designed to serve the Federal Government, with more than one-half of the system's stations located at or near Federal buildings. GSA has also established guidance that requires all new Federal facilities in the Greater Washington Area be Metro Proximate.

I believe that the Federal Government has a clear financial interest in the operation of Metro. Likewise, I believe the Federal Government must play a greater role in ensuring the safety of Metro for its riders and employees.

Safe and reliable operation of the Metro System is a top priority for me and the Greater Washington Area delegation.

Revelations from the March NTSB hearing into the ongoing investigation of the June 22, 2009, fatal accident on the Red Line near Fort Totten, as well as discoveries made by the FTA through its Safety Audit of WMATA provided overwhelming evidence that Metro needs to look inward and make serious efforts to revise its approach to operating the system safely.

Metro needs to work hard to establish a culture of safety that starts from the General Manager office and the Board of Directors on down through the various leaders of departments within WMATA and throughout the system's operators.

We have heard directly from interim General Manager, Richard Sarles, and Board Chairman Peter Benjamin about the changes being made at Metro to improve safety. However, during our meeting last week in Senator Mikulski's office, on the afternoon of May 5, there was an emergency braking situation on the Red Line in Wheaton. The incident was not reported to the Tri-State Oversight Commission within 2 hours of the incident, as per WMATA's protocol, nor was the Board or General Manager immediately informed of the incident.

I appreciate how forthcoming WMATA is with information surrounding this incident after the fact. I am pleased to know that even though the train operator may not have needed to take the actions he did, that he is not being punished for being cautious and causing the disruption. That said, this incident reveals that lapses in protocol are still an issue at WMATA.

I am committed to working with my congressional colleagues, the Federal Transit Administration and the leadership at the Washington Metropolitan Transit Authority to make safety an operational priority at Metro and restore public confidence in the system. I want more than just verbal commitments to improve safety from WMATA and I want to see measurable results.

If the Federal Government increases its investment in the system, it should also increase its oversight of operations and capital projects, so as to ensure that tax dollars are being well spent. I am confident that we will find a way forward through:

—Increased Federal regulatory authority and oversight, as called for by the FTA; and

—Increased openness and transparency at WMATA.

The FTA is prohibited by law from establishing national safety standards, requiring Federal inspections, or dictating operating practices. However, Senators Dodd, Menendez, Mikulski, and I introduced The Public Transportation Safety Program Act that will require the Transportation Secretary to establish and implement a comprehensive Public Transportation Safety program.

This legislation will give the FTA the ability to take decisive actions such as conducting inspections, investigations, audits, examinations of (Federally funded) public transportation systems. This legislation establishes the type of safety enforcement authority for the FTA that already exists within the Federal Railroad Administration's authority over safety rules for commuter rail systems or the Federal Motor Carrier Safety Administration's ability to establish enforceable safety guidance for commercial truck drivers.

It makes sense for public transit systems that receive Federal funding to meet Federal safety requirements set by the FTA. It makes even more sense to grant FTA a degree of Federal authority to establish safety guidance, particularly when it comes to WMATA, given Metro's unique relationship to the Federal Government.

In July 2009, FTA Administrator Peter Rogoff, in testimony before the House Oversight and Government Reform Committee made special note of the fact that WMATA does not have a dedicated revenue stream, rather it relies heavily on Congressional Appropriations which may fluctuate from year to year.

While the President's request for $150 million for Metro is an example of such special appropriations, it sends an important signal that the Federal Government recognizes the need to invest in Metro.

Fortunately, Congress has taken an important step forward to remedy this situation. The Senate recently passed a new Metro Compact further advancing the final step in authorizing a 10 year $1.5 billion authorization providing Metro with a dedicated funding stream to ensure the safe and efficient operation of the system.

For years, while Metro was a relatively new transit system, Metro was the epitome of safe, reliable and modern public transit. After 34 years of operation, the results of placing disproportionate resources toward growing the system rather than attending to the growing backlog of repairs and maintenance needs of the existing infrastructure, Metro's age is taking its toll on the safe operation and function of the system.

Metro must reevaluate its operational priorities. It is one thing to develop detailed plans to improve safety, and yet another to do what FTA Administrator Rogoff noted in the FTA's Safety audit, and that is to change the business culture at Metro to take safety seriously and execute these new safety measures. Metro provides a vital service to the Government and the region and I stand ready to help improve the system.

I thank the chair and Senator Mikulski for inviting me here today. I urge the subcommittee to include the President's fiscal year 2011 budget request for Metro in the fiscal year 2011 THUD Appropriations bill.

UNITED STATES SENATE,
Washington, DC, December 10, 2009.

The Honorable BARACK OBAMA,
President of the United States,
The White House,
Washington, DC 20500.

DEAR MR. PRESIDENT: As you make final preparation for the submission of your fiscal year 2011 budget, we request that you provide $150 million to the Washington Metropolitan Area Transportation Authority (WMATA), the full amount authorized in the National Capital Transportation Amendments Act, included as title VI of division B of Public Law 110–432. This is a vital issue to both the effective and efficient functioning of the Federal Government as well as to the entire Washington, DC metropolitan area. WMATA's compact jurisdictions are committed to providing 50 percent matching funding.

For the first time, both the U.S. Senate and the U.S. House of Representatives have included $150 million in appropriations for WMATA. This is the first installment of funding to support a 10 year authorization for the Washington region's transit system. We urge that your administration's fiscal year 2011 budget build on Congress's effort to provide WMATA with essential funding to maintain and improve systems operation.

Sometimes known as "America's Subway," WMATA was created in 1966 primarily to serve the Federal Government. Many Metrorail stations were built at the request of the Federal Government, and nearly one-half of all stations are located at Federal facilities. Federal employees comprise 40 percent of WMATA's peak ridership, and millions of others use the WMATA system (Metrorail, Metrobus, and WMATA's paratransit program: MetroAccess) each year to visit the Nation's Capital or conduct business with the Federal Government.

WMATA is also a critical component for ensuring continuity of Federal Government operations during an emergency, and Federal recovery plans rely heavily on WMATA, which played a key role on September 11, 2001. Another key indicator of how important the system is to the functioning of the Nation's capital, WMATA handled 1.5 million trips in a single day during this year's inauguration and was the most viable transportation option during this event. For all of these reasons, Congress saw fit to provide a unique authorization for WMATA, recognizing the special responsibility the Federal Government has to the Metro system.

Before the enactment of this legislation last year, WMATA operated the only major transit system in the country without a source of dedicated revenue. The result has been a system with burgeoning needs and shrinking resources. Recent fatal tragedies on Metrorail underscore the need for infrastructure repair and maintenance to ensure the safe operation of this aging system.

The $150 million in capital funding is for projects included in WMATA's Capital Improvement Program and approved by WMATA's Board of Directors. The funds will be used to maintain the transit system in a state of good repair, including vehicles, facilities, and infrastructure. All of the funds are for capital improvements and none may be used for operating expenses.

The enabling legislation provides, for the first time, two seats on the Board of Directors for the Federal Government, represented by the General Services Administration. For this reason, we recommend that the funding be provided through the GSA portion of your budget submittal. This is a unique Federal obligation related to the operations of the Federal Government, and this seems an appropriate place in the budget to demonstrate that relationship clearly. Regardless of its placement in the budget, however, we urge you in the strongest terms to include this essential funding in your fiscal year 2011 submission. It is vital to the region and the Nation. We believe it warrants your strong support.

Sincerely,

BENJAMIN L. CARDIN,
United States Senator.
BARBARA A. MIKULSKI,
United States Senator.
JIM WEBB,
United States Senator.
MARK WARNER,
United States Senator.

Senator CARDIN. And Senator Mikulski, I want to thank you particularly for keeping our regional delegation focused on the importance of Metro, Metro funding, and the Federal Government's partnership with our Nation's subway system that is here and our transit system that is so important to the Federal Government.

We fought hard, our regional delegation, last year to get $150 million put into the budget. It wasn't easy. And I want to thank the appropriators for making those funds available. It is critically important. And I strongly support President Obama's budget that adds $150 million this year to the Metro funding for fiscal year 2011. It is desperately needed. It is the right thing to do.

This is the Nation's subway system. The Washington, DC area ranks second-worst in the United States as far as traffic congestion is concerned. This system is critically important to the operation of the region's Federal facilities. During peak ridership, more than 40 percent of the riders on Metro are Federal employees. Ten percent of the overall ridership serves Congress and the Pentagon. So this is how our employees get to work.

And the Federal Government has a clear financial interest in the operation of Metro. Likewise, I believe the Federal Government must play a greater role in assuring the safety of the Metro system for its riders and employees, and there has been no stronger voice in the United States Congress on this issue than Senator Mikulski. I thank you very much for speaking out for the fact that, yes, we support the Federal Government's financial partnership with Metro, but we also believe that the Federal Government has a responsibility to make sure the system operates safely for the ridership, its patrons, and its employees.

And the problems with safety continue. I know that the witnesses from Metro that you have before you have instituted changes, and there have been improvements made. But we need to change the culture of Metro so that safety is a priority, and that is a continuing process that will require greater oversight, and I urge us to set up a way that we can continue the oversight.

May 5, there was an emergency braking situation on the Red Line in Wheaton, and fortunately the incident was handled by the operators and system controllers so as to avoid an accident, but some of the protocols were still not followed in regards to that particular episode. These missteps reinforce the need for stronger oversight on safety.

I strongly support the legislation that Senator Mikulski has been involved with that would give the FTA the authority to set up safety standards for our transit system, so they can do it now for our rail. They can do it for the trucks. It seems to me that we should have the authority to set up Federal regulatory standards for our transit systems, and I would urge the Congress to take on that particular issue.

The Senate recently passed the new Metro compact, further advancing the final steps of authorizing a 10-year $1.5 billion authorization for Metro with a dedicated funding system. That is critically important.

But let me just point out one last point. This system is 34 years old. It is an aged system. I have seen the crumbling platforms, and I tell you, I worry about the safety of Metro today. It needs maintenance funds. It needs attention. It needs to make sure that its current service areas are done in a safe way for its patrons and employees.

I think, in the past, Metro has been divided as to whether to pay attention to its current system or seek expansion of its system. And we all believe that we have to expand the service that Metro provides. But the first priority needs to be to take care of the existing infrastructure of the current system, with its stations and with its cars and with the way that it manages the system for safety.

And I would just urge this subcommittee in making the funds available. It is critically important the Federal Government live up to its commitment as a partner, but also to establish a way that we can be more actively involved as a partner with Metro in regards to the safety.

And with that, Madam Chair, I thank you very much for allowing me to be here today.

Senator MIKULSKI. Thank you, Senator Cardin.

First of all, you have been a real champion of Metro funding, as mass transit, as well as MARC trains. In other words, safe, efficient mass movement of people. We want to thank you for your advocacy both on the Environment and Public Works Committee and on the Budget Committee. Like you, I join in wanting to continue the Federal partnership of $150 million, but I really think we have to be careful. I think we also have to be insistent on certain kinds of conditions and not give a blank check.

So, thank you.

Mr. Sarles, you have been one of the most patient people in the room, and we apologize. We thank you and, please, now go ahead and take as much time as you want to give us your views.

STATEMENT OF RICHARD SARLES, INTERIM GENERAL MANAGER

Mr. SARLES. Thank you, Madam Chair, and thank you for the opportunity to testify today.

As you know, Metro has submitted a request for $150 million in fiscal year 2011. And as the subcommittee considers that request, I feel that it is important for you to know what we are doing to improve the safety and reliability of our system.

My written statement includes a detailed description of our action plan. So I will just briefly summarize a few key points. I will be at Metro until the board selects a new permanent general manager. I don't know how long that will be, but while I am here, I am taking a back-to-basics approach. I want to strengthen the agency so that I leave it in better shape for my successor.

The audit that you asked the FTA to conduct was extremely helpful to us as we developed our safety action plan. And frankly, I welcome your watchdog role, especially in the area of safety.

In response to that audit, I am working, first and foremost, on strengthening our safety program so that it is robust and proactive, not just reactive. We are hiring more good people and getting them the training that they need. We are developing an incident management system so that we can analyze trends and spot issues before they become major problems.

We are also improving protections for our track workers by updating our procedures and our training program for those who work in and around the track area.

I am also refocusing the agency on addressing our state of good repair needs. We have an aging system, and things are starting to break down more often. We need to do more today to keep our system in a state of good repair than we did when it was 5, 10, or even 20 years old.

We are developing a new capital program, which will allow us to meet the state of good repair needs. Our State and local partners are committed to increasing their contribution to Metro, but to meet these needs, we must also continue to receive the funds authorized by Congress in the Passenger Rail Investment and Improvement Act. I thank this subcommittee for providing the first installment of that funding last year.

These are the building blocks that will lead to a stronger organization for our employees and better service for our customers. It will take time to address all these issues fully, and we are constantly working on improving. For example, while the emergency braking at the Wheaton station 2 weeks ago did not involve an actual hazardous condition, we have learned from that experience and taken action to improve notification procedures to our operations control center and our oversight agencies.

I believe that we are making progress, but you don't have to take my word for it. Next month, Metro will begin posting an online performance scorecard so that members of the public can track how well we are doing.

PREPARED STATEMENT

Thank you for the opportunity to testify today and for your consideration of our request. I would be happy to answer any questions.

[The statement follows:]

PREPARED STATEMENT OF RICHARD SARLES

Madam Chairman, Ranking Member Bond, and members of the subcommittee, thank you for the opportunity to testify before you today. I am Richard Sarles, General Manager of the Washington Metropolitan Area Transit Authority, known as WMATA or Metro.

I began my service as Metro's General Manager over 1 month ago. My career in rail and public transportation has spanned 40 years, during which time I worked with the Port Authority of New York and New Jersey, Amtrak, and most recently, New Jersey Transit. I have used the Metro system many times, and have always been impressed by Metro's services and how well they are delivered. But Metro is no longer new. We have requested an appropriation of $150 million in Federal fiscal year 2011 to help us address some of the challenges associated with our aging system. As you consider that request, I want to let you know what Metro is doing to move forward on improving our system's safety, reliability, and financial stability.

SAFETY

As the subcommittee is aware, this region experienced an unprecedented tragedy on June 22 of last year, when two Metrorail trains collided on the Red Line north of the Fort Totten station. Nine people lost their lives and dozens of others were injured in an accident that has had ripple effects throughout the transit industry. The National Transportation Safety Board's (NTSB) investigation of the accident has focused on technological issues, not human error, as the key factor leading to the collision, and as a result, transit and rail providers across the country have been reexamining their track signaling systems for signs of the same potential failure that caused the June 22 accident.

The NTSB's final report on the accident has not yet been issued, but Metro has already taken steps to improve safety on the rail system. We have been operating trains in manual mode since the accident, and we will continue to do so until the NTSB report is issued and any necessary modifications are completed. We have increased the frequency of computerized testing of track circuits, and we are holding the performance of those circuits to a higher standard than previously required. In addition, as recommended by the NTSB, we are working with a contractor to develop a real-time monitoring system which will provide an alert should a track circuit fail.

In addition to the June 22 accident, Metro has experienced a number of other incidents over the past year that require us to re-assess the way that we go about ensuring the safety of our customers and employees. Our internal assessments and findings regarding safety have been supplemented by external agencies' reports, such as the March 2010 audit of Metro's safety program by the Federal Transit Administration, requested by Senator Mikulski. These external reports have been and will be critically important in helping Metro identify where we need to improve with regard to safety. We have learned even from those incidents which were not hazardous in nature, such as the May 5 emergency braking near the Wheaton station. Although there were no hazardous conditions present, we have taken action to improve reporting of such incidents to our operations control center and our oversight agencies.

The following section describes a number of other actions that we have taken in recent months to address both internal and external findings in the areas of staffing, communications, track worker protection, and rail operations.

Staffing

The FTA audit and other assessments have identified lack of sufficient safety staff and expertise as an issue at Metro. To address that issue, Metro has hired a new Chief Safety Officer, James Dougherty, who began his duties on April 19. Mr. Dougherty brings 25 years of experience in transit safety, occupational safety and health, industrial hygiene and environmental protection, and he will report directly to me. In addition, we have filled 6 of 12 new positions in the safety department, and we expect to fill the remaining vacancies within 60 days. These new positions will help us to effectively investigate incidents/accidents, review and document safety policies and procedures, ensure safety protocols are in place and implemented, and analyze safety trends. We have also arranged for needed training for our safety personnel with the Transportation Safety Institute, an arm of the U.S. Department of Transportation, with seven courses scheduled through September.

Communications

Lack of communications across and within departments has also been cited in various reports as a problem at Metro. We have recently begun several new communications initiatives. For example, to improve communication between the Safety Department and operational personnel, we now have safety officers assigned to each bus and rail division. These safety officers participate in regular meetings of the front-line staff in their division, as well as interacting on a daily basis with operations employees on safety-related matters.

In addition, my predecessor held 6 "Safety Action Report Out" meetings with 60 front-line superintendents to increase their awareness and accountability regarding safety. I intend to continue those meetings on a regular basis. We have also established a cross-departmental Safety Action Team tasked with finding ways to create a safer organization. The Team's first initiative is designed to further improve communications with front-line employees to ensure that safety-related information, as well as other messages, reaches all employees regardless of their work location.

Track Worker Protection

Employees who work on and around our track areas are exposed to dangerous situations each day they come to work. Protection of these workers must be robust and effective. Metro is committed to improving our current practices and has established a cross-departmental Roadway Worker Protection Work Group which includes representatives from several Metro departments, union representatives, and representatives from FTA and TOC. This group has drafted a new roadway worker protection manual which has been submitted to the TOC for review. The group is also in the process of developing a new roadway worker training plan, and will also test and evaluate new technologies and processes for use in the Metro system; these activities are expected to be complete by the Fall of 2010.

Metro's track environment shares certain characteristics with other transit and rail systems, and we have reached out to our peers to learn from them and share best practices. Metro conducted a workshop in January with peer transit agencies, FTA, TOC, and union representatives, and convened a roundtable discussion in April with the Federal Railroad Administration and inter-city rail operators. The results of these discussions are reflected in the new draft manual and will be included in the training regimen being developed by the Roadway Worker Protection Work Group.

Rail Operations

In addition to the operational changes implemented in response to the June 22 accident, discussed above, Metro is continuing to respond to earlier NTSB recommendations. We expect to award a contract in the near future to begin building the cars to replace our oldest vehicles, the 1000 series cars, as the NTSB has recommended. In addition, we are continuing to add rollback protection for rail cars operating in manual mode, another NTSB recommendation. About one-half of our fleet currently has such protection, and we are working to install it on the remaining cars with completion anticipated by the end of calendar year 2012.

Six-month Action Plan—Safety

While we have made progress with regard to safety, we still have work to do. We have established the following safety-related priorities:

—*Fill Remaining Safety Department Vacancies and Increase Training*.—Specifically, we must continue to have front-line safety briefings while we develop more effective right-of-way training and identify other needed training for front-line staff. In addition, we have begun labor relations training for supervisors of represented employees, re-emphasizing the supervisors' role in safety; we intend to complete that training by the end of 2010.

—*Continue Accelerated Close-out of Open Safety-related Audit Findings*.—With the approval of the TOC, Metro develops corrective action plans (CAPs) in response to findings from both external and internal audits and investigations. Metro has closed 190 CAPs since 2007, with the rate of closure increasing significantly in recent months. Currently 85 CAPs remain open (including CAPs that were recently added in response to the TOC's Roadway Worker Protection study and internal safety audits). I have communicated to Metro staff that continuing to close CAPs promptly is a top priority. I am particularly focused on responding to the recommendations in the FTA audit; we submitted a CAP for that audit to FTA on April 29. (Please see attachment No. 1 for details.)

—*Develop Incident Tracking and Safety Management Reporting System*.—We are taking advantage of improvements in technology to develop a web-based tool to allow for communication of safety-related information and tracking across departments. Development is expected to be complete by the end of August 2010.

—*Encourage Near-miss Reporting, Including Anonymous Hotline and Strengthened Whistleblower Protection*.—David Gunn's report cited Metro for having a "shoot-the-messenger" culture. I am taking steps to end that perception. I have informed all employees of the existence of a safety hotline and safety e-mail address through which they can report safety concerns, anonymously if desired. In addition, we are updating Metro's whistleblower protection policy to encourage employees to raise safety-related concerns.

—*Complete New Right-of-way Worker Protection Manual and Revisions to Metrorail Safety Rules and Procedures Handbook (MSRPH)*.—When rules are outdated or unclear, they tend to be ignored. By Fall 2010 we intend to complete work on a new set of rules for right-of-way workers as well as an updated MSRPH, with rules and procedures that are clear, up-to-date, and effective.

—*Complete Self-assessment of Safety-related Internal Controls and Initiate Thorough Assessment of Safety Culture*.—We intend to complete further self-assessments in safety-related areas, the first of which is focused on internal controls.

In addition, we have contacted the U.S. Department of Transportation, the AFL–CIO, and the American Public Transportation Association to seek their assistance in assembling a team of experts not only to review Metro's safety culture, but also to recommend specific measures to improve that culture and to provide assistance in implementing those recommendations. We intend to initiate this review by Fall 2010, while recognizing that organizational culture change is a long-term process.

SERVICE RELIABILITY

According to the Washington Post, "most riders give the (Metro) system high marks for comfort, reliability and generally the ability to take them where they want to go." ("In Survey, Metro Still Gets High Marks after a Year of Low Points," April 5, 2010). Still, we know that we need to do better. The quality of our customers' experience is the key to the continued success of our system. We are taking steps to improve the on-time performance of all of our modes—Metrorail, Metrobus, and MetroAccess—as well as the availability of our elevators and escalators which have a very direct impact on the quality of our customers' trips.

For Metrorail, we have evaluated ways of improving service reliability through schedule adjustments and are preparing to implement the first adjustment on the Red Line. We have also implemented revised 30-, 60-, and 90-day training performance reviews for newly certified train operators to ensure that they are meeting our standards for safe operations and customer service and to provide us with an ongoing source of review regarding the effectiveness of our training programs.

For Metrobus, we are in the process of replacing 148 older buses, with deliveries between March and September 2010. With newer vehicles we expect fewer equipment failures, leading to improved service delivery. We have also reorganized our bus transportation division, retrained operators and supervisors, and increased supervision of street operations to better monitor and address service reliability issues. We have implemented NextBus, which provides customers with real-time bus arrival information by phone or online, and have created a new online service disruption notification for bus customers. For MetroAccess drivers, we have developed a new training program and installed Drive-Cam in MetroAccess vehicles to record incidents for investigation and training purposes.

With regard to elevators and escalators, we are consolidating our command and maintenance centers to eliminate reporting layers and improve accountability, a process which we expect to have fully implemented by the end of June 2010. Also by June, we intend to have restructured our technicians' shifts to create rapid response teams with responsibility for maintenance and repair in defined geographic areas.

Six-month Action Plan—Service Reliability

I have established the following priorities regarding service reliability:

—*Increase Training for Front-line Employees and Supervisors*.—Specifically, we intend to provide additional training to all station managers with a renewed emphasis on customer service, as well as complete training that we have already begun related to the reorganization of our bus department, designed to improve management of operators, reduce accidents, and improve service.

—*Create Transparent Performance Tracking and Reporting Systems*.—New performance measurement tools are currently under development, including web-based dashboards, a monthly vital signs report of key performance indicators, and an annual performance report to assess what is working well, what is not, and why. By the end of June 2010 we expect to release many of these new tools publicly to foster increased accountability and transparency.

—*Revise Inspection and Maintenance Procedures to Accommodate Changes in Operations*.—As in the area of safety, our rules and procedures for inspections and maintenance need to be clear and relevant for our current operating environment. With changes in place related to manual operation and restricted speeds, our new vertical transportation command center, etc., we must start revising our related procedures accordingly.

—*Pilot Metrorail Schedule Adjustment on Red Line*.—As I mentioned earlier, we intend to adjust schedules on the Red Line to improve service reliability and the quality of the customers' experience. The new schedules will reflect reality and allow for more time for customers to board and alight the trains at our busiest stations, and will involve more 8-car trains running to the ends of the line, which will maintain our passenger throughput capacity for the Red Line as a whole.

—*Initiate External Assessment of Elevator/Escalator Maintenance and Repair Programs*.—We intend to contract with outside experts to conduct a review of these programs in order to assess their efficiency and effectiveness and make recommendations for additional improvements.

—*Continually Re-emphasize Safety and State of Good Repair as Top Priorities*.—Maintenance of vehicles, track, structures, signals, and other infrastructure in a state of good repair has a direct impact on the safety and reliability of the Metro system, as it does for every transit agency in the country. If the condition of the Metro system is allowed to degenerate further, issues related to service reliability will continue to increase. The most effective action we can take to improve reliability is to improve the physical condition of our system.

FINANCIAL STABILITY

Now let me turn to a topic which is integrally related to our ability to improve service reliability—Metro's budget and current funding constraints. Metro's proposed fiscal year 2011 budget totals $2.1 billion. That total is composed of Metro's operating budget, which supports the daily delivery of transit service (including personnel costs, fuel and propulsion costs, etc.), and the capital budget, which funds investments in the vehicles, equipment, facilities, and infrastructure of the transit system. Sources of funding for those needs include State and local funds; Federal funds (primarily for capital costs); passenger fares and parking revenues, and other sources (such as advertising and fiber optic revenue). Passenger fares cover about one-half of the cost of Metro's operations; broken out by mode, they cover more than 70 percent of Metrorail operations, about 30 percent of Metrobus operations, and 5 percent of MetroAccess operations.

Operating Budget

Fiscal year 2011 is likely the most difficult year, financially speaking, that Metro has ever had to face. The economic slowdown is having a continued impact on Metro, as it is across the country. For the transit industry as a whole, the economic slowdown has meant that ridership and revenue are down, while costs continue to go up.

Despite the encouraging ridership numbers that Metro has experienced in the last few weeks, Metrorail ridership for fiscal year 2011 is projected to be just 2 percent above the fiscal year 2009 levels, and on Metrobus, ridership growth over 2009 levels is only projected to be 1.5 percent. These projections are primarily due to continued high unemployment in the region combined with reduced spending by consumers. Lower Metrorail ridership has resulted in less revenue coming in from Metro parking facilities as well. Major cost drivers in the fiscal year 2011 operating budget include the rise in healthcare cost (which is in line with national trends), market losses in pension values, the increasing demand for MetroAccess service, and liability insurance and claims associated with the June 22 accident.

The imbalance between projected revenues and expenses created a $189 million gap in our fiscal year 2011 operating budget, if jurisdictional subsidies (which cover about one-half of our operating costs) were held constant at fiscal year 2010 levels. In order to close that gap, I have proposed a budget that includes further layoffs, fare increases, some service reductions, and an increase in jurisdictional subsidies. Metro's Board is currently considering that proposed budget. Without knowing what they will decide, it is fair to say that balancing Metro's fiscal year 2011 budget will require hard choices. When we raise fares or reduce service, we have a direct impact on the people we serve every day, on their ability to get to jobs, school, medical services, and recreational opportunities. The economic downturn has affected everyone in this Nation, and unfortunately Metro is not immune.

Capital Program

Over the last 6 years, Metro has funded its capital program through a multi-year agreement with our jurisdictional partners, known as Metro Matters, which expires June 30, 2010. The stable funding stream provided by Metro Matters allowed us to, among other things, purchase 667 new Metrobuses to reduce the age of our fleet from over 10 years to under 8 years; and purchase 122 Metrorail cars, expand rail yard maintenance and storage facilities, and upgrade power systems to run 8-car trains.

Board Chairman Peter Benjamin's testimony addresses our capital needs, and I simply want to reiterate his point that the funding Metro has requested from this subcommittee in Federal fiscal year 2011 is urgently needed to allow us to maintain the Metro system in a state of good repair. (Please see attached spending plan.) However, due in part to national economic conditions and in part to declining revenues in the Federal Highway Trust Fund, both Federal and State/local sources of funding for capital projects are severely constrained. Even with the new Federal funding authorization and the associated State/local match, these constraints have required Metro to limit our capital investment for the next 6 years to only the most critical, "must-do" safety and system maintenance projects. "Must-do" projects include, for example, replacement of the 1000 series rail cars; replacement of our oldest buses; rehabilitation of the oldest segment of our rail line, and replacement and/or rehabilitation of decades-old bus facilities. "Must do" projects do not include other investments that should be made, such as investments to address crowding (more frequent bus service; more 8-car trains); more elevators/escalators in core stations; and system and fleet expansion to accommodate projected growth in demand over the next several decades.

Six-month Action Plan—Budget

By Fall 2010, we intend to accomplish the following objectives related to Metro's budget:

—*Implement Board-approved Fiscal Year 2011 Budget*.—As I have discussed, the budget will include job cuts and likely some combination of fare increases and service reductions in order to fill the $189 million projected gap. Successful implementation of such changes will require timely and effective customer communication as well as operational changes such as reprogramming of farecard readers.

—*Manage Transition From Metro Matters Capital Funding Agreement to Next Capital Funding Agreement, Currently Being Negotiated*.—I want to note that the National Transportation Safety Board is expected to issue its final report on the June 22, 2009, Red Line collision shortly before or during fiscal year 2011, and that report may contain recommendations that will have a cost associated with their implementation. Metro is committed to responding to those recommendations and that response may affect our ability to undertake some of the projects that have been planned for the next 6 years, absent additional funding.

—*Initiate a Discussion With Regional and Federal Stakeholders on Metro's Long-term Fiscal Outlook to Identify Both Challenges and Solutions*.—The basic challenge is this: the Metro system must be brought into a state of good repair. Unless there is a renewed commitment to this goal, the system will continue to degrade.

CONCLUSION

Madam Chairman, in the Fall of this year, I intend to deliver to Metro's Board of Directors an interim performance assessment, along with recommendations for further improvement, in each of the areas I addressed above: safety, service reliability, and budget. But you do not have to wait until then to track our progress. Metro is developing products that will allow the public to see how we are doing on a more frequent basis. We expect to launch shortly a monthly "Vital Signs" report, which will initially track operational performance and identify trends, with the goal of expanding the range of performance metrics to other areas in the future. We also plan to issue an annual performance report, beginning this September. Metro is committed to improving transparency and communication with our customers and other stakeholders, including Congress.

Thank you for the opportunity to testify today. I greatly appreciate your leadership on these issues, and I hope that you will favorably consider our fiscal year 2011 appropriations request. I would be happy to respond to any questions.

ATTACHMENT NO. 1.—WMATA RESPONSE TO RECOMMENDATIONS IN THE MARCH 4, 2010 FEDERAL TRANSIT ADMINISTRATION SAFETY AUDIT

Recommendation	Actions Taken	Next Steps	Completion Date
No. 1. Conduct assessment to identify resources and expertise necessary for Safety Dept. to carry out activities specified in System Safety Program Plan and Safety Rules and Procedures Manual.	Developed statement of work for contractor support.	Initiate and award contract, with Board approval, received April 22, 2010.	Final Report, including identified needs and recommendations by end of August 2010.
No. 2. Use results of assessment to ensure adequate staffing levels and expertise within Safety Department.	Included in statement of work under No. 1.	Initiate and award contract, with Board approval, received April 22, 2010.	Issuance of Safety Dept. staffing & recruitment plan by end of August 2010.
No. 3. Increase Safety Dept.'s access to operating & maintenance information and reports to ensure this information is being analyzed for potential impacts on safety.	Established Interdepartmental Safety Working Group, now receiving monthly reports on operations/maintenance.	Review process for information-sharing and quality of information shared.	Formalize process by end of August 2010.
No. 4. Develop internal process to require communication of safety-related info. across depts., including impacts of budget reductions & resource constraints on performance of safety-related maintenance activities/requirements.	Initiated development of web-based tool.	Develop process for identifying and evaluating maintenance-related safety issues.	Complete development by end of August 2010.
No. 5. Define and implement the process for the top Safety Department position to communicate safety priorities to the GM in a timely and consistent manner.	Chief Safety Officer (CSO) now reports directly to General Manager.	Continue weekly CSO meetings and reports to GM; revise System Safety Program Plan to reflect relationship.	Completed by end of April 2010.
No. 6. Identify technical skills required to perform system-wide hazard analysis; if needed, provide training as soon as practicable.	Included in statement of work under No. 1.	Initiate and award contract, with Board approval.	Contractor to issue needs assessment & training plan by end of August 2010.
No. 7. Update the System Safety Program Plan to develop a hazard management process that ensures all departments participate in an on-going manner.	Interdepartmental Safety Working Group has met to design a new process.	Confirm design of new process with contractor support.	Completed by end of September 2010.
No. 8. Institute process to ensure changes in operating rules are analyzed for safety impacts before system-wide implementation.	Outreach to peer transit agencies for model forms and processes has begun.	Continue outreach to peer agencies and consultation with union; revise rule book.	Metrorail Safety Rules and Procedures Handbook revisions completed by end of September 2010.
No. 9. Finalize right-of-way protection rules; develop training to implement new rules. Ensure all ROW employees & contractors receive training before accessing ROW.	Roadway Worker Protection Working Group established; new manual has been drafted; workshop and roundtable held.	Finalize new manual; finalize new training program.	Roll out of new training program in October 2010.
No. 10. Implement configuration management program described in System Safety Program Plan.	Included in statement of work under No. 1.	Initiate and award contract, with Board approvalreceived April 22, 2010.	Create action plan & training program by end of September 2010.

WMATA RESPONSE TO FTA FINDINGS OF THE TOC THAT RELATE TO WMATA IN THE MARCH 4, 2010 FTA SAFETY AUDIT

Recommendation	Actions Taken	Next Steps	Completion Date
Finding No. 1.—Require WMATA to complete a timely, thorough, and competent review and update of WMATA's Safety Rules and Procedures Manual.	The update of both the SSPP and WMATA's Safety Rules and Procedures Manual will be included as part of the contractor SOW for the Safety Assessment and Hazard Management Program.	Seek permission to Initiate and award contract with WMATA Board approval. Board Approval received April 22, 2010.	MSRPH revisions to be completed by the end of September 2010.
Finding No. 2.—Require WMATA to develop (and TOC to review and approve) an internal WMATA safety audit recovery plan for calendar year 2010 and calendar year 2011.	The Safety Assessment and Action Plan will ensure that we have personnel skilled in auditing in the Safety Department. We also will receive contractor support in reviewing and updating our existing checklists and procedures.	Seek permission to Initiate and award contract with WMATA Board approval. Board Approval received April 22, 2010.	Completed by the end of August 2010.
Finding No. 3.—Require WMATA to develop a recovery plan to complete all open accident investigations following procedures established in TOC's Program Standard, WMATA's System Safety Program Plan and WMATA's Accident Investigation Procedure.	We are working closely with TOC to address this finding and have made considerable progress.	In the May 4, 2010 submission, both TOC and WMATA will report that a recovery plan of closing at least ten open accidents investigations per month is accomplished.	The goal is to completed 90 percent by the end of September 2010.
Finding No. 4.—Work with WMATA to ensure that there is a process in place for evaluating Corrective Action Plan (CAP) alternatives that may be necessary as a result of capital and operating program resource limitations.	The contractor SOW for the hazard management work will also address this issue.	Seek permission to Initiate and award contract with WMATA Board approval. Board Approval received April 22, 2010.	Completed by the end of August 2010.
Finding No. 5.—Require WMATA to develop and implement a comprehensive and system-wide hazard management program (as specified in 49 CFR part 659.31).	Interdepartmental Safety Working Group to design new process has taken place and with contractor support and will: Integrate into web-based tool; Integrate into Internal Safety Audit process and Quality Assurance (QA) process; and Integrate into day-to-day activities.	Seek permission to Initiate and award contract with WMATA Board approval. Board Approval received April 22, 2010.	Create action plan & training program by end of September 2010.

WASHINGTON METROPOLITAN TRANSIT AUTHORITY (WMATA) PROPOSED PRIIA (DEDICATED FUNDS) PLAN AS OF MAY 17, 2010

[In millions of dollars]

CIP	Project Name	Project Description	Budget: Federal Fiscal Year 2010	Budget: Federal Fiscal Year 2011
	RAIL CAR FLEET REPLACEMENT AND REHABILITATION:			
CIP057	1000 Series Rail Car Replacement	This project will design and purchase 300 7000 Series railcars, which will replace all 1000 Series railcars that were purchased between 1974 and 1978. This project is one component of a long-term fleet plan to avoid repetitive developmental cost associated with new car design and procurement. The replacement of the 1000 Series with the 7000 Series will improve reliability, reduce maintenance and operating costs and incorporate technology and enhancements of newly designed railcars.	79.3	20.5
CIP063	Rail Rehabilitation Program	This project will procure major repairable railcar components tosupport the overhaul of essential systems in the fleet. To maintain astate of good performance, major railcar components must berefurbished or replaced on a regular basis. These components includebut are not limited to wheels, trucks, brake systems, HVAC, and traction motors. Approximately 225 railcars, or 20 percent of the fleet, will receive major overhauls funded through this project.	12.4	12.5
CIP067	Rail Car Safety and Reliability Enhancements	This project will perform engineering analysis, diagnosis, testing and resolution of safety, maintenance and operational issues relating to the railcar fleet and its interaction with track work, automatic train control, communication, and power systems. The project work will resolve compatibility issues across the multiple series of railcars andinfrastructure related to changes in technology and components.Examples of specific issues to be resolved are emergency exterior doorreleases, wrong side door openings, and car roll back.	12.1	2.5
CIP071	Test Track and Commission Facility	This project will procure, design and construct a test track andcommissioning facility that will be utilized for ongoing engineeringanalysis and enhancements to the fleet, as well as acceptance testing of new railcar procurements and will be in constant use. A dedicatedfacility will allow testing to be done and not impact night-time maintenance activities.	5.2	17.5
	Total		108.9	53.0
	TRACK SAFETY IMPROVEMENTS:			
CIP018	Track Welding Program	This project will provide for the welding of approximately 500 openrunning rail joints throughout the Metrorail system and to purchaseflash butt welding kits. The track welding program will improve theelectrical conductivity of the rail, eliminate joint defects, reduce noiseand wear, reduce maintenance and inspection costs, and eliminatecross tie fires.	1.5	2.7
CIP019	Track Floating Slab Rehabilitation	This project will prevent services delays and speed restrictions due to differential settlement of the track structure and reduces noise andvibration to the surrounding building and structures by replacing failedisolation pads and restoring the track structure to the proper elevation.	1.7	1.3

CIP020	Replacement of Rail Track Signage	This project will procure and install 3,000 markers and 500 safety signs to replace old, illegible rail track graphic signs and various other signs indicating locations and warnings to employees, emergency responders, and the general public. Track graphics are essential for safe operations and emergency responses. Many signs throughout the Metrorail System are approximately 30 years old. Some of these signs require upgrading because they are damaged, deteriorated, or obsolete.	1.0	1.1
CIP021	Track Pad/Shock Absorber Rehabilitation	This project will maintain the integrity of the track structure by rehabilitating 7,000 linear feet of grout pads on Rhode Island and Minnesota Avenue Metrorail Station Aerials. Grout/plinth pads (concrete pads) located below the track provide elevation and support for the track and track fasteners. They are replaced as needed to restore the track structure to the proper elevation. Improper elevation can result in damage to the car's third rail collector shoes and the vibrations can potentially lead to structural cracking in the surrounding buildings and structures.	4.3	2.1
CIP022	Track Structural Rehabilitation	This project will be utilized for the rehabilitation of structural components and to restore the track structures, such as elevated platforms, bridges, and retaining walls to their designed load carrying capacity. These rehabilitations are critical, as the loss of one of these structures could result in the functional loss of an entire Metrorail line segment. The rehabilitation work includes the anchor bolts of 65 bridge piers on Minnesota Avenue Aerial and additional anchor bolts at Grosvenor and I–495. One down and under crane for underbridge inspections and rehabilitation will be procured.	2.3	1.5
CIP023	Third Rail Rehabilitation	This project will replace the original third rail (5 miles annually) with the composite third rail. Original third rails have become worn throughout the Metrorail system. New aluminum and steel composite third rails will provide less resistance for eight car trains and allow trains to run more efficiently. This project will result in maintained tracks and fewer train delays.	....	5.5
CIP024	Track Rehabilitation	This project will be utilized for the procurement of material and specialized equipment to facilitate the removal and installation of the track and switch panels, which prevents service delays and speed restrictions. Track components (which include running rail, cross ties, direct fixation fasteners, third rail insulators, and turnouts) require replacement when, based on industry standards, they become worn or unserviceable due to deterioration, excessive wear, or defects. No. 8 turnouts will be upgraded from unguarded to guarded turnouts based on National Transportation Safety Board recommendations.	44.4	33.3
CIP027	Switch Machine Rehabilitation Project	This project will improve the safety and reliability of the interlocking track structure by replacing 20 switch machines throughout the Metrorail Systems. Switch machines have a normal life expectancy of 10 years; all the switches to be replaced have been in service over 10 years.	0.9	1.0
CIP133	Wayside Work Equipment	This project is for the installation of a safety signaling system at rail portals and other locations to alert personnel to approaching trains. This project will provide for enhanced safety for customers and WMATA personnel.	4.1	3.1
	Total		60.2	51.5

WASHINGTON METROPOLITAN TRANSIT AUTHORITY (WMATA) PROPOSED PRIIA (DEDICATED FUNDS) PLAN AS OF MAY 17, 2010—Continued

[In millions of dollars]

CIP	Project Name	Project Description	Budget: Federal Fiscal Year 2010	Budget: Federal Fiscal Year 2011
	TRACK EQUIPMENT:			
CIP025	Track Maintenance Equipment	This project is for the rehabilitation and replacement of heavy-duty track equipment. Track maintenance equipment is essential to deliver quality service and for the safe and efficient execution of the track rehabilitation work. Timely rehabilitation and replacement of four selfpropelled prime movers will ensure equipment reliability, reduce the probability of delays due to equipment breakdowns, and allow for efficient use of the right-of-way track time.	17.3	20.7
CIP066	Rail Shop Repair Equipment	This project funds the replacement of rail shop equipment that has reached the end of its useful life. Purchases will include approximately 125 pieces maintenance equipment, 48 pieces shop test equipment, and 15 pieces shop machine equipment. Some examples of equipment to be purchased are overhead cranes, rail train lifts, hoists, industrial shop air compressors, service elevators, hoisting mechanisms, wheel truing machines, and electrical controls.	2.2	4.2
CIP089	Track Fasteners	This project is for the replacement of track fasteners. Deteriorated track fasteners cause stray current and have been found to cause fires in the system. Track fasteners are an integral structural component of the track system that needs to be replaced periodically. Approximately 15,000 track fasteners will be replaced on the Red Line with thesefunds.	2.1	2.1
	Total		21.5	27.0
	MAJOR RAIL LINE SEGMENT OVERHAUL:			
CIP110	Rail Rehabilitation Tier 1.—National Airport to Stadium Armory.	This project encompasses engineering and design to begin rail line segment rehabilitation of the Orange/Blue/Yellow Lines from National Airport to New Carrollton which includes 23 Stations with a route mileage of approximately 18.7 miles. Stations scheduled for rehabilitation were completed and put into service between 1977 and 1978. Work to be initiated includes but is not limited to traction power, automatic train control and communication upgrades, track fastener replacement, tunnel ventilation, air conditioners, replacing suspended ceiling tiles, canopy roof replacements, platform rehabilitation lighting, public address, and CCTV system upgrades.	34.5	60.6
CIP116	Rail Yard Facility Repairs Tier 1.—Alexandria, Brentwood and New Carrollton.	This project is a rail yard rehabilitation of Alexandria, Brentwood and New Carrollton Rail Yards that were put into service between 1976 and 1983. The contract will include items from the Inventory Database and other items identified by rail operations and maintenance, security and environmental to enhance operations and maintenance activities and provide a better work environment. Work will include all systems and infrastructure to increase overall efficiency.		24.8

	Total	....	34.5	85.4
	RAIL PREVENTIVE MAINTENANCE:			
CIP125	Rail Preventive Maintenance	This project is for preventive maintenance and related purchases for rail cars. Activities will include regularly scheduled maintenance of railcar components and systems at scheduled duty-cycle intervals. Purchases will include brake parts, truck parts, propulsion parts and other parts necessary for maintaining functionality of rail car features.	40.9	20.8
	TRACK SIGNAL IMPROVEMENTS:			
CIP135	Train Control Signal	This project funds the initial engineering support for analysis of the train control signaling system in an effort to improve the system.	1.0	10.3
CIP136	FCC Radio Frequency Communication Changes	This project will meet the new FCC "narrow banding" requirement that affects the agency's UHF radio system. Planned activities include specification development, engineering, prototype testing, and project management. The primary impact is to the infrastructure equipment (as opposed to the subscriber equipment—handheld and mobile radios).	0.2	1.0
	Total	....	1.2	11.3
	NTSB RECOMMENDATIONS:			
CIP139	NTSB Recommendations	This project will allow Metro to implement any forthcoming NTSB recommendations as a result of the ongoing accident investigation.	10.3	10.3
	BUS FLEET REPLACEMENT AND REHABILITATION:			
CIP006	Bus Replacement	This project will purchase 100 buses a year to maintain an average fleet age of 7.5 years based on the 2009 fleet size of approximately 1,500 buses that range in size from 26 to 62 feet, and are a mix of conventional and articulated buses.	....	....
	MAINTENANCE OF BUS GARAGES:			
CIP119	Bus Garage Facility Repairs Tier 1.—Western, Northern and Landover.	This project is a bus facility rehabilitation of Western, Northern and Landover bus garages and other auxiliary facilities, includes Metro Supply facility, Landover Open Storage and Blair Road Support Shop. The facilities in this project were originally put in service between 1906 and 1989. Work will include all systems and infrastructure to increase overall efficiency.	18.9	25.7
	BUS SAFETY IMPROVEMENTS:			
CIP007	Bus Camera Installation	This project is based on completing installation on remaining buses, which will ensure that all buses will be equipped with camera systems to reduce detrimental impact of fraudulent claims, reduce or eliminate vandalism, deter crime, assist in criminal prosecutions, and help employees assist customer concerns and complaints.	....	3.0

WASHINGTON METROPOLITAN TRANSIT AUTHORITY (WMATA) PROPOSED PRIIA (DEDICATED FUNDS) PLAN AS OF MAY 17, 2010—Continued

[In millions of dollars]

CIP	Project Name	Project Description	Budget	
			Federal Fiscal Year 2010	Federal Fiscal Year 2011
CIP002	Automatic Vehicle Location Equipment Replacement	This project will begin the replacement of Advanced Vehicle Location (AVL) equipment on buses that was installed on buses prior to 2002. The equipment, which allows monitoring of bus locations, has a life span of 7–10 year. If Metro does not replace obsolete AVL equipment, Metro will not be able to monitor the location of buses with the old equipment.	3.7	12.1
	Total		3.7	15.1
	PRIIA Funds		300.0	300.0

MEASURING PROGRESS AND PERFORMANCE IN METRO SAFETY

Senator MIKULSKI. Well, let me get right to some of my questions. A year ago, right after the accident, I was very intensely critical of Metro, and everybody knows it. What I said, though, is that I didn't want to be the manager of Metro. I don't think that is an appropriate congressional role. But one of the questions that I said at that time, I am not saying it this time, is that often solving the problem was having a meeting about the problem, and that was viewed as solving the problem.

I asked about how was Metro—and at that time I placed responsibility on the board, but I throw this question open to both of you. When we talk about safety and operational reliability—but let us go to the safety, you need to have the systems in place. You need to have the training, and you need to also find out if those systems and training are working.

So my question to you is how are you measuring progress and performance? What we have here in your testimony, and you and I have had the opportunity to speak before, is a rather comprehensive list of actions taken. Develop an incident tracking and safety management reporting system. Encourage near-miss reporting, like an anonymous hotline. Strengthen whistleblower protection so you don't shoot the messenger.

In other words, these look promising. But we have been down the road of promises before, both the Federal Government, when we promised funding and broke that promise. So now it is our job not to break our promise. But the second is that with this list of things that you say will improve safety, you, sir, and you, Chairman Benjamin, how will you measure progress? How will you measure performance? What metrics are you going to use so that you would really know if this is going to work?

Mr. SARLES. First of all, we have set deadlines for delivering certain items, when we are going to have the track worker protection manual done, for example. We have already completed the draft, but now we have a deadline for finalizing that and starting training.

We set dates for starting training programs. Starting next week, there will be a series of training programs over the summer for people. We have these deadlines set. We are going to make these milestones, and we can be measured against that.

Beyond that, in the longer run——

Senator MIKULSKI. But how are you going to measure them?

Mr. SARLES. By meeting those deadlines. If we say we are going to deliver a manual, the track worker protection manual by a certain date, we have to make that date. If we say we are going to conduct training, which we are, this summer between such and such a date and what those courses are, we will show that we made those dates and, in fact, people attended those sessions. Those are the close-on measurements, if you will, that if you say you are going to do something, you deliver on it.

Beyond that, ultimately, what the performance measure is, measures that you will see safety wise are number of injuries, both employees and passengers, number of incidents or accidents, that sort of thing. That tells you over the long term whether you are actually seeing the right trends. And if you are not seeing the right trends, which all should be downward, then you have to take additional actions. And those are the types of things we will make public so people can see how we are doing as a scorecard.

Senator MIKULSKI. Well, there was a woman, actually, a widow, after her husband's death in January, stepped forward to say that this was her description of safety training for her husband—now I am going back to before your arrival, but nevertheless—she said Metro's solution is having a safety meeting, putting on a video, and then handing out hard hats.

They met a deadline. They had a meeting. They even had "training," but it was a video. Her husband, according to her comments, had concerns about the vehicle that ultimately killed him. That it was too powerful, too dangerous, and that it had no backup camera. It had no backup sound and lights were disconnected. Metro didn't have floodlights. In other words, this is beyond giving out manuals and meeting deadlines.

Mr. SARLES. Yes.

Senator MIKULSKI. I mean, start with the manual. But that is the whole darned problem, which is that we hear they are giving out manuals, and they meet deadlines. So what the hell does that mean? Pardon me.

Mr. SARLES. Yes, sure. You have the manual. Then you have to train to that manual so the workers understand exactly what the procedures should be and how they should operate in a safe manner. And then you see, through gathering of the statistics that support the performance measures that, in fact, we are having fewer incidents, and the goal is to be zero in terms of accidents.

So you have to take the first steps, put it into place, do the training, and then measure the results of that training.

Senator MIKULSKI. Well, I understand, and I want to go to Mr. Benjamin, that at your board meeting, up until very recently, you got no reports on safety?

Mr. BENJAMIN. Senator Mikulski, we did get reports on safety. We always, on a monthly basis, were told how many accidents there were, how many incidents of various types there were, how many fatalities, how many injuries, and what the trend over time had been. What we did not get reports on and what we should have heard about and we now are getting reports on is the degree to which our safety staff was fully staffed, the degree to which we were responding to our oversight agencies effectively and meaningfully, and the degree to which, when findings were made, we were, in fact, carrying out those activities.

So, yes, we got the big picture, but we weren't getting enough. And we have now changed that. We are getting more information, and we have asked our inspector general, as a separate path. Originally, the only path was going through the General Manager. The inspector general now reports directly to us as the Board to review all of those materials, make sure that activities were occurring at the schedules that were required, and that if we are not getting that activity occurring, to report directly to the Board.

We have also asked the Tri-State Oversight Committee to brief the board directly so that if information is not flowing properly, we hear about it right away.

TOP SAFETY AND HAZARD CONCERNS

Senator MIKULSKI. The FTA audit found that Metro didn't have a list of the top 10 safety and hazard concerns. Do you now have that list?

Mr. SARLES. Yes.

Senator MIKULSKI. Are you aware, Mr. Benjamin, of what those top 10 are?

Mr. BENJAMIN. I am not aware of that particular list.

Senator MIKULSKI. But those are the top 10 safety and hazard concerns. Look, please, and I am not trying to play a game of "I gotcha," and I am not trying to embarrass you. I am trying to get to the point. We had the accidents. We have had the FTA audit. We are making corrections.

One of the things that they said was Metro did not have a list of 10 safety and hazard concerns. Now, sir, you say you have the 10?

Mr. SARLES. Yes. And I will give you a couple off the top of my head. One is strengthening the Safety Department, which we have done. We are moving forward on that. We have hired a new Chief Safety Officer, who is here with us today. We had a dozen positions added. We filled six of them. We are interviewing this week and next week to fill the remainder.

Another issue was to replace the 1000 Series cars. I am expecting to go to the board very shortly to seek approval to acquire new cars to replace those 1000 Series cars. And——

Senator MIKULSKI. I have a request.

Mr. SARLES. Sure.

Senator MIKULSKI. We will leave this open. I would like you to submit for the record the 10 top safety and hazard concerns.

[The information follows:]

TEN KEY SAFETY AND HAZARD CONCERNS

Replace the oldest railcars in the fleet (Rohr 1000 Series railcars).
Develop a new real-time automatic train control redundancy system.
Strengthen the expertise of the Safety Department.
Complete the Roadway Worker Protection Program.
Develop a training and certification program for bus and rail personnel.
Strengthen employee knowledge of rules and rules compliance.
Develop an accident and investigation database.
Create a strong internal training tracking database.
Fill vacancies in the Safety Department.
Improve the agency's safety culture.

Mr. SARLES. Yes.

Senator MIKULSKI. The actions taken on them, and then I would like you to give them to your own Board.

Mr. SARLES. Will do and we have discussed most of them with the Board. We have presented some of those.

Senator MIKULSKI. That is the point.

Mr. SARLES. Yes.

Senator MIKULSKI. Mr. Benjamin, you are a very dedicated public servant. I know your record. You are man of really civic engagement. Can you tell me why you didn't have the top 10?

Mr. BENJAMIN. Well, as Mr. Sarles was saying, I think I did not recognize it as "the top 10," as listed like that. But I am fairly certain from his statement that these are all issues that we have discussed, just not discussed as "the top 10 list."

Senator MIKULSKI. Sir, would you identify and would you agree that those are the top 10 things that need to be changed?

Mr. SARLES. Yes.

Senator MIKULSKI. In the order of priority?

Mr. SARLES. Yes.

Senator MIKULSKI. Well, I would like to really have a copy of those top 10 for us as well for the record. But I also would really recommend we call this the "checklist for change." That this is one of the basic lists that we will follow. It won't be the sole list, but it will be a primary list that we can all agree upon actions taken and progress measured. Would that be a good way to go?

Mr. SARLES. That is fine.

Senator MIKULSKI. Because we don't want to be you, but we need to know how you are doing.

Mr. SARLES. And I welcome that, and that is part of the scorecard——

Senator MIKULSKI. We need to know then how the board then focuses on that. Now we understand that the safety department has had 41 staff positions, but 10 were vacant. Now where are we on that?

Mr. SARLES. Yes, and that is what I was referring to before——

Senator MIKULSKI. Maybe you don't need all 41. Maybe that was from another era. But what we are concerned about is that since 2006, it was reorganized six times. That is what I mean about having a meeting, a meeting, a meeting, and then the meeting met the meeting, and then it met the deadline.

Mr. SARLES. I will agree with you that there has been too much reorganization.

Senator MIKULSKI. Not enough organization.

Mr. SARLES. And I am trying to stabilize that. And one of the things that was done just before I got there—and it is the right thing—is that the Chief Safety Officer now reports to me. Ten positions were created. Actually, I think it was a dozen last December. Six of them have been filled. We are interviewing for the remainder. We expect to fill those within the next 45 days.

Senator MIKULSKI. You will have that in 45 days?

Mr. SARLES. Yes. And then, on top of that, the board authorized at their last meeting the hiring of outside expertise because I want to take a look at further strengthening the Safety Department to see if the staffing is appropriate, to see if they are trained properly.

The board has authorized that. We are out now seeking proposals. And I expect within the next 2 weeks to award that contract.

Senator MIKULSKI. So, what do you think will happen when you do that?

Mr. SARLES. The key thing is that we look at the Safety Department and, as I said, see where it needs to be strengthened further. Is it organized exactly the way it should be? Get that outside expertise and also aid us in looking at the other safety aspects as part of our safety plan.

Mr. BENJAMIN. Senator Mikulski, if I may?

Senator MIKULSKI. Yes, please.

Mr. BENJAMIN. I think one of the most important things that Mr. Sarles has focused on is the culture issue, which you mentioned earlier, and the fact that safety is not something that happens in a safety office and that safety officers who work in headquarters don't cause safety to come about.

And one of the things that he has been working on is making sure that safety is, in fact, the way that we live, the way that we react, the way that everybody focuses on the actions that they take, starting, as you pointed out, from the Congress, through the Board, the General Manager, the supervisors, and everybody working throughout the system. And one of the things he has done right away is to make sure that there are safety people out in the field working with the various organizations, not just in an office sitting and keeping track of things.

Senator MIKULSKI. Well, I would concur. Safety officers are not meant to be the bean counters, counting how many accidents happen. It is the major prevention team. So in the area of safety, you not only need to have first responders, the ability to get out of the cars fast. You know, a lot of what the National Transportation Safety Board [NTSB] is going to tell us is what to do after a crash, which is how to get out fast and to have a black box to tell you what happened. We are in the prevention business.

Mr. SARLES. Exactly.

METRO MODERNIZATION

Senator MIKULSKI. That is what we are. I think the biggest role of Congress is we are in the prevention business. I know we must be. I want to move in short order to modernization questions and then this will go to the question related to modernization. To what degree, when we look at technological problems and the survivability of the cars, is due to the fact that the Metro system is a system that is aged in place?

Mr. SARLES. Certainly, when you have a——

Senator MIKULSKI. Do you agree, first of all, that is aged in place?

Mr. SARLES. Yes.

Senator MIKULSKI. That it takes a lot to run it and maintain it?

Mr. SARLES. And that is one of the things that has not occurred over the years, as I can see. The attention to maintenance, the attention to reinvesting in the system just to keep it in a state of good repair, sort of like-new condition, without having that continual reinvestment in the state of good repair, it does cause reliability issues. You are now repairing things. Things break down, even during the operation. That shouldn't be the way it operates.

And I believe with the proposed capital program, that especially with the infusion of the $150 million for 10 years and the matching funds from the jurisdiction—that, combined with maintaining the same level of other jurisdictional contributions, will go a long way over a period of time to restoring this system to a state of good repair.

It is not there now, and it has got to be changed. And that is what we are focused on.

Senator MIKULSKI. Mr. Benjamin, do you want to comment on that?

Mr. BENJAMIN. Yes. I agree entirely with the statement that you made. Our rail system is not brand-new anymore. It is 34 years old. Senator Cardin made that point as well.

It is a system which has not been reinvested in. You cannot have an infrastructure that hasn't been properly reinvested and parts of it maintained properly. Most of our escalators, one of the things that people complain about all the time, were designed to operate for 20 years. Many of them are 30 and 35 years old.

When you have equipment that old, maintaining it, keeping it operating is extremely difficult, and the result is you are compromising safety.

When you have moving equipment that people ride on, you have to maintain it. You have to replace it when the time comes. And we have not made those investments, and that is what is critically necessary. And I believe that with the new funding that we have from the Federal Government, with the continued funding by each of the jurisdictions by their match to the funding from the Federal Government, we will be making progress.

And probably, we will get to the point where we will be able to bring our system to a state of good repair. What we will then have is the challenge that we won't have enough money to really deal with the expansion of service that is necessary even within our given confines in order to allow us to serve more and more people that will need to use our existing system.

Senator MIKULSKI. Well, I know you have just completed extensive public hearings over the fare box issues, and you have a pretty good sense that Metro, No. 1, is popular.

Mr. BENJAMIN. Yes.

Senator MIKULSKI. There is a lot of expectation of Metro. As I understand it a significant amount of your funds are now going into Metrobus and MetroAccess. Is that correct?

Mr. BENJAMIN. In the increase that is in the proposed budget, the subsidy increase for bus goes up by about $20 million, the subsidy increase for MetroAccess goes up by about $20 million, and the subsidy increase for rail is actually a decrease of $40 million. So what we are looking at is substantial subsidy going to bus and to paratransit and rail not getting as much. What we are doing then is charging our rail passengers more and having them pay that difference.

Senator MIKULSKI. Well, that is a pretty startling kind of breakdown there because it is the rail that carries the majority of the passengers. I am not into allocation or disputing because I think you would be the first to say you need rail, bus, and then people with special challenges need the MetroAccess. We are not disputing any of that.

But for the $150 million Federal contribution, what are we going to get? Are we going to get modernization? Are we going to get maintenance? Are these safety improvements? What would be the breakdown of the $150 million?

Mr. SARLES. You are getting, first and foremost, safety improvements. The second is state of good repair improvements. That is just bringing the system back to where it was, and when you do that, you also improve the safety of the system because there are less breakdowns, which causes other problems. That is what the capital program is all about. It is safety and state of good repair and that is especially what the dedicated funds are going to, nothing else.

As the chairman was mentioning before, we are not, in this program, at this time, investing in ways to expand the system either by adding more eight-car trains or expanding the number of buses. This is solely focused on the existing system's state of good repair and safety.

Senator MIKULSKI. What about modernization?

Mr. SARLES. Only in the sense that, say, for instance, when we replace the 1000 Series rail cars, we will, of course, design them and build them to the latest standards, both safety and functional and all the other standards. So, in that sense, there is a modernization. When you take something old and rehabilitate it, you bring it up to the most modern standard. So you get that kind of modernization that goes on.

Senator MIKULSKI. Well, this takes me to the Federal responsibility that while we might be self-congratulatory that we are finally providing a guaranteed revenue stream of $150 million, the fact is, is that helps maintain the status quo in good operating order.

Mr. SARLES. Right.

Senator MIKULSKI. I don't mean to overstate it, but is that kind of a good summary of it?

Mr. SARLES. Exactly.

Senator MIKULSKI. So, if we wanted to modernize, it would take additional revenue from either your Federal partners or other partners. Is that correct?

Mr. SARLES. That is correct.

Senator MIKULSKI. If you wanted to because we know there is going to be some rather robust NTSB recommendations. Those will probably in many ways deal with more modernization. Am I correct?

Mr. SARLES. Yes, I would assume so.

Senator MIKULSKI. Well, what I would like from you, as we discuss it among ourselves because this goes to national priorities for not only the Washington system, but for Americans' public transit, is how are we going to meet our responsibilities for capital improvement, modernization, and operational cost? These are national issues, and in some ways, you are right here. So we see you with the good, the bad, and the ugly.

But I am going to go to the good, and a modern system needs to be continually modernized and from a management standpoint, modernization is not an event. It is a process.

Mr. SARLES. You are right. It is a continuing process. As we rehabilitate, improve, we have to also bring it up to modern standards. And if you don't, you fall behind.

Senator MIKULSKI. Well, I like to have hard, concrete things, as you hear me say, to measure against, for example the checklist for change. But when NTSB comes out with their report, apart from overall words like "modernization," we would like to hear from you what would it take to implement it? And I think that is a fair question.

We don't want to create unfunded mandates, but I think it is time that Congress has to take a realistic view of what it needs to do to provide in partnership—again, we are in addition to the stakeholders and the locales. But at the same time, if there are Federal requirements, there should be a way for assistance to meet those Federal requirements.

Mr. SARLES. I would welcome that——

Senator MIKULSKI. I am sure that is the way you see it. That, in some way, is out of the scope of the subcommittee. I mean, it goes to authorization. But I believe rail, whether it is heavy rail to move cargo in our corridors, whether it is—I will call it heavy rail, to move people in the Northeast Corridor, whether it is our MARC trains or the Virginia version of that, we need to have a real commitment to rail and mass transit in this country because, whether it is Purple Line, our Red Line in Baltimore, your Red Line here, but we are running into a lot of red ink. Isn't that the problem?

Mr. SARLES. Yes.

BUDGET SHORTFALL

Senator MIKULSKI. Now you have a $189 million shortfall?

Mr. SARLES. Currently, right.

Senator MIKULSKI. So, first of all, what you hear from the subcommittee is not shouts and chest pounding about how we are going to withhold the money until you do such things. We do believe, though, there has to be modernization. There has to be safety reform, and there has to be accountability. By accountability, we mean real measurements.

So we are going to be talking with you over the next year. We have said a lot about what we think about you. I am not going to ask you what you think about us. But as Congress looks at what it needs to do, I am asking you what your recommendations would be to us about what a Federal partnership would mean for modernization, safety improvements, and increased operational reliability.

Whether it is the escalator working, which we hear a lot of, or the fact that significant funds do go in buses. Significant funds do go into meeting the Federal mandate of access for people who are challenged. Am I correct?

Mr. BENJAMIN. You are absolutely correct.

Senator MIKULSKI. So do you have thoughts or recommendations you would like to make to us?

Mr. BENJAMIN. Well, one of the issues, as you point out, is that we do have a number of requirements that are already upon us, one of those being providing service for persons with disabilities. And that is an ever-increasing cost to every transit system in the United States.

It is a critical service for us to provide because we are, in fact, the lifeline for many of those people. It is the only way that they can become productive members of society, and therefore, it is critically important for us to provide the service.

However, what we are discovering is that it is overwhelming in terms of the cost increases, particularly in this area. It is overwhelming our ability to also provide service for everybody else because we just don't have enough money to catch up with everything. So, to the degree that the Congress can help us in funding that portion, and that is actually everybody in the United States, every transit system in the United States, funding the increasing operating costs of that portion, it allows much of the State and local funding, which otherwise is going into those increases, to be used for improvements in bus and improvements in our rail service, which, as you point out, is where the vast majority of our people are.

So we have got to draw a balance between providing a critical service for people that have no other choice and providing the really major service for the vast majority of the people in the region. So it is an area that is very, very important. And I would encourage the Congress to look at that, both for Metro here, but for everybody around the country.

Senator MIKULSKI. That is what I was saying. This is a national issue, and it is a mandate. Well, I can only speak from personal experience. You know, about 10 months ago, I had a fall and cracked my ankle in three places. So I got around with a wheelchair. Then I got around with a walker. I had a space boot that was 3 feet long. But my situation was temporary.

But I learned a lot from the temporary situation because I often thought about for many people, whether it is a returning Iraq or Afghan vet, whether it is a senior citizen, a child injured in an accident, mine was temporary, but for many, it would be permanent. But I mean, even for me, getting to doctor's appointments, returning to work, I had a car and somebody to help me.

If I didn't have that, and you will be interested to know, when I came in to vote for Sotomayor and I came in from Mercy Hospital to meet my constitutional responsibility, I came in a mobility van. Not yours, but something provided by the Senate to move handicapped Senators or staff around. I thought, you know, there are people that do this every day, and they need it. I am really committed to them having that service.

But what you are saying is commitment, social policy, economic policy, this would be an area where the Federal Government is not taking over the role of the State and locals, but it is meeting a Federal mandate. This is an area that would enable State and locals to use other of their funds. So now you are subsidizing the Federal mandate when the Federal Government should be paying the share for its own mandate.

Mr. BENJAMIN. Extremely well said, Senator Mikulski.

Senator MIKULSKI. Is that the way it would go?

Mr. BENJAMIN. Absolutely.

Senator MIKULSKI. Well, I think that is a very good direction to go in because as we ponder how to think about more money, again, the national systems—New York, San Francisco, Chicago, any big city, my own, the one in the Baltimore area—we don't want to get in the business of being the local government or the State government. But I think this is a very good guidance.

CORRECTIVE ACTION PLANS

Before I go on to the other panel, I do have a question again about the FTA report. I understand that there were a number of open cases that were in the audit. I think there were 63 open cases dating back to 2006. Could you tell me where you are on your open cases and the backlog, and were they resolved?

Mr. SARLES. Sure. They are not all resolved yet. One of the things that we have been much more aggressive about is these corrective action plans, and there are old ones and new ones get added. We have actually become more aggressive in the last few months, upping the number of closeouts, if you will.

I have given staff a goal of 10 a month so that when you look at where we are—we are about at 85 because others got added. But we are now cutting away at that backlog, if you will, and the goal is to get them down quickly.

Senator MIKULSKI. How old is your oldest case?

Mr. SARLES. It is several years old. I don't remember the exact date, but it is several years old.

Senator MIKULSKI. In other words, are you moving the backlog?

Mr. SARLES. We are going after the backlog, too, as well as the current stuff. Yes.

Mr. BENJAMIN. Senator Mikulski.

Senator MIKULSKI. Yes.

Mr. BENJAMIN. This was the area that I was referring to that the board was actually very shocked when we discovered how many of these cases there were. There are two parts to it. One is the creation of a corrective action plan. That is responding to an audit finding and saying this is what we are going to do.

We did reasonably well on that, but not very well; we had a lot of corrective action plans that had never been filed, never been created.

The second part is actually implementing that plan and making sure you have done something. Now some of those you can do very quickly and easily. Some of those are very difficult because one of them, for instance, is a recommendation by the National Transportation Safety Board that we replace 300 1000 Series railcars. Well, that takes a lot of money and takes a lot of engineering. So those take longer.

So it is reasonable for some of them to be a little bit older and some of them to be newer. But one of the things we on the Board have said is we want to know what is out there and what progress we are making and we are now getting those reports.

Mr. SARLES. To give you a more definitive answer, the oldest two are from 2004 and have to do with configuration management, which is how you make sure all the changes that take place on a particular event get integrated. Those are the two oldest.

Senator MIKULSKI. Well, that is exactly what we are talking about, all the lessons learned.

Mr. SARLES. Yes.

METROACCESS

Senator MIKULSKI. One last question and this is a budget question. How much does it cost you to run MetroAccess, and how much is the Federal contribution? Do you know that?

Mr. SARLES. Off the top of my head——

Mr. BENJAMIN. I can tell you what the Federal contribution is. It is zero. It is around $100 million——

Mr. SARLES. Yes, that is the number. And there is no Federal contribution to our operating budget. So we absorb that totally. The jurisdictions do.

Senator MIKULSKI. Well, I think that is an interesting insight.

Well, we want to thank you, Mr. Benjamin. We want to thank you, Mr. Sarles. We know we are going to have a lot more conversations. You are excused from the testimony. If you want to stick around, we are happy to have you.

NONDEPARTMENT WITNESSES

Senator MIKULSKI. We would now like to call up to the witness stand Ms. Jackie Jeter, the president of the Amalgamated Transit Union Local 689. We also wanted to hear from the riders. We wanted to hear from Mr. Francis DeBernardo, the chairman of the Metro Riders' Advisory Council, and Mr. Jack Corbett, the head of MetroRiders.org.

So, Ms. Jeter, you represent a good bit, if not the majority of workers at WMATA. We would love to get your views on safety. And again, there were people who were members of the union who passed away at these terrible and horrific accidents, our sympathy and condolences to their families.

But we feel that the way we can express sympathy is to make sure it doesn't happen again and again and again. So we welcome your testimony and your insights.

And to the riders, we want to hear what you have got to say and uncensored, no holds barred.

STATEMENT OF JACKIE JETER, PRESIDENT, AMALGAMATED TRANSIT UNION, LOCAL 689

Ms. JETER. Thank you.

I would like to start off by thanking Chairwoman Murray, as well as you, Senator Mikulski, on your insight concerning the Federal Transit Administration's audit, also your introduction of Senate bill 1506 on WMATA safety. It shows the dedication that is needed on this particular issue.

Every WMATA stakeholder has a vested interest in making sure that we discuss the issues, but more importantly, making sure that we find solutions that enable us to move forward. As a stakeholder, Local 689 is fully aware of each safety, funding, and operations issue is interdependent. It is incumbent upon all of us to rebuild the public's confidence in our good, but aging transit system.

I will address each part of the questions that you ask. I will start with the budget. In order to realistically develop a plan of action that will address the various safety issues facing the transit system, we must begin with the funds necessary to operate and improve it. The infrastructure at WMATA rail system is over 30 years old, and as such, an investment must be made to improve technology, repair the places where the structure has weakened, and provide for growth of the system.

Proper fiscal planning must be the cornerstone of this system. We have debated wage and benefit issues for the last 3 years and have been victimized by WMATA's failure to adequately plan for expected labor cost increases. Beyond the impact of wages and benefits, it is the impact on the public, as service cuts are becoming standard practice to help close budget gaps.

Further, insufficient capital funds have led WMATA into an environment where less than a state of good repair exists. For example, WMATA has identified $11.4 billion in capital needs over the next 10 years. Even with maintenance of efforts, the budget gap will not be completely closed and only maintaining the present system without providing an expansion.

And in my written testimony, I go on, but I would like to also add that I would also recommend that requirements for meaningful whistleblower protection be included in the appropriations language. Some of the things that I talk about are the flexibility in the capital budget allocation in order to allow the use of capital funds to cover operating cost, making sure that the Federal transit benefit remains at the $230 a month; the two appointments for the Metro board, in our opinion, should at least be someone of a transit advocacy background, environmental group, or a labor union; and when we go down to safety, we have addressed this holistically by defining safety as a three-pronged stool. Our internal process; interaction with WMATA, and the need to keep the public safety at the forefront of our decisions and consideration for all other components of the plan, including funding, that impact everything that we do; the concerns of the Metro workers; and needed improvements.

In the last several weeks, there has been an effort to look more closely at the overall safety issues affecting the system. Although I have been pleased to see some recommendations given to the Metro board, I am not confident that those changes will be implemented immediately. WMATA has inculcated a culture of deferment, which postpones needed improvements and changes in the system.

PREPARED STATEMENT

Finally, I note the tendency to blame individual employees instead of looking for underlying systemic causes of safety-related incidents. We believe that it should be urgency and rapidity that causes Metro to do what is needed to improve the safety of the Metro employees.

Thank you for your time and attention.

[The statement follows:]

PREPARED STATEMENT OF JACKIE JETER

I would like to begin by thanking Chairwoman Murray for convening this hearing and allowing us to participate in this important discussion. Senator Mikulski, thank you for your insight concerning the Federal Transit Administration's audit that has identified several serious underlying safety problems. Your introduction of Senate bill 1506 on WMATA safety shows the dedication that needs to be given to this issue.

Every WMATA stakeholder has a vested interest in making sure we discuss the issues, but more importantly making sure that we find solutions that enable us to move forward. As a stakeholder, Local 689 is fully aware that each safety, funding, and operations issue is interdependent. It is incumbent on all of us to rebuild the public's confidence in our good but aging transit system.

I will address each part of this equation: (1) Fiscal year 2011 budget request for WMATA; (2) Local 689's efforts to improve safety and operational reliability; and (3) concerns of metro workers and needed improvements.

FISCAL YEAR 2011 BUDGET REQUEST FOR WMATA

In order to realistically develop a plan of action that will address the various safety issues facing the transit system, we must begin with the funds necessary to operate and improve it. The infrastructure of the WMATA rail system is over 30 years old and as such, an investment must be made to improve technology, repair the place where the structure has weakened, and provide for the growth of the system.

While the need for more transportation has increased, the amount given to fund that necessity has not. That is evident from the current much publicized events at WMATA. The impact of insufficient funding has had a devastating effect on workers, riders, businesses and overall development in the three jurisdictions hosting the system. Public transportation will never be profitable; it is a public service. The critical nature of funding and the lack thereof has a major impact on the riding public and WMATA employees.

Proper fiscal planning must be a cornerstone of this system. We have debated wage and benefit issues for the last 3 years and have been victimized by WMATA's failure to adequately plan for expected labor cost increases. Beyond the impact on wages and benefits is the impact on the public as service cuts are becoming standard practice to help close budget gaps. I will emphasize the need for flexibility in the capital budget allocation in order to allow the use of capital funds to cover operating costs. The ability to purchase a bus or rail car is only one part of the equation. If the Federal Government does not establish flexibility in the use of funds, it will be guilty of weakening the system. As users and providers, ATU Local has spent many hours developing and outlining these suggested measures:

—Extend the Federal Transit Benefit at the $230 per month level (Currently set to expire and revert to $120 per month as of December 31, 2010.
—Require the Federal General Services Administration to appoint the two remaining WMATA board members, (one voting, one non-voting) with at least one with a transit advocacy background, such as an environmental group or labor union.
—Support the passage of the Carnahan/Brown Bill to permit large systems flexibility in use of Federal capital funds to cover operating costs.
—Passage of an "Emergency Assistance" bill that would help transit agencies through this recession.
—Move on 6-year Federal re-authorization bill that provides a permanent funding plan for transit agencies. (Extension of current authorization expires 12/31/2010. WMATA had recently proposed a $4.6 billion, 6 year capital program. The previous "Metro Matters" agreement spent $2.8 billion + $.2 billion in Stimulus Funds over a 6 year period. Adding the $1.8 billion in Federal and local "dedicated funds" would have been a $4.8 billion program. Adding an inflation factor would make that total even higher. The current draft agreement provides for a level of spending just over $5 billion over the next 6 years.)
—WMATA has identified $11.4 billion in capital needs over the next 10 years. Even with "maintenance of effort" the budget gap will not be completely closed and only maintaining the present system without providing any expansion capacity.
—The General Services Administration should be urged to locate new Federal facilities in the Washington area near Metro stations and restrict the number of parking spaces at such Federal facilities to a reasonable ratio of automobile *vs.* transit usage.
—Support Obama's "Public Transportation Safety Program Act" (SB 3015).
—Review carefully the formula grant that is used as the basis for Federal funding to consider adjusting the percentage allocated to Metro.
—Lobby to establish a dedicated funding source from the jurisdictions.
—Consider recapturing tax incentives given to businesses that surround the Metro stations. They should bear a greater share of the costs because they gain a greater benefit as a result of their location.
—The Federal transit benefit should be indexed to both increased use (riders) and inflation. It would get an annual increase automatically that reflects the real costs of providing increased services and any increase costs resulting from inflation.
—Consider supporting the development of the outer spokes of the system to increase ridership and revenue from business development likely to occur around the stations.

LOCAL 689'S EFFORTS TO IMPROVE SAFETY AND OPERATIONAL RELIABILITY

We have addressed this holistically by defining safety as a three pronged stool—our internal process, interactions with WMATA and the need to keep public safety

at the forefront of our decisions, and consideration of all other components of a plan, including funding, that impact everything we do. Our Internal process includes:
—In cooperation with WMATA, relying on the Joint/Labor Management Safety Committee to address issues as they occur.
—In our orientation process and during union meetings we openly discuss safety issues and solutions.
—Forging a proactive media campaign and release of public statements to apprise the public of issues and possible solutions to safety problems with Metro.
—Testifying before local and Federal agencies in regard to safety issues, incidents and accidents to publicize the changes and improvements needed to ensure greater safety throughout the system.

CONCERNS OF METRO WORKERS AND NEEDED IMPROVEMENTS

In the last several weeks there has been an effort to look more closely at the overall safety issues affecting the system. Although I have been pleased to see recommendations given to the WMATA Board, I am not confident that those changes will be implemented immediately. WMATA has inculcated a culture of deferment which postpones needed improvements and changes to the system. Finally, I would note that there is a tendency to blame the individual employee, instead of looking for underlying systemic causes of safety related incidents.

Local 689's experience concerning the investigations, leads us to the belief that to date, WMATA has not implemented several key measures that would make the Metrorail system safer.

Urgency and rapidity should be the hallmark of the suggested changes we are offering below. WMATA must consider instituting the following without delay:
—Multiple layers and redundancy of safety protections.
—Codification of standards for track worker safety similar to Federal Railroad Administration track worker safety standards.
—Clear and concise communication between workers and controllers.
—Clear notification and designation of work areas and zones on the right of way.
—Development of a safety communications plan that alerts all WMATA employees immediately to incidents.
—Immediate notification of the union when a safety incident occurs.
—Firm commitment to respect the rights of workers to have a union representative present during investigatory interviews after an incident.
—Effective worker safety training.
—Supervisory enforcement of safety standards.
—A process for WMATA employees, to appeal the standards they believe to be incorrect or unsafe, such as a Safety Appeal Board.
—Meaningful whistleblower protection to insure that employees are not fearful of reporting perceived safety problems.
—Effective labor-management safety committees.
—WMATA's commitment to the rapid development and implementation of procedures and standards that are calculated to improve safety immediately and in the long term.

Thank you for your time and attention to my concerns. I would be pleased to address any questions you might have in regard to my testimony. Thank you on behalf of my members and the riding public.

Senator MIKULSKI. Thank you. That was very powerful.

Let us go down this way. Mr. Corbett.

STATEMENT OF JACK CORBETT, DIRECTOR, METRORIDERS.ORG

Mr. CORBETT. Thank you, Senator.

I appreciate the opportunity to testify, and I wanted to thank you on behalf of our members for your having lit a fire under WMATA leadership some months ago when it was very much needed. We are very appreciative of that.

As you have said so well, the riders are very upset and have lost confidence in the system over the last year. The tragedy on the Metrorail system last June, the loss of Ms. Jeter's employees in other accidents, the scathing report from the Federal Transit Administration over the safety culture at WMATA, those things have all been very worrisome to riders. To ride the train and to see people choosing not to go into the first car of a six-car train because they know that was the one that had the tragedy is very worrisome to us.

There is some good news. We are very pleased that two of the four Federal members of the Board of Directors have been appointed. Two, we are very pleased that WMATA has the leadership of Peter Benjamin this year, whose many years of service with WMATA makes him an admirable leader for WMATA's board during this very tough period.

We are really pleased that this subcommittee is having this hearing because there are not many Federal or regional agencies that have any leverage over WMATA. As you know from having cosponsored legislation, the FTA cannot mandate any safety for WMATA. The local Tri-State Operating Committee is powerless and cannot require Metro to do anything. So we think this subcommittee, through your power over the conditions of the $150 million annual appropriations, can be very, very helpful.

And we have got some very specific suggestions. As you have already indicated, put on maintenance of effort requirement so the jurisdictions that have financial problems of their own don't play games where they give $50 million in one side and they take money out of the other pocket. So that is very important.

The other things the subcommittee could do to be very helpful: you could call the administrator of the General Services Administration [GSA] right now. They have been interviewing candidates for the other two Federal appointments since Thanksgiving, and we have urged that at least one of them be a safety official that would be added to the Board of Directors, and they still don't have two final appointments to the Metro Board, when the Board has got to make very important decisions about safety, funding, and capital.

Before you finalize your appropriation this year, check to see how well WMATA is doing in agreeing to implement whatever recommendations the NTSB comes out with between now and then having to do with the causes of the tragic accident.

Also, it was your work last year that got the FTA to issue that report. We think the subcommittee report ought to indicate that FTA should do another report at the 1-year point just to see what you have heard from Mr. Sarles and Mr. Benjamin is really having an effect, rather than just being paper products.

PREPARED STATEMENT

We have other suggestions attached to our testimony. One I have to mention is even with WMATA's and the jurisdictions' best efforts, there is a $3 billion shortfall in the capital needs, as Ms. Jeter has pointed out, over the next 10 years. In the current capital budget, there is no money for any additional railcars or buses for 10 years. That means the riders who are standing today are going to have to stand for 10 more years unless somebody, maybe the Congress, maybe the jurisdictions, contribute some funds to WMATA and other pressed transit systems in the country to fill that gap.

Thank you very much, Senator.

[The statement follows:]

PREPARED STATEMENT OF JACK CORBETT

Chairman Murray and members of the subcommittee: Thank you for inviting MetroRiders.Org to testify today to discuss fiscal year 2011 appropriations for the Washington Metropolitan Area Transit Authority (WMATA) and the safety and operational reliability concerns of Metrorail and Metrobus riders. MetroRiders.Org has represented the views of transit users in the Washington, DC metropolitan area beginning in 2004. We are a riders' voice outside WMATA.

SAFETY CONCERNS ARE PARAMOUNT

WMATA's recent and continuing safety and financial challenges are well known. The June 2009 Metrorail tragedy that took 9 lives and injured 80 others and the subsequent deaths of track workers document that Metrorail safety problems impact riders and employees alike.

Senator Mikulski's leadership in urging a Federal Transit Administration (FTA) safety audit of WMATA and the regional (powerless) Tri-State Oversight Committee generated a hard look at WMATA's own safety program and resulted in a scathing FTA report questioning the safety culture at WMATA. More recently, David Gunn, a former WMATA General Manager, was asked by the current WMATA Board to conduct a review of the entire Metro operation. That 2-week review resulted in a report highly critical of WMATA's management and organization and suggested that "MetroRail has downhill momentum that will be difficult to stop." Both the FTA audit and the Gunn presentation to the WMATA Board should be included in the record of today's hearing.

Finally, the National Transportation Safety Board (NTSB) held 3 days of investigative hearings in February about the June 2009 Metrorail tragedy; its findings on the probable cause or causes of that accident should be released soon. For all these reasons it's understandable that there has been a loss of rider and public confidence in Metro's safety, management and operation.

WMATA BOARD HAS BEEN RESPONSIVE TO SAFETY CONCERNS

The current WMATA Board has played catch-up but is now attuned to fixing the system's safety problems. We are grateful that current WMATA Board Chairman Peter Benjamin has had decades of experience as a WMATA staff official and is leading the Board—composed of public officials and political appointees—during this critical period. The recent appointments of an Interim General Manager and a new WMATA Chief Safety Officer are hopeful signs.

FINANCIAL PROBLEMS UNDERLIE THE 34-YEAR OLD METRORAIL SYSTEM'S FRAILTY

Metrorail's safety problems are not unconnected to its age. Like many aging transit systems across the Nation, Metrorail needs to replace its oldest cars and rail infrastructure to meet FTA's "state of good repair" recommendations, as well as to increase rail and bus capacity to meet growing traffic demand. Unfortunately those capital requirements are occurring at a time when WMATA's contributing jurisdictions are hard pressed to provide the needed resources because of their declining revenues during the national economic downturn.

FISCAL YEAR 2011 OPERATING BUDGET GAP IS ALMOST RESOLVED

There's somewhat better news, at least procedurally, about WMATA's operating budget. Everyone has read that WMATA has an estimated $189 million gap in its fiscal year 2011 Operating Budget (July 2010–June 2011). While riders will have to pay substantially higher fares starting this summer to help eliminate the coming year's operating budget gap and even then may suffer some service cuts, the WMATA Board has handled this situation very well. It opened up its decisional process to input from riders and the general public well before tough decisions were needed.

WMATA received some 5,000 communications from the public about ways to solve the budget problem; some groups, including MetroRiders.Org, offered highly detailed proposals that were designed, for example, to move riders out of congested peak periods where possible, and to generate adequate revenue to eliminate or substantially reduce the need for Metrorail and Metrobus service cuts. We are grateful to the WMATA Board and staff for carefully considering these options. That the process was open, transparent and deliberative will make the resulting and inevitable fare increases somewhat more palatable.

METRORIDERS.ORG'S "TOP 10 RECOMMENDATIONS TO IMPROVE WMATA"

MetroRiders.Org has developed a substantial list of recommendations for restoring the public confidence in WMATA's governing body and management and in the safety of everyday Metrobus and Metrorail operations. That list is attached, and our recommendations would involve actions by this subcommittee, other Senate and congressional committees, Maryland, Virginia and the District of Columbia, the WMATA Board itself, and private organizations as well.

SENATE THUD APPROPRIATIONS SUBCOMMITTEE HAS BROAD JURISDICTION OVER WMATA

This subcommittee's jurisdiction over WMATA includes the authority to make appropriations for the U.S. Department of Transportation and its component agencies such as FTA and, specifically, from title VI of the Passenger Rail Investment and Improvement Act of 2008 (Public Law 110–432, October 16, 2008) (PRIIA). That recent law authorizes the appropriation of up to $150 million annually for a decade to WMATA to finance in part the capital and preventive maintenance programs included in the Capital Improvement Program approved by WMATA's Board of Directors. Those Federal funds must be matched by contributions of "dedicated" State and local funding from Maryland, Virginia and the District of Columbia.

That statute included a number of additional, specific conditions upon which congressional appropriations to WMATA would depend.[1] MetroRiders.Org urges this subcommittee to actively supervise WMATA's compliance with these conditions:

—The subcommittee should appropriate the full authorized $150 million in Federal funds in fiscal year 2011 for WMATA capital projects but with conditions.

MetroRiders.Org is appreciative of this subcommittee's appropriating $150 million to WMATA for fiscal year 2010 but is disappointed that, 6 months after that fiscal year 2010 appropriations was enacted, WMATA has not yet finalized its application for FTA project approval for Federal and local matching funds. That said, the subcommittee should make full appropriations to WMATA for fiscal year 2011, as recommended in the President's budget, because the funding is much needed for high priority capital projects.

—Fiscal year 2011 appropriations should be conditioned upon the State and local jurisdictions' maintaining their past "continuity of effort" with their own funds as the $300 million annual Federal/local match contribution was to be all "new money."

We and other groups (and the local media) were very disappointed that the State of Maryland recently tried to reduce its fiscal year 2011 capital contribution to WMATA below its past contribution level. Had this effort been successful, Maryland's $50 million in matching funds for the PRIIA appropriations would have been provided but its past annual contribution to WMATA (from the same pot of State "dedicated funds") would have been reduced—resulting in a displacement of State funds with Federal capital funding. Worse, because Maryland, local jurisdictions in Virginia, and the District of Columbia contribute to WMATA based on a pro-rata formula, Maryland's reduced contribution would have also limited the contributions that the other two jurisdictions would make in fiscal year 2011.

Only the glare of unfavorable publicity apparently caused Maryland recently to agree to increase its fiscal year 2011 capital contribution to WMATA to its fiscal year 2010 level plus the $50 million in new PRIIA-matching funds.

Congress should condition fiscal year 2011 PRIIA appropriations to WMATA upon all three jurisdictions maintaining their past "continuity of effort" with their own funds. If severe fiscal problems in any jurisdiction preclude such continuous funding

[1] Title VI authorized the Administrator of General Services to appoint four new directors to the WMATA Board, two voting and two non-voting directors with one voting director "to be a regular passenger and customer of WMATA's bus or rail service." To date, GSA has only appointed two directors, one voting and one non-voting. Both appointees are highly regarded and have been important additions to the WMATA Board. Because the WMATA Board is considering many critical agenda items (6-year capital budget, fare increases for fiscal year 2011, etc.) we believe the GSA Administrator should announce her final two appointments as soon as possible, as well as to specify which of the two voting directors would be the designated "regular passenger" board member.

Further, the statute required WMATA to appoint an Inspector General for the agency, with full IG-level powers for internal investigations of budgetary and agency management issues. We have been disappointed that the new Office of Inspector General has concentrated on auditing agency contracts (as had the predecessor internal auditor) and has not focused on important agency management issues, as Congress clearly intended by its mandate. The media has performed what are traditional IG functions at WMATA, such as identifying ineffective staff organization of safety functions, lack of proper treatment of the Tri-State Operating Committee, etc.

levels, that jurisdiction must promise to make up any shortfall within a specific number of fiscal years.

—Before the House-Senate Conference on fiscal year 2011 THUD Appropriations, the subcommittee should review the adequacy of WMATA's response to the NTSB's findings and safety recommendations resulting from the June 2009 Metrorail crash.

In fiscal year 2010, the Congress conditioned WMATA's use of PRIIA appropriations to assure that safety projects would be funded. In fiscal year 2011, the Congress should review the adequacy of WMATA's response to the NTSB recommendations, anticipated to be released shortly. Currently, WMATA has a $30 million plug in its proposed 6-year capital budget for this purpose.

—The subcommittee report on fiscal year 2011 PRIIA appropriations for WMATA should request FTA to undertake a follow-up safety audit of WMATA 1 year after the first audit.

Because FTA's recent audit of WMATA found many serious safety concerns, and because FTA doesn't currently have authority to regulate WMATA's rail safety operations (see attached "Top Ten Recommendations to Improve WMATA" list), the subcommittee should urge FTA to conduct a follow-up audit of WMATA a year later to see if internal WMATA safety management has improved in the interim.

—The subcommittee should appropriate funding to implement enactment of the "Public Transportation Safety Program Act of 2010."

As you know, FTA currently is statutorily precluded from setting and enforcing safety standards for rail transit systems such as WMATA's Metrorail system. We hope this legislation can be enacted soon, separately if necessary from congressional reauthorization of multi-year surface transportation funding. When enacted, FTA could set safety standards for Metrorail, or Maryland, Virginia, and the District of Columbia could empower the Tri-State Operating Committee to undertake safety regulation of Metrorail. MetroRiders.Org prefers direct Federal safety regulation of WMATA by FTA.

The administration has requested $24.1 million in fiscal year 2011 for a new Rail Transit Safety Oversight Program and for an additional $5.5 million to fund 30 FTE in FTA's new and expanded Office of Safety. We hope the authorizing committees of Congress act on this needed legislation soon and that this subcommittee can provide the necessary appropriations.

Again, thank you for allowing MetroRiders.Org to testify. I'd be pleased to answer any questions.

METRORIDERS.ORG' S "TOP TEN RECOMMENDATIONS TO IMPROVE WMATA"

Safety

Enact S. 1506/H.R. 3338 to authorize the Secretary of Transportation to establish national safety standards for transit agencies operating heavy rail on fixed guideways.

Request FTA to update its safety audit on WMATA 1 year later.

Assure adequacy of WMATA's response to expected findings and safety recommendations of the National Transportation Safety Board (NTSB) concerning the probable cause of Metrorail's June 2009 crash with fatalities and injuries.

Capital Financing

Approve full authorized $150 million appropriation for WMATA in fiscal year 2011 on matching basis with Maryland, Virginia, and the District of Columbia but with conditions.

Condition fiscal year 2011 appropriations to WMATA upon State and local jurisdictions' maintaining their past "continuity of effort" with their own funds as the $300 million annual Federal/local match was to be "new money."

WMATA, its Contributing Jurisdictions and Congress should develop a plan to provide $3 billion in additional capital funding to WMATA over the next 10-year period (fiscal year 2011–fiscal year 2020) to provide needed rail and bus capacity during the decade beyond the inadequate $5 billion 6-year capital plan now being negotiated by WMATA with its Contributing Jurisdictions.

Management/Governance

The Administrator of General Services should appoint the remaining two Federal directors to the WMATA Board of Directors to supplement the existing two appointees and to designate one of the two voting Federal directors as the "regular passenger" Board member.

Support the project of the Metropolitan Washington Council of Governments and the Greater Washington Board of Trade for a fast-track, independent review of WMATA's current governance structure.

Support amendments to the congressionally-approved "WMATA Compact" that would make transparent and available for public comment the various "behind-closed-doors" negotiations among the Contributing Jurisdictions as to their future capital contributions to WMATA and to require WMATA to follow the "open government meeting laws" of area jurisdictions.

Other

Congress should extend the current $230/month transit "commute benefit" beyond December 2010 for parity with the existing parking benefit.

Senator MIKULSKI. Thank you. That was a very meaty presentation, Mr. Corbett. Thank you very much.

Mr. DeBernardo.

STATEMENT OF FRANCIS DeBERNARDO, CHAIRMAN, RIDERS' ADVISORY COUNCIL

Mr. DEBERNARDO. Yes, thank you. Thank you, Senator Mikulski.

Thank you for inviting me to testify. My name is Francis DeBernardo, and I am chair of the Metro Riders' Advisory Council.

As a transit-dependent rider, I commute each day via Metrorail and Metrobus from my home in Greenbelt, Maryland, to my office in Mount Rainer, Maryland. On behalf of the council, I commend President Obama for including $150 million in his proposed fiscal year 2011 budget for capital and preventive maintenance projects.

I also thank Congress for including funding in this year's budget. These grants, matched by jurisdictional partners, will address critical safety needs.

As riders, we appreciate the Federal Government's recognition of the unique relationship between itself and Metro and urge you to ensure that these funds remain in the fiscal year 2011 budget. We ask, too, that you ensure that local jurisdictions will continue to fund Metro's capital needs by making any Federal aid dependent on maintenance of efforts from local jurisdictions.

Along with this $300 million, Metro and its partners must finalize a new capital funding agreement. Metro has estimated that it has $11 billion in capital needs over the next 10 years. However, as has been mentioned, if funding levels proposed remain constant over the next 10 years, funding will fall short by over $3 billion.

Failing to keep the system in good repair seriously threatens safety. While certainly not as dramatic as the incidents that have occurred this past year, crowded platforms following service disruptions, crumbling platform tiles, and out-of-service elevators and escalators are significant recurring safety concerns. Ensuring stable and sufficient capital funding for Metro is necessary to improve safety.

Commuters are not the only ones who benefit from good transit. The entire region benefits economically. Tourists visiting the Nation's capital benefit from having a convenient way to see the city. The Federal Government benefits from greater productivity. And drivers benefit from reduced congestion on roadways.

Riders have expressed their vision for improvements at Metro. They want more reliable service, greater focus on customers, and clearer frequent communication from Metro, especially when things go wrong. Metro will soon begin a more robust reporting of its operational performance, and riders look forward to working with Metro to use those reports to improve service.

Safety should top the list of Metro's core values. Effective oversight is critical to maintaining safety and confidence in transit. Mandates and projects that improve safety while maintaining service quality can greatly enhance transit. Mandates that impair service in the long run in the name of safety will only drive commuters to other more dangerous modes of travel.

PREPARED STATEMENT

We are pleased that Congress is taking a strong interest in the safety and success of the Washington area's transit system. I thank you for this opportunity to provide testimony and would be happy to answer any questions you have.

[The statement follows:]

PREPARED STATEMENT OF FRANCIS DEBERNARDO

Chairman Murray, Ranking Member Bond and members of the subcommittee, thank you for inviting me to testify today. My name is Frank DeBernardo and I am chair of the Metro Riders' Advisory Council.

The Riders' Advisory Council was established by Metro in September 2005 and serves as the riders' voice within Metro. The Council provides feedback to the Board as well as customer input to Metro staff. Council members are appointed by the Board of Directors. The Council consists of 21 members, 2 from each of the District of Columbia, Maryland and Virginia, 2 appointed at-large and the Chair of the Accessibility Advisory Committee. Members use all of Metro's transit services—Metrobus, Metrorail and MetroAccess—and represent a diverse mix of ages, backgrounds and ways in which they use Metro.

Metro experienced several tragedies in 2009, and suffered a substantial loss of public confidence. The June 2009 crash on the Red Line and subsequent declines in service reliability not only shocked and saddened the region, they also accelerated awareness of the larger problem, the growing disrepair of the Metrorail infrastructure.

Despite the challenges faced by WMATA, it remains a vital asset to the Washington region. A recent Washington Post poll found that 80 percent of riders rate the system positively. During April 2010, Metrorail recorded 3 of its top 5 highest ridership days (April 1, 2, and 7). This underscores the region's dependence on Metro and also highlights the need to redouble efforts to maintain and expand the system.

On behalf of the Council, I would like to first commend President Obama for including $150 million in his proposed fiscal year 2011 budget for capital and preventive maintenance projects at Metro. These grants, matched by dedicated funding from Metro's jurisdictional partners, will help fund projects to address Metro's most critical safety needs. As riders, we appreciate the Federal Government's recognition of the unique relationship between the Federal Government and Metro and urge you to ensure that these funds remain in the fiscal year 2011 budget as it is considered by Congress. We ask, too, that you help to ensure that local jurisdictions will continue to adequately fund Metro's capital needs by making any Federal aid dependent on maintenance of efforts by local jurisdictions.

Along with the $300 million provided annually through the Passenger Rail Investment and Improvement Act of 2008, Metro and its partners must finalize a new capital funding agreement prior to the beginning of the new fiscal year on July 1, 2010. We are encouraged that jurisdictions have committed to fund a $5 billion 6-year capital plan. Recent decisions to restore funding for Metro's capital plan represent good news for riders. However, Metro estimated that it has $11 billion in capital needs over the next 10 years; the 6-year plan, as proposed, will mean that Metro will still fall short of this estimate of needs by over $3 billion over the next 10 years.

Failing to keep the system in a state of good repair seriously threatens safety. While certainly not as dramatic as the incidents that have occurred over the past year, crowded platforms following service disruptions, crumbling platform tiles and out-of-service elevators and escalators are significant, recurring safety concerns.

Ensuring stable and sufficient capital funding for Metro is necessary to improve safety.

As WMATA prepares to enter into its next capital plan on July 1 of this year, governments must also provide the resources necessary to adequately maintain Metro's safety and service, from specific safety recommendations from the National Transportation Safety Board to the everyday yet critical maintenance challenges.

In addition, WMATA must secure support for its operating budget. Closing the currently-projected $190 million operating budget gap for fiscal year 2011 will likely require both substantial fare increases and significant service cuts. Proposed service cuts, while greatly reduced from the original proposals, will still result in riders paying more for less service. During recent public hearings on WMATA's proposed operating budget, fare increases and service reductions, riders expressed a clear preference for increased fares over reductions in service. However, fares cannot be raised too greatly lest riders, especially the most vulnerable, be priced off of Metro. In addition, members of the public stated clearly that Metro must work to improve its service reliability.

The Council is encouraged that Metro will, next month, launch its' "Vital Signs" report to provide the Board, the public and other stakeholders a detailed overview of Metro's monthly performance. As rider representatives, the Council looks forward to working with Metro to ensure that these reports provide meaningful information and that issues they identify are subsequently addressed. It is an old adage that "What gets measured gets done." These reports represent an opportunity for an honest dialogue between Metro and its stakeholders about what needs improvement and how we can work together to make those improvements happen.

Commuters are not the only ones who benefit from good transit. The entire region benefits economically. Tourists from around the country who visit the Nation's capital benefit from having a safe and convenient way to see the city. The Federal Government benefits from greater productivity. And drivers benefit from reduced congestion on roadways. For that reason, the Riders' Advisory Council and transit advocacy groups asked local jurisdictions to increase their contributions enough to forestall severe service cuts, and it appears that many of the most onerous cuts will be avoided.

Over the long term, Federal, State and local governments must recognize the tremendous asset that Metro represents to the region and support it accordingly. A majority of residents in the aforementioned poll said that the region should find new ways to fund Metro, even if that meant raising some taxes.

Metro's budget difficulties are certainly not unique among the Nation's transit systems. A recent study released by the American Public Transit Association noted that 84 percent of transit systems in the United States are planning to raise fares and/or decrease service, or have already done so. Metro does provide uniquely direct value to the Federal Government, and therefore we hope Congress and the States can work together to explore long-term funding sources.

In the midst of all of these challenges, Metro must also find a new, permanent General Manager. The Council hopes that as the Board begins its search it will solicit input from all of Metro's stakeholders, including its riders and its employees.

Riders have expressed their vision for improvements at Metro. They want more reliable service, greater focus on customers, and clearer, more direct and more frequent communication from Metro, especially when things go wrong. While the General Manager must ensure a safe system, the region also needs a GM able to improve service quality and communicate effectively with the public to restore confidence. The Board should seek a candidate able to address Metro's long-term as well as short-term challenges and listen to stakeholders' views about those challenges.

Safety should top the list of Metro's core values. Effective oversight is also critical to maintaining safety and customer confidence in transit. Still, safety cannot exist in a vacuum. Statistics show that commuting by rail is approximately 34 times safer than driving, and many riders make a daily decision between the two.

Mandates that improve safety while maintaining service quality can greatly enhance transit; mandates that impair service in the long run in the name of safety will only drive commuters to other, more dangerous modes of travel. Transit must be safe; it also must not be permanently hamstrung in ways that actually make travelers across all modes less safe.

We are pleased that Congress is taking a strong interest in the safety and success of the Washington area's transit system. At the same time, safety for commuters in our Nation's capital does not start and end with Metrorail. A U.S. Department of Agriculture employee was killed by a driver after the recent snowstorm when the employee tried to walk to the Branch Avenue Metrorail station in Prince George's County, Maryland, where the sidewalks had not been cleared.

Metro safety issues have received considerable press recently, but the degree of press attention has been so great specifically because Metrorail fatalities are so rare, while fatalities on roadways are common to the point that we have become inured to these tragedies. This Congress should not ignore these larger safety concerns, and could draw needed attention to them by also conducting oversight into the ways in which elements of the entire transportation network, including our roadway designs, snow removal policies, and traffic law enforcement succeed or fail at maximizing the safety of commuters on all modes.

A safe, reliable, well-maintained and adequately funded Metro system will enhance the entire region, including the Federal Government. I thank you for the opportunity to provide testimony and would be happy to answer any questions you may have.

ATTACHMENT A.—LIST OF CURRENT RIDERS' ADVISORY COUNCIL MEMBERS

RIDERS' ADVISORY COUNCIL ROSTER (AS OF MAY 17, 2010)

2010 Officers:
Chair: Frank DeBernardo
District of Columbia Vice-Chair: David Alpert
Maryland Vice-Chair: Victoria Wilder
Virginia Vice-Chair: Dharm Guruswamy

JURISDICTION

At-Large:
Dharm Guruswamy
Carl Seip
Patrick Sheehan (Accessibility Advisory Committee Chair)
District of Columbia:
David Alpert
Kelsi Bracmort
Patricia Daniels
Kenneth DeGraff
Carol Carter Walker
Diana Zinkl
Maryland:
Sharon Conn (Prince George's County)
Frank DeBernardo (Prince George's County)
Christopher Farrell (Montgomery County)
Ronald Whiting (Montgomery County)
Victoria Wilder (Montgomery County)
Virginia:
Penelope Everline (Arlington County)
Robert Petrine (Fairfax County)
Clayton Sinyai (Fairfax County)
Lorraine Silva (Arlington County)
Evelyn Tomaszewski (Fairfax County)
Lillian White (City of Alexandria)

ATTACHMENT B.—LETTER TO BOARD OF DIRECTORS CONCERNING METRO'S FISCAL YEAR 2011 OPERATING BUDGET

RIDERS' ADVISORY COUNCIL,
Washington, DC, April 19, 2010.

CHAIRMAN BENJAMIN AND MEMBERS OF THE BOARD: This letter serves as the formal position of the WMATA Riders' Advisory Council on the fiscal year 2011 operating budget, currently estimated to contain a $189.2 million shortfall.

First, we recognize and appreciate the efforts of the Board of Directors to solicit meaningful public comment on a wide variety of proposals to address the current budget situation. Providing the public with alternatives has spurred public debate and allowed riders to select from a menu of options to create a sound fiscal year 2011 budget. We strongly encourage the Board and the Authority to review the fiscal year 2011 budget and reduce administrative spending as much as possible to close the projected budget gap.

Over the past several months, our members have held lengthy meetings devoted purely to the budget, attended public hearings, solicited feedback on their commutes, and debated the merits of the many different proposals put forward by WMATA staff, the Board and other groups.

This Council is faced with two distasteful options—service reductions which could drastically impact the quality of life in our region and/or fare increases that might price some residents out of using our transit system.

To limit the need for these drastic options, the R.A.C. continues to strongly support increased jurisdictional subsidies and dedicated local and Federal funding for the Metro system. While budgets are tight, we remain hopeful that local and Congressional leaders will fight to expand Metro funding at the jurisdictional and Federal level in recognition of the Authority's role as a unique regional and national asset.

We also recognize that Metro will make changes to MetroAccess service, continue negotiations with its operating unions to decrease costs, cut administrative positions, and continue to explore alternative revenue sources in an effort to reduce the budget shortfall in fiscal year 2011.

We are deferring to the Accessibility Advisory Committee's recommendations on the proposed changes to MetroAccess, which have already been submitted as part of the public hearing record.

If the Board, after it exhausts all other options to close the fiscal year 2011 budget gap, finds that fare increases and service cuts on Metrorail and Metrobus are absolutely necessary, the WMATA Riders' Advisory Council prefers the following proportions and priorities for the Board's decisionmaking:

If any fare increases should be necessary, we prefer the Board implement them in the following order from least to most undesirable:

—Decreasing the transfer time among all modes from 3 to 2 hours; raising the fare differential for (rail) paper farecards; and instituting a peak-of-peak rail surcharge, which are preferable to
—Increasing late-night weekend fares (after midnight); increasing the reserved parking fee; and increasing airport bus fares (with the consideration that steps be taken to protect airport workers), which are preferable to
—Increasing bicycle locker rental fees; increasing general parking fees; and increasing express bus fares for non-airport buses, which are preferable to
—Increasing the SmarTrip fare differential on bus, which is preferable to
—Increasing base bus fare along with an increased transfer discount, which is preferable to
—Increasing regular (rush hour) rail fare, which is preferable to
—Increasing reduced (off-peak/weekend) rail fare, which is preferable to
—Any special event fares on rail; peak fare surcharges on crowded bus routes; and increasing base bus fare without increasing the transfer discount, which are preferable to
—Reducing the age at which children ride free, from under 5 years of age to under three years of age.

If any service cuts to Metrorail should be necessary, we prefer the Board implement them in the following order from least to most undesirable:

—Modifying headways and train lengths on four holidays: Columbus Day, Veterans' Day, Martin Luther King's Birthday and Presidents' Day; Restructuring peak service on the Red Line to have 3 min headways from Grosvenor to Silver Spring and 6 min from Silver Spring to Glenmont and Grosvenor to Shady Grove; and early morning weekday headway widening, which are preferable to
—Closing station entrances or mezzanine levels (after a full and transparent review of safety and security issues these closures may cause), which are preferable to
—Weekend headway widening, which is preferable to
—Late night headway widening, which is preferable to
—A later weekday opening time at 5:30 a.m., which is preferable to
—A later weekend opening time at 8 a.m., which is preferable to
—Earlier weekend closing times; and weekend station closures, which are preferable to
—Elimination of peak 8-car trains; elimination of Yellow Line service to Fort Totten off-peak/weekends; and elimination of Yellow Line service after 9:30 p.m. and on weekends except for a rail shuttle between King Street—Huntington.

If any service cuts to Metrobus should be necessary, we prefer the Board implement them in the following order from least to most undesirable:

—Reducing and eliminating bus stops after a full and transparent review of cost, safety and security measures that these changes may cause; and reductions in holiday service, which are preferable to
—Eliminating of line segments/local overlap, which is preferable to
—Peak-period headway widening, which is preferable to
—Weekend headway widening; and off-peak weekday headway widening.

We strongly recommend that any proposals to eliminate entire bus lines, weekend routes or service, or late-night (after midnight) trips be examined on a case-by-case basis and give consideration to distance and accessibility of alternative route service during peak and off-peak times and route efficiency metrics.

Additionally, we suggest the Board find a middle-ground on many of the aforementioned fare and service changes. Rather than focusing a disproportionate level of service cuts or fare increases on one sector of Metro riders, if any are necessary, we strongly prefer a moderate slate of cuts and increases that is spread more evenly across the entire ridership base.

If the Board must make fare increases and service cuts, we prefer that service cuts represent a very small percentage compared to fare increases. As noted above, we hope that increased jurisdictional contributions and other savings measures can reduce as much as possible the need for fare increase or service cuts.

As you well know, Metro is our communal responsibility. We all reap the benefits when we commute to work, attend cultural events, and visit friends throughout the region. It is this Council's sincerest desire to work with the Board to find more stable funding solutions so that a budget situation such as this one never happens again.

If you have questions about our proposal or would like to discuss this matter further, please contact myself or Carl Seip, Chairman of the Committee on the Budget, through John Pasek in the Office of the Board Secretary.

Sincerely,

FRANCIS DEBERARDO,
Chair.

Senator MIKULSKI. Well, thank you.

WORKER SAFETY

Before I get to kind of the rider questions, I would like to go to Ms. Jeter, if I may? I have been disturbed about so many things. First of all, the accidents themselves, the scathing FTA report, the Gunn report, the things that you have all referenced. But the very poignant tale of Mrs. Jeffrey Garrard, who called to share her safety concerns, and when she said that their solution was have a video and hand out hard hats. That there was no backup camera on the maintenance truck, the backup sound and lights were disconnected, and Metro didn't have floodlights.

You know, a safe Metro has to ensure the safety of the workers to ensure the safety of the riders. Do you feel that safety has improved for your workers? Do these patterns continue to persist? Or do you feel that steps are being made, and what steps do you see being made?

Ms. JETER. I can only say that I hear, just like you do, that steps are being taken. I am sure that Mr. Sarles has tackled those things that are right in front of his face. Unfortunately, I think that it is so entrenched that it is going to take—I have been disappointed for the last year almost. It has been almost a year now that nothing concrete other than testing, and I forget what it is called, but it is the test that they use to see whether or not they are going to have a circuit to fail, is the only safety measure that has taken place.

We have known ever since this accident has occurred, and I have talked to not only Garrard's wife, but I also talked to Jeanice McMillan's mother, and I have to tell her that your daughter was an angel because although she died, she brought out a lot of issues that were here, entrenched at WMATA, and we have been able to look at them full faced. And hopefully, we will find a solution for them.

But I am disappointed because I keep hearing talk, but I don't really hear the "do."

Senator MIKULSKI. Well, what about the safety and the safety training and the safety officer?

Ms. JETER. I am looking forward to seeing that. I would like to see it right now. And I know for the last couple of weeks, I have been getting reports of safety committee meetings that have been taking place.

And because the union, too, has said, okay, we have to step up our safety efforts, and we have to be the ones that are going after incidents or things that are being told to us by the members, there has been a butting of heads, so to speak, because it seems like in those safety meetings, there is a plan of action that the management comes in with, and the workers want to talk about things that are actually happening out on the line, and they seem to be butting heads. So I have to look into that and find out what is going on because, to me, that is not going to resolve.

Senator MIKULSKI. Well, it seems to be that there needs to be a mechanism of communication between labor and management. In your testimony, you talked about relying on the Joint Labor-Management Safety Committee to address issues. Does that exist, and does it function?

Ms. JETER. It exists. We haven't met as that particular committee for a while. Actually, I got a letter from Mr. Sarles this morning, and one of the things that has happened, even though we weren't meeting, when Chief Taborn was acting as the safety officer, he included that committee in with the WMATA Executive Leadership Team [ELT] committee.

And after I attended a couple of the meetings, I am still trying to grapple how they function. But I am not so sure whether or not we should do that. But I am willing to see if it will work.

Senator MIKULSKI. Again, I am not the manager of WMATA, but I believe it is in the best interest of the functionality of the system that labor and management have a regular systematic way of communicating. That it be a regular system. That the top union officials have a chance to talk to the top Metro management to bring issues of concern. That it is regular and that they are systematic and that it have a formalized agenda.

This is not about contract negotiations. This is about problem solving.

Ms. JETER. Right.

Senator MIKULSKI. Does such a mechanism exist now? You are the head of the union.

Ms. JETER. I know. I will say, yes, it does because—I will say, yes, it exists, but it is not functioning properly. I will have to say it that way.

Senator MIKULSKI. Well, why doesn't it function properly? Does it meet on a regular basis?

Ms. JETER. The ELT committee does meet. I don't—I have a problem with actually including the two. I think we are going in two different directions. The union's position where safety is concerned is sometimes not at the same place that this ELT committee is.

Senator MIKULSKI. I understand that, but I am going to get lost in this committee. I mean a subcommittee and this subcommittee's name and so on. I am an outcome gal. So my outcome is this. What does it take to have labor and management meet on a regular basis, to have regular communication of things of mutual concern?

Ms. JETER. Mr. Sarles and I have spoken of that. We have both said that we are going to meet regularly with one another, and because of his answer to my letter this morning, concerning the Joint Labor-Management Committee, I will talk to him about that because——

Senator MIKULSKI. So, as of now, almost 11 months since the accident, there is no joint regular systematic, joint mechanism of communication?

Ms. JETER. The Joint Labor-Management Committee that was there, we stopped meeting when Alexa Samuels was the head. We stopped meeting. And we have had maybe one meeting. I think we had one meeting in February.

Senator MIKULSKI. Okay, let us stop. Mr. Sarles, what do you think? Do you think we can get something going here?

Mr. SARLES. Absolutely. In fact, inside of that first 2 weeks, I met with Jackie, and we personally are going to meet about once a month to go over safety concerns, besides what is going on in the organization.

Senator MIKULSKI. There has to be exactly this. You might have one view of what the safety issue is. They might be experiencing operational difficulty, and they are the ones on the line. They might know things you don't know or technology doesn't reveal or hasn't come up the chain of command. Or in the same way, if you are looking to approve it, get greater cooperation, suggestions on a variety of things, you need to have the assistance of the union. It is in their interest that everything be safe.

Ms. JETER. That is correct.

Senator MIKULSKI. Because they are the first to experience any breakdowns for not only such a horrific thing as death, but also injury, even if it is temporary injury, you know? So I am going to hope that what comes out of this hearing and some of the correspondence recently is that there is a regular way of communicating.

Ms. JETER. We will make that happen.

Senator MIKULSKI. Okay?

Ms. JETER. Yes.

RIDER SAFETY

Senator MIKULSKI. I will come back to some of the other issues. I would like to get to the riders for a minute now.

So, tell me, using an old Ronald Reagan phrase, my good friend Ronald Reagan, when he said, "Are you better off now than you were 4 years ago?" Do you remember that famous question?

Do you think that Metro is more of a safe place now than it was on June 22, 2009? Do you think that there have been improvements that you experience? And I raise that to both of you.

Mr. CORBETT. In my judgment, yes. We don't have the day-to-day experience that Ms. Jeter has with her members, but if one listens to the WMATA board meetings, you hear more of a concern about safety now than you did a year ago. It was embarrassing to me to hear that a WMATA board member said I've been a board member for 12 years, and I have never heard of this Tri-State Operating Committee. That was about a year ago.

It is much different now. The board members are much more attuned to safety, and we think at least in terms of that verbal level, which is all we can respond to, it is much better than it was then.

Senator MIKULSKI. Would you want to add or elaborate on that?

Mr. CORBETT. I am sorry?

Senator MIKULSKI. So you feel that there is progress and momentum, but more needs to be done as you recommend in your excellent testimony?

Mr. CORBETT. There is—thank you. We really are awaiting the results of the National Transportation Safety Board to see what WMATA does to those. Those could be very costly recommendations, and how they respond to those is going to be a very good signal as to whether the jurisdictions can come up with the money to address the NTSB concerns.

Senator MIKULSKI. Well, it will be my intention that when the NTSB makes their recommendations that we have a public discussion of that. In other words, what are they recommending? What was the rationale behind those recommendations? Then, to get a sense of what it would take to implement it other than budgetary and managerially.

Mr. DeBernardo?

Mr. DEBERNARDO. I would concur with Mr. Corbett. I think that there is definitely a renewed sense of urgency about the safety issue, and I am very optimistic that Mr. Sarles's new program of reporting vital signs of Metro will be very helpful for riders.

Senator MIKULSKI. Now to your Vital Signs, which we think is terrific, so the Vital Signs is the way that the riders can communicate, in addition to your official board capacity. Am I correct?

Mr. DEBERNARDO. We are advisory to the board, yes.

Senator MIKULSKI. So that is, and do you have regular systematic meetings where you can bring rider concerns to the board?

Mr. DEBERNARDO. Yes, we do monthly meetings.

Senator MIKULSKI. So you have a regular monthly meeting?

Mr. DEBERNARDO. Right. And we are hoping that with the Vital Signs report, when that comes out, it will give us a basis for discussion with the board and with the management at Metro.

Senator MIKULSKI. Now you said in your testimony extolling the virtues of Vital Signs, you talked about measurement, which is what I talked about in my opening remarks and some of the questions to the WMATA leadership. You said nothing gets acted on unless it is measured or that which is measured——

Mr. DEBERNARDO. That which is measured gets done.

Senator MIKULSKI. Yes. So what did you mean by that? And what would you recommend, for our information, but also to the leadership, that really needs to be measured?

Mr. DEBERNARDO. Well, in terms of reliability, things like on-time service and frequency of buses and breakdowns of buses and trains. At present, with our Riders' Advisory Council, we are based a lot on anecdotal evidence, and I think that these Vital Signs, by measuring, by having a measurement, will give us better ways of discussing improvements.

Senator MIKULSKI. So rather than somebody saying, oh, I feel hot or I feel dizzy.

Mr. DEBERNARDO. Right.

Senator MIKULSKI. I have pains in my arm, you take the blood pressure and so on, and you actually get vital signs about, are you okay? Are you heading for a problem?

Mr. DEBERNARDO. Right. And is it a real problem? How extensive is the problem? Is it a problem that by looking at the Vital Signs, we can often look at the causes of the problem as well.

Senator MIKULSKI. Well, we get this anecdotal information too. I will speak for myself, and I know that Senator Cardin gets it too. We have talked about it. We hear about out-of-service escalators and elevators. That is a top favorite, as well as closed entrances and exits and train delays. Also, no communication about what is going on when trains break down.

Lots of loud announcements that you really can't hear. In other words, it is so loud that you can't hear it. You can't decipher it. I am not talking about aging people or someone, just regular folks. Then they also say, "I don't know. I don't have a number to call. So I called you." Sometimes they call me a lot of things.

Not only me, but we could talk about Congresswoman Norton, my colleagues Webb and Warner, and the House Members. Riders call us because we are visible, and we have publicly disclosed numbers.

So do you feel that riders have a number to call if they have a problem or an e-mail address that they can send concerns?

Mr. DEBERNARDO. Yes. I think there are many avenues at Metro for—I don't think all the time that the riders themselves are aware of the many avenues, but I can tell you that since I joined the Riders' Advisory Council about a year and a half ago, I was made aware of many more opportunities for addressing problems than I knew existed.

Senator MIKULSKI. What about you, Mr. Corbett?

Mr. CORBETT. Can I be a negative voice on that?

Senator MIKULSKI. Sure.

Mr. CORBETT. When people don't call you, they call us. And quite often, we get very irritable people who have tried to send in a complaint to the WMATA complaint system, and it is very bureaucratic. They give you a number, and I am not sure that the service really improves. I think they need more manpower on that issue.

Second, we divide between really important and nice to have. Whether there is too much noise in the system—that is nice to have. But if the escalator is broken and a heavyset person has got to walk up 123 steps, that is a safety item. So we try to divide those between nice to have and really important.

And I think, frankly, in this coming year under Mr. Sarles's leadership and that of Mr. Benjamin, if they can work on the got to have safety items, we would be happy with that, and we will give them extra time on the nice to have items.

Senator MIKULSKI. Well, it is the way I work, even when we do appropriations. I have a must do, should do, and would like to do list. The must dos have to get done. Then we go to the should dos.

So what you are saying is have the must dos and should dos and that would go a long way?

Mr. CORBETT. Yes.

Senator MIKULSKI. Is that correct?

Mr. CORBETT. That is correct.

WMATA BOARD APPOINTMENTS

Senator MIKULSKI. But one of your points, though, is the GSA has got to get cracking on these two other Federal board appointments?

Mr. CORBETT. Yes, speaking very frankly—and you invited us to speak frankly—the members of the board from the jurisdictions, they are somewhat protective of their jurisdictions. If they don't have money, they don't recommend things that they know are needed. Having the two Federal appointees already is opening up that process a little bit, but we think that the other two appointees should be appointed soon. One of them should be a designated rider representative.

And we think they can help to open up the board so that some pressure can be put on the jurisdictions to come up with additional money for additional capacity.

Senator MIKULSKI. Well, let me say what I am going to do in this testimony here, because Ms. Jeter also had recommendations for the board, we are going to take your recommendations and send them on to GSA. Because you have made recommendations, and you also have your underpinnings as to why you feel that the characteristics you are recommending would improve safety and operational reliability.

We are going to say this is who we heard from. The people who use the system, the people who work on the system, and the people who are going to count on a board that—particularly when its Federal partners—brings some assets to the table themselves. So we would like to bring your recommendations to GSA and to tell GSA kind of get moving on it. Isn't that what you are saying? Get moving on it?

Mr. CORBETT. Yes. Yes.

WHISTLEBLOWER PROTECTION

Senator MIKULSKI. Let us go to Ms. Jeter. The one thing that came out in both the Gunn report and also in your testimony is the whistleblower situation.

Ms. JETER. Yes.

Senator MIKULSKI. Also the "kill the messenger" problem, where it is difficult at times to speak freely because you are concerned about some form of retaliation.

Ms. JETER. Right.

Senator MIKULSKI. Do you feel that the climate toward whistleblowers has improved?

Ms. JETER. It hasn't improved because the employees who would utilize that type of system don't know that it even exists. I don't believe that there is a climate at WMATA to embrace that type of activity among the employees.

I can tell you, even the incident that has been given so much public attention—the incident at Wheaton—when I spoke to the operator of the train, his first, initial response to me was "I didn't want to put it on the air. So I used the ETS box because I didn't want them to feel like I was trying to make a big deal." And that, to me, is the climate that is surrounding the members of the local that I represent.

Some people might shrug it off and say it is normal paranoia that a lot of American citizens have these days. But for the most part, you probably will not find that many individuals reporting certain incidents because they don't believe—either they don't believe that WMATA is going to take care of them, or that in some type of way, they are going to be retaliated against for giving the information.

And I give you another example, the IG had a setting where she went in to talk to employees, and one of the people that was there was one of the shop stewards that I have, and the shop steward informed me that during that meeting, people did not want to speak up freely, even though the IG said, "Nothing is going to happen to you. I want you to speak up freely to me." She said most of them did not.

A lot of conversation happened after the meeting, but not during the meeting.

Senator MIKULSKI. Well, we will take a look at how to strengthen the whistleblower legal provisions. But I would strongly recommend in the interim, people who have those concerns bring it to those that they elected to represent them in the workplace. Since we are now going to have a labor-management organized and systematic way of communicating. You can then, if necessary, preserve their anonymity, or whatever.

I am a big believer in people being able to come forward, and lots of times, the ability to come forward could save a life or help someone from being hurt or maimed. We need to be able to have that communication.

The fact we have got so many things going for us, I mean, we have a system that really people like and use. I mean, that is one of the things, when I read the papers and follow the news on the public hearings, people really like WMATA, and they really want to use it, and they are willing to pay for it out of their own pocket.

There are days that they function in heroic fashion that I believe it was Mr. Benjamin that spoke about and I have spoken about 9/11. That the subway system helped Washington evacuate in a safe, orderly and non-panicked way. The performance during the Obama administration and then even during the rocking-rolling times of the recent snow situation, which bordered on almost a natural disaster. I mean, it was a slow version of a hurricane.

So we have got a lot going for the system, and I think we can feel proud of the people who work there. Efforts have been made. I think there are certain things that have been falling. So we want to build on the asset. The most important asset that WMATA has that we can directly impact upon is the workers and getting them the ability to communicate and come forward and be able to do that.

FEDERAL FUNDING AND OVERSIGHT

The other is, I will really say, that WMATA does need reliable revenue streams. You could have the will, but if you don't have the wallet, it is very difficult to fix these things.

I think we have identified a couple of things today. One, we continue to support the Federal share. In supporting the Federal share, we really do want to insist on maintenance of effort from the

States and locals. I think we also have identified an area where the Federal Government has created a mandate, and it is an appropriate mandate. It is a very important tool to ensure people's physical and economic independence. If you can't get to work, even if you have had the best rehab, or keep your doctor's appointment, but there needs to be a way then to consider how at the national level to be able to do that.

I also believe that we need to pass not only the President's budget, but I think we need to pass what the President is recommending in rail reform, giving FTA more authority. I have got my own bill, along with Senator Cardin and others, to do that.

So I think we have got our own reform efforts. I will say what I said. We all have to feel we are in this together. So this isn't about finger pointing and so on, rather that we all have to take ownership for the safety offices.

WITNESS RECOMMENDATIONS

So before I wrap up, I am going to ask each and every one of you, is there anything else you want to say: a recommendation; an observation; or an insight that you would like to share for the official record. This is an official congressional hearing. There is going to be an official congressional record of this. We can go down the row.

Ms. JETER. Well, I know that I put everything, even the things that I did not read, in my testimony, and I can say on behalf of the members of Local 689, we support those acts or those bills that you are trying to pass. And so, we will do whatever we can to make sure that that happens.

Senator MIKULSKI. Thank you.

Mr. CORBETT. Senator, we very much appreciate this hearing and you listening to riders' views. The one other item I would like to suggest for the Congress is to consider extending what is called the "transit commute." In the economic stimulus bill, the employer discount that is for $230 a month is going to automatically reduce to $115 at the end of this calendar year unless some vehicle of the Senate Finance Committee doesn't fix that item up.

And to keep people out of their cars and benefiting from the parking subsidy, we think having the transit have equal weight would be very helpful, and this Congress could do that this year.

Senator MIKULSKI. Thank you.

Mr. CORBETT. Thank you.

Senator MIKULSKI. Very good idea.

Mr. DEBERNARDO. And finally, I would just like to say that we know of your concern, and we appreciate it. And we are glad that we are working together to improve Metro.

Senator MIKULSKI. Well, as citizen activists and civic engagement, I know that, for example, Ms. Jeter is the official union representative and does a very good job at it, but she does a lot like you, both of you on your own time and on your own dime. But you know, I think this is what is different from our country. I mean, we have got to be able to get together, put it out on the table, speak uncensored and unfettered, and let us solve some of these problems.

We really thank you for your insights. This concludes our hearing, and I wish to state for my colleagues and for the record, we will leave the record open for additional questions.

I know Senator Murray has an extensive set of questions. Senator Bond, who is the ranking member, also tied up on the financial security, could have extensive questions as well, those will be really for the WMATA leadership. With that, the hearing is recessed.

CONCLUSION OF HEARINGS

This subcommittee will hold its next hearing on May 20. It will turn its attention to its housing portfolio, when Senator Murray will hold a hearing on the progress being made to end the homelessness among veterans because this does have the homeless portfolio. To think that you have housing when you fight over there, but you don't have it when you come back here is a national disgrace. So she will be holding a hearing on that.

We thank you for your participation and the subcommittee is recessed.

[Whereupon, at 5:49 p.m., Wednesday, May 19, 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 2011

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

NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—At the direction of the subcommittee chairman, the following statements received by the subcommittee are made part of the hearing record on the Fiscal Year 2011 Transportation and Housing and Urban Development, and Related Agencies Appropriations Act.]

PREPARED STATEMENT OF THE COALITION OF NORTHEASTERN GOVERNORS

The Coalition of Northeastern Governors (CONEG) is pleased to share with the Subcommittee on Transportation, Housing and Urban Development, and Related Agencies this testimony on fiscal year 2011 appropriations for transportation and community development programs. The CONEG Governors deeply appreciate the subcommittee's longstanding support of funding for the Nation's highway, transit, and rail systems and critical community development programs, including the incorporation of transportation and community development funding in last year's comprehensive American Recovery and Reinvestment Act (ARRA). The welcomed infusion of those flexible funds allowed States and local governments to advance many needed projects. The overwhelming response, particularly to the intercity passenger rail and multi-modal grant funds, also demonstrated the diverse and enormous needs for investment in an integrated national transportation system that supports a competitive economy, livable communities, and sound use of energy and environmental resources. Those needs continue to confront all of us—Federal, State and local governments and the private sector.

We recognize that the subcommittee continues to face a very difficult set of fiscal challenges and interlocking issues in crafting the fiscal year 2011 appropriations measure. The slowly recovering economy exacerbates the shortfall in the Highway Trust Fund even as it generates greater demand for public transportation and intercity passenger rail services. The ongoing national debate on the surface transportation authorization and funding framework to guide highway and transit programs remains unresolved. Interest is growing in new approaches to funding, restructuring and financing highway and transit programs, and creating livable communities, yet many of these approaches are not authorized. In spite of these challenges, we urge the subcommittee to continue the strong Federal partnership so vital for a national, integrated, multi-modal transportation system. This network underpins the competitiveness of the Nation's economy, broadens employment opportunities, and contributes to the efficient, safe, environmentally sound, and energy smart movement of people and goods.

TRANSPORTATION

Surface Transportation

The CONEG Governors urge the subcommittee to fund the combined highway, public transit, and safety programs at levels greater than the fiscal year 2010 appropriations. This higher level of Federal investment is necessary to sustain the progress made under the most recent authorization to improve the condition and safety of the Nation's highways, bridges, and transit systems. Attention is also needed to address the recurring shortfall in the Highway Account of the Highway Trust Fund.

Continued and substantial Federal investment in these infrastructure improvements—in urban, suburban, exurban, and rural areas—is necessary to safely and efficiently move people and products and to support the substantial growth in freight movement projected in the coming decades. The Federal Government has invested significant resources in the Nation's transportation system, and has a continuing responsibility to maintain and expand its transportation infrastructure to keep America competitive in a global economy.

Specifically, the CONEG Governors urge the Subcommittee to:

—Increase the Federal aid highway obligation over the fiscal year 2010 appropriated level;

—Increase public transit funding over the fiscal year 2010 appropriated levels, including full funding for the current Formula and Bus Grants, the Capital Investment Grants, and the Small Starts programs; and

—Ensure that these funds are provided to the States in a timely manner.

Rail

The Governors deeply appreciate the subcommittee's strong support for intercity passenger rail, through the commitment of ARRA funds and the fiscal year 2010 appropriations levels. The overwhelming response to the initial AARA funds demonstrated the pent-up interest in investments to expand and improve intercity passenger rail service across the Nation. Now, new policy, program and funding frameworks for a vastly improved and expanded national intercity passenger rail system are taking shape under the guidance of the Passenger Rail Investment and Improvement Act (PRIIA), the High Speed Intercity Passenger Rail Vision and Strategic Guidance, the Preliminary National Rail Plan, and Amtrak's Comprehensive Business Plan.

The administration, States, Amtrak and freight railroads worked intensely over the past year to respond to the new intercity passenger rail program and funding requirements. Those efforts are now showing results as the Federal Railroad Administration (FRA) prepares to release the first awards under ARRA; the States begin submitting applications for the fiscal year 2010 corridor planning and capital funds; and the administration prepares the National Rail Plan.

The ability of States, FRA and Amtrak to realize opportunities for service expansion and ridership growth in corridors across the country will depend upon a substantial and on-going Federal capital investment in infrastructure, equipment, and safety. These investments in "state of good repair," capacity, and safety improvements are essential for the accessible, reliable, frequent and on-time service that attracts and retains ridership. In addition, the Federal Railroad Administration will need adequate funding and staffing resources to carry out its expanded responsibilities for intercity passenger rail grant programs and related studies in a timely manner.

Amtrak.—The CONEG Governors request that the subcommittee provide at least the authorized level of $1.927 billion in fiscal year 2011 Federal funding for Amtrak, with specific funding levels provided for operations, capital, debt service, and the Amtrak Office of Inspector General. Additional capital resources are needed if Amtrak is to initiate its fleet program in a timely manner. A balanced program of adequate, sustained capital investment in infrastructure (including stations) and fleet modernization and expansion is vital for an efficient intercity passenger rail system that provides reliable, safe, quality services that attract and retain riders.

A funding level of $1.025 billion in fiscal year 2011 for capital improvements is critically needed for the "state of good repair" improvements to aging infrastructure and safety improvements on Amtrak-owned infrastructure and equipment. Even at its requested level, Amtrak expects that the backlog of deferred investments (currently estimated at approximately $5.5 billion) will continue to increase. For example, Amtrak estimates that $700 million is needed annually just on the Northeast corridor (NEC) main line and branch lines for normalized replacement of assets and progress on reducing the backlog of deferred investment. This level of capital investment is vital to Amtrak's ability to deliver efficient, reliable, quality service nationwide. We particularly encourage the subcommittee to ensure that Amtrak can continue bridge repair projects underway on the Northeast corridor, as well as the system-wide security upgrades and the life-safety work in the New York, Baltimore, and Washington, DC tunnels.

Amtrak has also identified $446 million as the level of investment needed in fiscal year 2011 to begin executing its multiyear fleet plan. Timely action on a systematic plan to replace aging equipment used throughout the intercity passenger rail system can help modernize the current Amtrak fleet; offer the prospect of more efficient procurement by Amtrak and by States supporting corridor services; and help stimulate the growth of the domestic rail manufacturing sector.

Intercity Passenger Rail Corridors.—The CONEG Governors also thank the subcommittee for its support of the Intercity Passenger Rail Corridor Capital Assistance Program, particularly the provision of funds for the planning activities leading to the development of passenger rail corridors, including multistate corridors. We urge the subcommittee to continue funding this critical program at least at the $2.5 billion level in fiscal year 2011. This program is an important foundation for a vibrant Federal-State partnership that will bring expanded, enhanced intercity passenger rail service to corridors across the Nation. Infrastructure and service plans for these intercity passenger rail corridors take many forms and are at different stages across the country, reflecting the diverse range of city pairs, market opportunities, and travel time needs. Therefore, we urge that these grant funds be available to States to advance plans for reliable, frequent and travel-time competitive service and corridors, regardless of maximum speed requirements. In light of the stringent FRA requirements regarding funding criteria for intercity passenger rail grants, we also request that the subcommittee waive the current statutory requirement that projects be part of an approved State rail plan, since this requirement might curtail thoughtful and well advanced efforts already underway by the States.

Northeast Corridor Infrastructure and Operations Advisory Commission.—The Governors thank the subcommittee for providing funding for the Northeast Corridor Infrastructure and Operations Advisory Commission (Commission) in fiscal year 2010. The NEC Governors have named their representatives to the Commission, and are eager to see it organized and begin its important work. The Commission is uniquely designed to encourage mutual cooperation and planning among all three parties for intercity, commuter and freight use of the Corridor—and to also maximize the economic growth and the energy and environmental benefits of the larger regional NEC Network.

The Commission has extensive responsibilities to set corridor-wide policy goals and recommendations that encompass passenger rail mobility, intermodal connections to highways and airports, energy consumption, air quality improvements, and local and regional economic development of the entire northeast region. The Commission is expected to play a central role in providing guidance to the Vision and service development plans that are a pre-requisite for the NEC to seek corridor-level funds under the newly emerging Federal framework for intercity passenger rail. To conduct the required assessments in a timely manner, the Commission will need resources, data and expert analysis that exceed that which is currently available through the staff of the States, Amtrak and FRA. Continued funding in fiscal year 2011 will ensure the Commission's ability to secure all essential resources for conducting these assessments.

Other Programs.—A number of other national rail programs are important components of the evolving Federal-State-private sector partnerships to enhance passenger and freight rail across the country. In this time of uncertainty in financial markets, the Railroad Rehabilitation and Improvement Financing Program (RRIF) can be an important tool for railroads (particularly regional and small railroads) and public agencies to access the financing needed for critical infrastructure and intermodal projects. We encourage the subcommittee to provide funding in fiscal year 2011 for the Rail Line Relocation and Improvement Program, the Next Generation Corridor Train Equipment Pool, and critical rail safety programs including deployment of positive train control and the related Nationwide Differential Global Positioning System which benefit both passenger rail and freight rail systems. In addition, funding for the Advanced Technology Locomotive Grant Pilot Program, created in section 1111 of the Energy Independence and Security Act of 2007, would be an important first step to assist the railroads and State and local governments in a transition to energy-efficient and environmentally friendly locomotives for freight and passenger railroad systems.

The CONEG Governors also request funding for the Surface Transportation Board (STB) at least at the fiscal year 2010 level of $29 million, including specific funding for its responsibilities under PRIIA. Adequate funding is needed for the STB to carryout its expanded responsibilities for intercity passenger rail corridor service, and to provide critical oversight as the Nation's rail system assumes increasing importance for the timely, efficient, and environmentally sound movement of people and goods across the Nation.

COMMUNITY DEVELOPMENT

The CONEG Governors urge the subcommittee to provide funding for the Community Development Block Grant (CDBG) program at least at the fiscal year 2010 level of $3.99 billion. The CDBG program enables States to provide funding for infrastructure improvement, housing programs, and projects that attract businesses to urban, suburban, exurban, and rural areas, creating new jobs and spurring economic development, growth and recovery in the Nation's low income and rural communities.

CONCLUSION

In conclusion, the CONEG Governors urge the subcommittee to:
—Increase the Federal aid highway obligation over the fiscal year 2010 appropriated level;
—Increase public transit funding over the fiscal year 2010 appropriated levels, including full funding for the current Formula and Bus Grants, the Capital Investment Grants, and the Small Starts programs;
—Fund Amtrak at least at the fiscal year 2011 authorized level of $1.927 billion, including $1.025 billion in capital for infrastructure and safety-related investments; $592 million for operations; $288 million for debt service, and $22 million for the Amtrak Office of Inspector General; and also provide funding to initiate a sustained fleet modernization program;
—Provide additional funding specifically for the Northeast Corridor Infrastructure and Operations Advisory Commission;
—Fund the Intercity Passenger Rail Service Corridor Assistance Program for corridor planning and capital investment at least at the current level of $2.5 billion;
—Provide funding for national rail programs that are important components of the evolving Federal-State-private sector partnerships to enhance passenger and freight rail across the country, such as the Rail Line Relocation and Improvement Program, the Next Generation Corridor Train Equipment Pool, and positive train control deployment and development of the related Nationwide Differential Global Positioning System;
—Provide funding for the Surface Transportation Board at least at the fiscal year 2010 appropriated level; and
—Provide at least $3.99 billion for the Community Development Block Grant Program.

The CONEG Governors thank the entire subcommittee for the opportunity to share these priorities and appreciate your consideration of these requests.

PREPARED STATEMENT OF THE NEW YORK STATE DEPARTMENT OF TRANSPORTATION

The New York State Department of Transportation (NYSDOT) appreciates the opportunity to present testimony on the fiscal year 2011 transportation appropriations.

Most people don't realize how vast New York's transportation system really is. Indeed, our State and local highway system supports more than 130 billion vehicle miles of travel annually. The total system in New York encompasses more than 114,000 miles of highway and more than 17,400 bridges. New York also is home to a 3,565-mile intercity rail network over which more than 1.5 million passengers travel and more than 74 million tons of equipment, raw materials, manufactured goods and produce are shipped each year. New York also has 485 public and private aviation facilities through which more than 80 million people travel each year, and we have oversight of many of New York State's ports. Finally, we support more than 130 public transit operators, serving more than 8 million passengers each day.

We must recognize that New York State and 47 other States in the Nation continue to face significant economic challenges. New York is currently facing a deficit of more than $9 billion in State fiscal year 2010–2011 and a long-term structural deficit of $60.8 billion over the next 5 years.

Since taking office in 2008, Governor Paterson has continually warned that New York State is in the midst of an unprecedented economic crisis. The losses in the financial, insurance and real estate sectors, which have been hit the hardest, have had a devastating impact on our State revenues. Prior to the current recession, financial services alone provided more than 20 percent of our State revenues. The Governor's actions have helped New York make substantial progress toward putting the State's fiscal house in order. That does not change the fact that the process of addressing a financial challenge of this magnitude has been, and remains, a long and difficult one.

Just 1 year ago, Congress passed the American Reinvestment and Recovery Act (ARRA). The Recovery Act provided a one-time boost in funding to allow New York to create jobs to spur the economy and make progress on addressing transportation deficiencies. Here are some early results:

—Eighty-two ARRA projects, valued at $80 million have been completed.

—Another 328 ARRA projects, valued at almost $803 million, are under construction by the private sector throughout New York State.

—Project selections were made collaboratively within the Metropolitan Planning Organizations (MPOs) for 80 percent of the projects.

—Fifty-seven percent of the highway and bridge funds have gone to locally sponsored projects. In fact, every county in New York State has received Economic Recovery funding for transportation projects.

—Fifty-five percent of the projects administered under the program are in economically distressed areas.

—As of March 15, 2010, $146 million, or approximately 15 percent of New York's Highway Recovery Act funding has been made available to Disadvantaged and Minority- and Women-Owned Small Businesses.

The Federal Economic Recovery funding was certainly needed and we are very grateful to Congress for the opportunity it provided to invest in our transportation system. This infusion of Federal aid provided a one-time boost to our highway and transit funding.

But if we are to maintain the benefits from this one-shot of investment and job creation provided by the Recovery Act, we need continued and increasing Federal and State investment in our transportation infrastructure to meet our growing system, mobility, infrastructure, safety, congestion and service needs.

In developing the fiscal year 2011 transportation appropriations legislation, we ask that you consider and endorse the following:

PROVIDE MODEST INCREASES TO TRANSPORTATION PROGRAMS AWAITING REAUTHORIZATION

New York urges Congress to provide modest funding increases for those transportation programs that are awaiting reauthorization: highways, transit, highway safety and aviation.

At a minimum, Congress should provide the level of funding proposed in the President's budget:

—$41.3 billion for highways, which would provide an increase over fiscal year 2010 levels ($41.1 billion).

—$10.8 billion for Transit, a slight increase over fiscal year 2010 levels.

—$3.5 billion for the Airport Improvement Program, sustaining the level of funding the program has received since authorizing legislation expired.

New York is especially pleased that the President proposes a 32 percent increase in the Next Generation Air Traffic Control System, providing $1.14 billion to upgrade the Nation's air traffic control system. Implementing state-of-the-art technology is crucial to the redesign of the severely congested New York City airspace.

FULLY FUND RAIL PROGRAMS

New York urges Congress to provide rail no less than the amount authorized in Passenger Rail Investment and Improvement Act of 2008 (PRIIA).

The President's budget proposal calls for a $1 billion allocation for the High-Speed and Intercity Passenger Rail program. Although this amount is higher than the $350 million authorized in PRIIA, it is a reduction from last year's $2.5 billion. Amtrak funding would include $1.052 billion for capital grants, up from $1.002 this year, and $563 million for operating grants, a continuation of the current level.

The passage of PRIIA and ARRA provided the first significant level of Federal support for intercity passenger rail investment in 100 years. The nationwide response has been overwhelming. Applications valued at $57 billion were submitted for $8 billion in ARRA funds last year. The $2.5 billion provided in fiscal year 2010 will help States continue to improve intercity passenger rail service. New York urges Congress to support the President's budget request for rail in fiscal year 2011.

MAINTAIN EXISTING TRANSIT PROGRAM STRUCTURE

New York urges Congress to maintain the existing Fixed Guideway Modernization program and Bus and Bus Discretionary program as separate transit programs until a full and productive discussion of the state-of-good-repair of our transit system occurs in connection with surface transportation reauthorization.

New York supports the Federal Transit Administration's (FTA) reinvigorated emphasis on ensuring that the Nation's transportation infrastructure reaches a state-of-good-repair. However, to achieve this goal, the administration, in its fiscal year 2011 budget, proposes to merge the separate formula-based section 5309 Fixed Guideway Modernization Program and the section 5309 discretionary-based Bus and Bus Facilities into a single new "Bus and Rail State of Good Repair Program." While New York welcomes a full and productive conversation on a needs-based approach to addressing state-of-good-repair, the administration's proposal is too short on detail and FTA has not worked with transit stakeholders on a new process for apportioning program funds. As such, New York respectfully requests that Congress not address structural proposals through the appropriations process. We cannot afford any delay in our State's efforts to maintain and modernize our existing facilities while the details of such a new program are developed.

NYSDOT thanks you for this opportunity to present testimony. We appreciate your dedication to and support of the Nation's transportation systems.

Prepared Statement of the Illinois Department of Transportation

Madam Chairman and members of the subcommittee, we appreciate the opportunity to submit testimony concerning the Federal fiscal year 2011 U.S. Department of Transportation (U.S. DOT) appropriations on behalf of the Illinois Department of Transportation (IDOT) to the Senate Appropriations Subcommittee on Transportation and Housing and Urban Development, and Related Agencies. We thank Senator Murray and the members of the subcommittee for their past support of a strong Federal transportation program and for taking into consideration Illinois' unique needs.

IDOT is responsible for the planning, construction, maintenance and coordination of highways, public transit, aviation, intercity passenger rail and freight rail systems in the State of Illinois. IDOT also administers traffic safety programs. Our recommendations for overall funding priorities and our requests for transportation funding for projects of special interest to Illinois are discussed below.

SAFETEA–LU REAUTHORIZATION/EXTENSION

IDOT recognizes that Congress must vault over numerous hurdles before it can unite around a long-term surface transportation reauthorization bill that will enhance the quality of the Nation's infrastructure. While the HIRE Act provided an extension of the SAFETEA–LU programs through December 31, 2010, allowing Congress the time it needs to thoroughly craft a bill that will address the pressing issues of funding, capacity, mobility, safety, preservation, modernization, environment and other critical issues, we urge Congress to complete its work on a surface transportation reauthorization bill before the end of the HIRE Act extension. Much work has been accomplished by Congress but substantial work remains. We urge Congress to maintain the momentum it has achieved in developing a multiyear bill thus far and to continue with alacrity so that a bill can be enacted before another extension of SAFETEA–LU is required.

We recognize that the Congress has to view issues from many different angles, many of them competing, and that the end result may differ from a particular State's perspective from time to time. All that being said, provided any extension is needed for any duration of time, IDOT supports "clean" extensions of SAFETEA–LU, i.e. without any re-structuring or re-programmatic distribution of existing formula or allocated programs. Extensions that modify only selected categories of SAFETEA–LU, ex post facto, not only unnecessarily set the stage for a zero-sum game scenario wherein States are thrust into disagreement, but it also disturbs the finely tuned State equity equilibrium that was reached upon SAFETEA–LU enactment.

FULL RESTORATION OF END-OF-SAFETEA–LU RESCISSION

The recently enacted HIRE Act restored $8.7 billion in contract authority to the States that was rescinded at the conclusion of Federal fiscal year 2009 due to a mandated provision in SAFETEA–LU. While IDOT commends Congress for this prudent legislative remedy we also urge the subcommittee to pursue additional suitable monetary off-sets that will make it possible to completely nullify the impact of the rescission by restoring, to the States, the $334 million in useable ceiling that was lost to them in Equity Bonus (EB) funding. The special obligation limitation associated with the EB special contract authority was not rescinded but instead made unusable by the rescission of contract authority. Even after the restoration of the rescinded contract authority, this special limitation will not become usable since current law requires that all contract authority made available as a result of the rescission restoration is subject to the overall obligation limitation provided by an appropriations act. Perhaps, additional obligation limitation could be made available, as it was in Federal fiscal year 2008, when $1 billion in ceiling was provided (to be used with a State's existing apportionment) for projects under the Bridge Program.

As you are aware, within the rescission EB funding was withdrawn from 34 States (including Illinois). EB funds are more valuable to the States than contract authority (apportionments) because EB funds are either exempt from the obligation limitation or they come with attached obligation authority. Unfortunately, EB funds were rescinded at a time when the States were also being asked by Congress and the President to quickly spend funds provided to them from the American Recovery and Reinvestment Act of 2009 (ARRA) to invigorate the economy and preserve jobs. The need for transportation infrastructure projects to aid in the recovery of the national economy is no less critical now than it was February 17, 2009 when ARRA was enacted for that purpose. Full restoration of EB funds to the States will allow the States the opportunity to reinstate those funds with the programmed projects from which they were cut so that the economy can continue to rebound through transportation infrastructure improvements.

HIGHWAY

Highway Obligation Limitation

IDOT urges the subcommittee to set the obligation limitation for highway and highway safety programs at the highest level that can be sustained by the Highway Trust Fund/Highway Account (HTF/HA). If another SAFETEA–LU extension is needed for Federal fiscal year 2011, IDOT supports a reasonable, yet healthy, incremental increase above the obligation limitation level of $41.8 billion enacted in Federal fiscal year 2010.

IDOT supports preserving the SAFETEA–LU budgetary firewalls and guaranteed funding provisions of SAFETEA–LU, as do other transportation advocates such as the American Association of State Highway and Transportation Officials (AASHTO) and the American Road and Transportation Builders Association (ARTBA).

IDOT is aware of the implications of supporting increased transportation funding when the long-term viability of the trust fund is in question. However, it is the responsibility of IDOT to secure the Federal funding that is needed to address the immediate highway and bridge project backlogs in Illinois and to preserve Illinois' transportation system for succeeding generations. Sufficient Federal dollars are needed to fund safer transportation systems, to address environmental concerns, to offset the erosion of the construction dollar, to address crippling levels of congestion/delay and to meet the transportation demands of the future. To quote the most recent findings of the 2008 Status of the Nation's Highways, Bridges, and Transit—Conditions and Performance Report to Congress, "Although investment in system rehabilitation has increased in constant dollar terms since 1997, despite recent sharp increases in construction costs, the analysis . . . suggest that current highway investment levels are not sufficient to sustain the physical conditions of all parts of the highway system."

Federal Fiscal Year 2011 Funding Requests for Meritorious Projects

If the subcommittee finds the flexibility to fund meritorious projects in existing discretionary SAFETEA–LU categories or outside authorized categories, (Surface Transportation Priorities) IDOT requests funding for the following projects (noted throughout the testimony) for highway, Intelligent Transportation Systems (ITS), transit and rail funding:

—*Expansion of US 67*.—IDOT requests $70 million for the pre-construction and construction activities for the expansion of US 67 to a 4-lane divided expressway between Macomb and Alton, Illinois.

—*Expansion of US 51*.—IDOT requests $30 million for pre-construction and construction activities for the expansion of US 51 to a 4-lane divided expressway between Decatur and Centralia, Illinois.

—*Central to Central Avenue Connection*.—IDOT requests $10 million for a Central Avenue Bypass connecting Central through Bedford Park in Southwest Chicago.

Other IDOT highway priorities include:

—$50.0 million for additional lanes on I–80 from US 30 to US 45 in Will County;

—$58.5 million for I–57 at IL 50 Interchange and ICG Railroad in Bradley;

—$46.8 million for additional lanes on US 30 (IL 31 to US 34) in Kane/Kendall County;

—$33.0 million for highway/railroad grade separation at IL 38 & Kautz Road; and
—$16.3 million for reconstruction of US 45 (LaGrange Rd) from 131st Street to 179th Street.

Other IDOT Intelligent Transportation System Priorities:

—$1.5 million for a prototype Automated License Plate Reader for commercial vehicle enforcement; and
—$9.0 million for IntelliDrive in Illinois (fiber and wireless technology)—Readying the Rt. 66 Corridor.

TRANSIT

Transit Authorization

IDOT urges the subcommittee to fund transit programs at the highest level that can be sustained by the Highway Trust Fund/Transit Account or, at a minimum, a reasonable, yet healthy, incremental increase above the $10.7 billion obligation limitation level enacted in Federal fiscal year 2010.

—*Bus and Bus Facilities*.—IDOT and the Illinois Public Transportation Association jointly request a Federal earmark of $48.9 million ($8.7 million for downstate bus, $25.1 million for downstate facilities and $15 million for Chicago Transit Authority (CTA)/Suburban Bus Division of RTA (Pace) buses in northeastern Illinois) in Federal fiscal year 2011 section 5309 bus capital funds.

The request will provide $8.7 million for downstate Illinois transit systems to purchase up to 46 buses and paratransit vehicles to replace over-age vehicles and to comply with Federal mandates under the Americans with Disabilities Act (ADA). All of the vehicles scheduled for replacement are at or well beyond their design life. The request will also provide $25.1 million to undertake engineering, land acquisition or construction for three maintenance facilities and five transfer facilities that will enhance efficient operation of transit services.

Illinois transit systems need discretionary bus capital funds. The funding provided under SAFETEA–LU has been inadequate to meet Illinois' bus capital needs. IDOT believes that supplemental discretionary funding is needed, and justified, to support Illinois' extensive transit system. Under SAFETEA–LU, Illinois has received less than 2 percent of the combined High Priority Project (HPP) category and discretionary appropriations made available for bus and bus facilities.

Formula Grants

IDOT urges the subcommittee to set appropriations for transit formula grant programs at levels that will allow full use of the anticipated Mass Transit Account revenues. IDOT also supports the continued use of general funds to supplement transit needs. In Illinois, Northeastern Illinois Urbanized Area formula funds (section 5307) are distributed to the Regional Transportation Authority and its three service boards which provide approximately 600 million passenger trips per year. Downstate urbanized formula funds are distributed to 14 urbanized areas which provide nearly 33 million passenger trips per year.

The Rural and Small Urban formula funds (section 5311) play a vital role in meeting mobility needs in Illinois' small cities and rural areas. IDOT urges the subcommittee to continue to fund section 5311 at a healthy increment above the Federal fiscal year 2010 funding level. From the section 5311 funding increases already authorized in SAFETEA–LU, Illinois was able to expand public transportation service into counties not currently served. Due to the decrease in Federal and local funding resources for public transportation, existing statewide public transportation service levels could be jeopardized unless there is an overall increase in funding above that enacted in SAFETEA–LU.

State of Good Repair—CTA/Metra Commuter Rail (Metra)/Pace

IDOT supports the increased focus on the state of good repair needs of the Nation's transit systems. State of good repair is a high priority for all systems in the State of Illinois. In northeast Illinois there is a $2 billion annual need to keep their assets in a state of good repair and there is a $91 million annual need for downstate systems. A recent Federal Transit Administration study of the seven largest transit agencies in the country estimated that more than one-third of the study agency assets were in either marginal or poor condition. Additional resources should be directed toward preserving our existing assets. This will minimize future impacts on maintenance costs and improve safety and reliability to the entire system.

Operating Assistance

IDOT supports the continued flexible use of Federal transit capital funding for day-to-day operations. However, during these extraordinary economic times when local funding resources for public transportation have suffered, an increase or emergency Federal funding for public transportation is needed to supplement existing Federal transit funding. These emergency funds should be separate and distinct from continuing needs. This funding would ensure that vital services are continued at current service levels.

New Systems and Extensions—CTA/Metra

IDOT supports continued planning and engineering funding for existing CTA/Metra projects. Public transportation in northeastern Illinois has benefited over the years from bipartisan, and regional consensus; and, therefore, there is no particular priority for the ongoing projects. However, since Metra's Union Pacific Northwest Line and its Union Pacific West Line have completed their alternatives analysis studies and are ready for preliminary engineering, IDOT is supportive of Metra's request of $20 million for upgrades for each line.

RAIL

Amtrak Appropriation

IDOT supports Amtrak's request of $2.196 billion in funding from general funds for Federal fiscal year 2011 to cover capital costs ($1.018 billion), operating costs ($592 million), debt service costs ($305 million) and ADA costs ($281 million). Amtrak needs the full amount of their request to maintain existing nationwide operations. In addition, IDOT supports Amtrak's Federal fiscal year 2011 capital funding request for fleet planning which will require an investment of about $446 million. Amtrak needs to replace aging, obsolescent and increasingly costly rolling stock and has developed a procurement model to replace the whole of their existing fleet by 2040 at a cost of $23 billion.

In Illinois, Amtrak operates 58 trains serving approximately 4.4 million passengers annually within the Nation's passenger rail system that served 27 million passengers in Federal fiscal year 2009. It is noteworthy that Chicago's Union Station, a primary hub for Amtrak intercity service and the fourth busiest station in the Amtrak system, had boardings/alightings totaling over 3 million persons. Illinois subsidizes 28 State-sponsored trains which provide service in four corridors: Chicago-Milwaukee; Chicago-Springfield-St. Louis; Chicago-Galesburg-Quincy; and, Chicago-Champaign-Carbondale. Amtrak service in key travel corridors is an important component of Illinois' multimodal transportation network and continued Federal capital and operating support is needed.

—*CREATE Railroad Grand Crossing Connection*.—IDOT requests $25 million in Federal fiscal year 2011 for design and construction of a railroad connection between the Canadian National and Norfolk Southern Railroads at 75th Street in Chicago—also known as Grand Crossing.

High-Speed Rail

IDOT supports the administration's $1 billion request for the High-Speed and Intercity Passenger Rail program for Federal fiscal year 2011. The $8 billion in ARRA high-speed and intercity passenger grant awards provided a great first step in the building of a national system; however, a continued Federal commitment and supplemental funding is crucial to accelerate the development of a true national intercity passenger high-speed intercity rail system. IDOT also urges the subcommittee to devote special attention to the development of the next generation of intercity passenger rail equipment. Providing funding for next generation intercity rail equipment creates and preserves solid employment for skilled American workers—employment that can be truly seen as "green jobs." IDOT also urges the subcommittee to fully fund the Passenger Rail Investment and Improvement Act of 2008 (PRIIA) at its authorized levels. Likewise, IDOT supports the President's Vision For High-Speed Rail in America strategic plan released last April which promises to build a world-class network of high-speed passenger rail corridors. We believe that the funding provided under ARRA, PRIIA and in conjunction with the President's strategic plan will serve the Nation in making reasonable investments in establishing a solid foundation for high-speed rail from which the system can thrive and expand.

AVIATION

Airport Improvement Program Obligation Limitation

IDOT supports a Federal fiscal year 2011 Airport Improvement Program (AIP) obligation limitation of $4.1 billion, the same funding level in the House-passed and Senate-passed reauthorization bill. These amounts are supported by the American Association of Airport Executives and the National Association of State Aviation Officials.

IDOT continues to support a multiyear reauthorization bill with AIP funding levels that will allow full use of the anticipated Airport and Airway Trust Fund (AATF) revenues. In addition, IDOT supports the continuation of the budgetary guarantees of AIR–21 and VISION–100 protecting the use of the AATF revenues. Both the House and Senate have passed long-term authorization bills. However, it is essential that Congress enact legislation to reauthorize the AIP program. Reauthorizing the AIP program secures Federal funds for Federal fiscal year 2010 and beyond so that the States can support the future development of their State aviation infrastructure programs.

IDOT urges Congress to reauthorize the programs of the Federal Aviation Administration before, or soon thereafter the recent extension expires on April 30, 2010. Adequate AIP funding remains especially important for small, non-hub, non-primary, general aviation and reliever airports. While most large/medium hub airports have been able to raise substantial amounts of funding with Passenger Facility Charges, the smaller airports are very dependent on the Federal AIP. Airports must continue to make infrastructure improvements to safely and efficiently serve existing air traffic and the rapidly growing passenger demand. Lower AIP obligation levels translate into less Federal funds for airport projects, thereby exacerbating the existing capital project funding shortfall.

Essential Air Service Program (EAS).—IDOT supports an EAS program funded at a level that will enable the continuation of service at all current Illinois EAS points. Several Illinois airports, Decatur, Marion/Herrin and Quincy, currently receive annual EAS subsidies.

Small Community Air Service Program.—IDOT supports funding for the Small Community Air Service Development Program in Federal fiscal year 2011, at a level no less than $35 million. Illinois airports have received funding from this program in the past.

Other Non-modal IDOT Priorities

—*Height Modernization*.—IDOT requests $1.2 million to continue a newly established Height Modernization program in Illinois. This project solicitation will be requested through the Appropriations Subcommittee on Science, State, Justice, Commerce and Related Agencies.

This concludes my testimony. I understand the difficulty you face trying to provide needed increases in transportation funding. However, an adequate and well-maintained transportation system is critical to the Nation's economic prosperity and future growth. Your ongoing recognition of that fact and your support for the Nation's transportation needs are much appreciated. Again, thank you for the opportunity to discuss Illinois' Federal transportation funding concerns.

PREPARED STATEMENT OF THE AMERICAN INDIAN HIGHER EDUCATION CONSORTIUM

This statement focuses on the Department of Housing and Urban Development (HUD) and the Department of Transportation, Federal Highway Administration—Office of Civil Rights (FHWA–OCR).

On behalf of this Nation's 36 Tribal Colleges and Universities (TCUs), which compose the American Indian Higher Education Consortium (AIHEC), thank you for the opportunity to express our views and recommendations regarding the Department of Housing and Urban Development's University Partnership Program for Tribal Colleges and Universities for fiscal year 2011.

SUMMARY OF REQUESTS

Department of Housing and Urban Development (HUD).—Since fiscal year 2001, a TCU initiative has been funded and administered under the HUD-University Partnership Program. This competitive grants program enables Tribal Colleges and Universities to build, expand, renovate, and equip their facilities that are available to, and used by, their respective reservation communities. We strongly urge the subcommittee to reject the recommendation included in the President's fiscal year 2011 budget request to eliminate four separate HUD university and community assistance programs, each addressing very different community needs, and establish a homogenized University Community Fund. If all funds are competed from a single source, there is no assurance that TCUs will be served equitably, and the likelihood is that they will not be. We further request that the subcommittee support funding for the TCU Program, at a minimum of $5.435 million; the same level of funding appropriated for this separate program in fiscal year 2010. Additionally, we request that language be included to permit that a small portion of the funds appropriated may be used to provide much needed technical assistance to institutions eligible to participate in this competitive grants program.

Department of Transportation, Federal Highway Administration—Office of Civil Rights (FHWA–OCR).—Fort Peck Community College and Salish Kootenai College, both located in Montana, and members of the American Indian Higher Education Consortium, conduct Highway Construction Training Programs funded by On the Job Training/Support Services provided by FHWA–OCR. We urge the subcommittee to direct the FHWA–OCR to continue its current rate of investment in the vital programs offered by these TCUs that is designed to increase the number of American Indians, including women, that are part of the highway construction workforce in Indian Country.

BACKGROUND

Tribal Colleges and Universities are accredited by independent, regional accreditation agencies and like all institutions of higher education, must undergo stringent performance reviews on a periodic basis to retain their accreditation status. In addition to college level programming, TCUs provide essential high school completion (GED), basic remediation, job training, college preparatory courses, and adult education programs. TCUs fulfill additional roles within their respective reservation communities functioning as community centers, libraries, tribal archives, career and business centers, economic development centers, public meeting places, and child and elder care centers. Each TCU is committed to improving the lives of its students through higher education and to moving American Indians toward self-sufficiency.

Tribal Colleges and Universities provide access to higher education for American Indians and others living in some of the Nation's most rural and economically depressed areas. According to 2000 decennial census data, the annual per capita income of the U.S. population was $21,587. In contrast, the annual per capita income of Native Americans was $12,893 or about 40 percent less. In addition to serving their student populations, TCUs offer a variety of much needed community outreach programs.

These institutions, chartered by their respective tribal governments, were established in response to the recognition by tribal leaders that local, culturally based institutions are best suited to help American Indians succeed in higher education. TCUs effectively blend traditional teachings with conventional postsecondary curricula. They have developed innovative ways to address the needs of tribal populations and are overcoming long-standing barriers to success in higher education for American Indians. Since the first TCU was established on the Navajo Nation in 1968, these vital institutions have come to represent the most significant development in the history of American Indian higher education, providing access to, and promoting achievement among, students who may otherwise never have known postsecondary education success.

Despite their remarkable accomplishments, TCUs remain the most poorly funded institutions of higher education in the country. Chronic lack of adequate funds remains the most significant barrier to their expanded success. Funding for the day-to-day operating budgets of 26 reservation-based TCUs is provided under title I of the Tribally Controlled College or University Assistance Act (Public Law 95–471). Currently, the institutional operating budgets of these colleges are funded at $5,764 per Indian student—only enrolled members of a Federal recognized tribe or the biological child of a tribal member may be counted as Indian students for the purpose of determining an institution's operations funding level. Because TCUs are located on Federal trust land, States have no obligation to fund them—not even for the non-Indian State-resident students who account for approximately 20 percent of TCU enrollments. Yet, if these same students attended any other public institution in the State, the State would provide basic operating funds to the institution. While mainstream public institutions have had a foundation of stable State tax-based support, TCUs must rely on annual Federal appropriations for their day-to-day institutional operating budgets. In the almost 30 years since the Tribal College Act was initially funded, these reservation-based colleges have never received the authorized funding level for their institutional operations. In fact, they have lost ground. If you factor in inflation, the buying power of the current appropriation is $965 less per Indian student than it was when it was initially funded almost 30 years ago, when the appropriation was $2,831 per Indian student. This is not simply a matter of appropriations falling short of an authorization. It effectively impedes the TCUs from having the resources necessary to provide educational services afforded students at State-funded institutions of higher education.

Inadequate funding has left many TCUs with no choice but to continue to operate under severely distressed conditions. The need remains urgent for construction, renovation, improvement, and maintenance of key TCU facilities, such as basic and advanced science laboratories, computer labs, and increasingly important student housing, day care centers, and community service facilities. Although the situation has improved dramatically at many TCUs in the past several years, some TCUs still operate—at least partially—in donated and temporary buildings. Few have dormitories, even fewer have student health centers and only one TCU has a science research laboratory.

As a result of more than 200 years of Federal Indian policy—including policies of termination, assimilation and relocation—many reservation residents live in conditions of poverty comparable to that found in Third World nations. Through the efforts of TCUs, American Indian communities are availing themselves of resources needed to foster responsible, productive, and self-reliant citizens.

JUSTIFICATIONS

Department of Housing and Urban Development

The HUD–TCU program, funded and administered under the Department's University Partnership Program, is a competitive grants program that enables TCUs to expand their roles and efficacy in addressing development and revitalization needs in their respective communities. No academic or student support projects are funded through this program; rather, funding is available only for community based outreach and service programs at TCUs. Through this program, some Tribal Colleges have been able to build or enhance child care centers and social service offices; help revitalize tribal housing; establish and expand small business development; and enhance vitally-needed library services. Unfortunately, not all of the TCUs have yet to benefit from this program. The program staff at the Department has no budget to provide technical assistance with regard to this program. If a small portion of the appropriated funds were to be available for program staff to conduct workshops and site visits, more of the TCUs and their respective communities could benefit from this vital opportunity. We strongly urge the subcommittee to support a TCU specific program funded at a minimum of $5.435 million, and to include language that will allow a portion of these funds to be used to provide technical assistance to TCUs, to help ensure that much needed community services and programs are expanded and continued in the communities served by the Nation's Tribal Colleges and Universities.

Department of Transportation, FWHA—Office of Civil Rights

Since 1999, two of the Montana-based tribal colleges: Fort Peck Community College and Salish Kootenai College have conducted highway construction training programs with funds from FHWA–OCR's On the Job Training/Support Services. In 2006, FHWA–OCR recognized the strength of its investment and success of these programs by presenting Salish Kootenai College with the "Minority Institutions Higher Education Achievement Award". We urge the subcommittee to include report language directing the FHWA–OCR to continue its current rate of investment in the vital programs offered by these TCUs designed to increase the number of American Indians, including women, that are part of the highway construction workforce in Indian Country.

PRESIDENT'S FISCAL YEAR 2011 BUDGET

The President's fiscal year 2011 budget request proposes eliminating four existing separate university and community assistance programs that serve unique constituencies and melding the funds into a single $25 million University Community Fund, as part of the larger Community Development Block Grant (CDBG). We request that the subcommittee continue to recognize and appropriate separate funding for the Tribal Colleges and Universities Program, and the other affected programs, namely: Historically Black Colleges and Universities; Hispanic Serving Institutions Assisting Communities; and Alaska Native and Native Hawaiian Serving Institutions Assisting Communities, to be allocated competitively within the separate programs.

CONCLUSION

We respectfully request that in fiscal year 2011, Congress maintain the current level of funding for a separate Tribal Colleges and Universities HUD program and provide for technical assistance, to help these vital institutions improve and expand their facilities to better serve their students and communities. Additionally, we ask Congress to direct the Department of Transportation to maintain the current level of funding for our two TCUs that conduct highway construction training programs to increase quality jobs for American Indians living in Indian Country. Thank you for your continued support of Tribal Colleges and Universities and for your consideration of our fiscal year 2011 HUD appropriations requests.

PREPARED STATEMENT OF THE CITY OF MARICOPA, ARIZONA

Chairwoman Murray, Ranking Member Bond, and distinguished members of the subcommittee, thank you for allowing me to testify on behalf of the city of Maricopa in support of $1.8 million for environmental studies through the Federal Highway Administration's (FHWA) Public Lands Highway—Discretionary (PLHD) program for a grade separation along State Route 347 in Maricopa, Arizona.

History.—Maricopa is a small but thriving community 35 miles south of Phoenix that is between the Gila River Indian Community and the Ak-Chin Indian Community. Incorporated in 2003 with a population of approximately 1,000 people, Maricopa is now a burgeoning community of more than 40,000 and growing at the rate of approximately 100 people per month. SR–347 is Maricopa's "Main Street" and is the area's primary north-south corridor and most direct route to the Phoenix area. Originally paved in the 1950's as a two-lane highway, the roadway was upgraded to a five-lane facility in the early 1990s, when the population of Maricopa and surrounding communities was less than 1,000 people. The Union Pacific Rail Road's (UPRR) Sunset Line crosses SR–347 in the center of the Maricopa community. The Sunset Line was a single track but has just recently been double tracked with plans for a third track. The Sunset Line is one of UPRR's key transcontinental freight corridors, and currently over 50 trains per day pass through the UPRR/SR–347 intersection at speeds in excess of 50 mph.

Traffic Levels.—Traffic counts taken in February 2009 show a daily traffic count of 33,547 vehicles, including 168 school buses carrying an estimated 2,856 children across this rail line during morning and afternoon peak hour periods. Also, on average 30 pedestrians cross the tracks at peak times, many of them students walking to and from Maricopa High School. Additionally, a majority of patrons of Harrah's Ak-Chin Casino, located just a few miles south of Maricopa, cross the UPRR line on SR–347 in both personal vehicles and on charter buses.

Accident History.—Crash statistics documented in our 2007 feasibility study show that SR–347 at the UPRR Line had 21 accidents including one fatality in the previous 3 years. Federal Railroad Administration's (FRA) most recent 10-year accident statistics for all of Pinal County show an average of 3 fatalities a year out of 30 incidents per year county-wide. In Maricopa, FRA statistics show five fatalities in the past 20 years at crossing 741343C (SR–347 and UPRR) including a toddler trapped in a truck stalled on the crossing in June 2000. Life long residents remember this tragedy and never want to see it repeated.

Congestion.—Each passing train stops traffic on SR–347 for several minutes resulting in delays and congestion. In addition, six Amtrak trains per week make scheduled stops at the Maricopa Station, typically taking 5 to 10 minutes to load and unload passengers and baggage. The Amtrak loading platform is located approximately 120 feet east of the SR–347 crossing; since the Amtrak trains normally extend through the intersection, these also cause long back-ups and congestion.

Emergency Access.—To many people in Maricopa, the SR–347 crossing at the UPRR is literally the only way across the railroad tracks. Due to the location of fire stations and the restriction of only having one police station in the city, this means emergency vehicles also commonly have to wait for the passing of a train before they are able to continue responding to a code response. Maricopa is concerned about the SR–347/UPRR crossing as a hindrance to providing proper public safety responses.

Hazardous Materials.—With the volume and type of freight carried along the UPRR Sunset Line through the middle of downtown Maricopa, there is an ever-present threat of a hazardous materials incident. Spills of this nature can take upwards of 12 to 24 hours to resolve. The shutdown of this vital crossing, leaving residents unsure of alternate routes and hindering emergency service response as well as citizens commuting to and from work, would cause serious repercussions for the community. Traffic congestion could also delay proper response of hazardous materials teams.

Current Status.—A grade separation Feasibility Report/Environmental Overview (FR/EO) was completed in March 2007. The purpose of the investigation was to develop and evaluate various alternatives for achieving the grade separation. The FR/EO presents five options for achieving the project goals, and evaluates each based on a range of criteria including cost, effectiveness, and community impacts.

Since March 2007, no progress has been made on this project. Steps left to be taken include the completion of a Design Concept Report and an Environmental Impact Statement and engineering design. Once project development is completed, bidding and construction can proceed. The city of Maricopa strongly supports a congressional appropriation of $1.8 million for environmental studies with regard to the SR–347 grade separation project in the fiscal year 2011 Transportation and Housing and Urban Development and Related Agencies Appropriations bill.

To date, the city of Maricopa has invested $500,000 in the project and is expected to add more to this total. Additionally, the Arizona Department of Transportation has committed $400,000 to this project thus far. To keep this project on schedule, Federal funding is necessary and we strongly support the subcommittee allocating $1.8 million to complete the environmental studies for this project.

Justification for Dedication of Federal Funds.—SR–347 is the primary access to one of the fastest growing areas in the country, carries pass-through traffic to San Diego and Mexico and serves as a key economic corridor for the Arizona region. The UPRR Sunset Route is one of the busiest transcontinental rail lines in the United States, transferring freight between the Port of Los Angeles, California and El Paso, Texas. We have two significant interstate transportation routes intersecting within a local municipality, burdening the city and placing residents at a heightened risk. Federal action to remedy this is warranted given the gravity of the situation, the scale of the solution required and the scarcity of alternative options.

The speed of regional growth has outpaced the ability of local and State authorities to provide for the health, safety and welfare of travelers crossing the UPRR line on SR–347. Once safety concerns are identified, it is imperative to seek a solution to this problem at all levels. The transcontinental nature of the UPRR rail line is a national issue. The housing boom that created Maricopa and brought residents from all across the country is a national phenomenon. The reality that a significant and possibly fatal safety issue exists today should drive away any notion that this is anything less than a national issue. A safety issue as this, with emergency needs, should be addressed before conditions worsen and additional accidents or fatalities take place. We should solve this problem before another tragedy takes place and this is why we are urgently asking Congress to address this problem now before another fatal accident takes place.

Conclusion.—The UPRR crossing at SR–347 is one of the most dangerous rail crossings in Arizona. Because it bisects the fastest growing area of Arizona, traffic is congested, public safety is compromised, and children are at risk because of its proximity to a high school. The only way to resolve this dangerous situation is an over or under pass at the current grade crossing. Therefore, again, the city of Maricopa strongly supports $1.8 million in funding through the PHLD program under the Federal Highway Administration in the fiscal year 2011 Transportation and Housing and Urban Development and Related Agencies Appropriations bill for the completion of the environmental studies for State Route 347 grade separation project thus keeping it on an optimal schedule for completion.

Finally, it is important to note that our Senators—Kyl and McCain—do NOT request earmarks and, therefore, we will not receive any funding in the Senate. However, we are confident that with our support in the House from Congressmen Grijalva and Pastor that this project will be a conferenceable line-item and we hope you will support this important request. Not one more life should be sacrificed at this dangerous crossing.

Thank you for your time and attention to this important matter.

Prepared Statement of the Cook Inlet Housing Authority

My name is Carol Gore, and I currently serve as the president and CEO of Cook Inlet Housing Authority. On behalf of Cook Inlet Housing Authority, I appreciate this opportunity to submit testimony to the Senate Appropriations Subcommittee for Transportation, Housing and Urban Development regarding the Department of Housing and Urban Development's proposed fiscal year 2011 funding allocation for the Indian Housing Block Grant program.

Cook Inlet Housing Authority is headquartered in Anchorage, Alaska. It is the Tribally Designated Housing Entity for Cook Inlet Region, Inc. and has a service area of 38,000 square miles, covering much of south-central Alaska. According to Census 2000 figures, Cook Inlet Housing Authority's service area contains a Native American population of approximately 36,000 individuals, roughly 30 percent of Alaska's Native American population. We estimate that more than one-half of the Native American families living within Cook Inlet Housing Authority's service area are living at or below HUD-defined low-income levels.

The Indian Housing Block Grant program, created by the Native American Housing Assistance and Self-Determination Act, or "NAHASDA," is Cook Inlet Housing

Authority's primary source of funding for affordable housing and housing-related activities for low-income Native American families. The program enables Cook Inlet Housing Authority to develop and operate elder and family rental housing, provide affordable home loans and down payment assistance, deliver housing readiness case management, issue tenant-based and project-based rental assistance vouchers, and provide weatherization upgrades. Cook Inlet Housing Authority also works with a number of local providers to combat homelessness and provide supportive housing for individuals with special needs. This leveraging of local capacity provides a non-duplicative mechanism to use existing expertise and programs to enhance homelessness and supportive housing opportunities for low-income Native American families living within our region.

The Indian Housing Block Grant is critical for another, more technical and fundamental reason. Congress intended for NAHASDA recipients to use their Indian Housing Block Grants to leverage additional funding for affordable housing in Indian country. By using its Indian Housing Block Grant to secure investment from other sources, Cook Inlet Housing Authority has been able to bring significant additional resources to serve the affordable housing needs of all tribal members living within our region without segregation by income or location. We describe this leveraging model as providing our region with the benefits of living within a Village where all people and resources are valued. By leveraging our NAHASDA funds, we are benefiting our people and community in a way that celebrates and welcomes our Native American population providing them quality homes in a variety of neighborhoods. Simultaneously, our leveraging model has enabled us to serve more AIAN clients than we could otherwise serve if we developed housing strictly with NAHASDA funds on a house-by-house basis. NAHASDA encourages leveraging. We thank Congress for the wisdom and guidance to provide this opportunity to bring private capital and funding to our Indian housing. Leveraging is part of the reason why NAHASDA has been a resounding success throughout the United States.

However, despite the successes and innovations NAHASDA has spawned, housing conditions in Indian country are far inferior to those of the general U.S. population. According to the 2000 U.S. Census, nearly 12 percent of Native American households lack plumbing, compared to 1.2 percent of the general U.S. population. Indian households are nearly three times more likely to be severely overcrowded. We are making good progress, but our success has only just now begun to reach the private banking industry and other grant funding sources. Absent NAHASDA funds for leveraging, we have little chance of continuing our progress. With NAHASDA, we are perceived to have "skin in the game" by other funders. We are investing in our people and our communities—often bringing $1 to $9 from other sources for every NAHASDA dollar.

It is for precisely these reasons—the success of NAHASDA and the disparity in housing conditions between Native American communities and the general U.S. population—that Cook Inlet Housing Authority is so confused by the administration's 2011 budget request for the Indian Housing Block Grant. The President's 2011 budget seeks $580 million for the Indian Housing Block Grant, an amount 17 percent less than the level enacted for 2010 and the lowest single-year funding amount for the IHBG since the Native American Housing Assistance and Self-Determination Act became law in 1996.

Why a successful program that effectively addresses the housing needs of an extremely underserved population should bear a disproportionate burden when it comes time to trim the Federal budget is simply baffling. Cook Inlet Housing Authority has heard unsubstantiated assertions that there is a lack of capacity in Indian country that prevents the timely expenditure of Indian Housing Block Grant funds. To the contrary, it is our understanding that NAHASDA recipients have clearly demonstrated their capacity to obligate and expend American Recovery and Reinvestment Act funding in accordance with Federal requirements.

It is true that some NAHASDA recipients may hold on to their annual Indian Housing Block Grant funding for limited periods, but they do so for legitimate reasons. Because of the nature of the housing industry in cold weather climates, construction seasons may be limited. In Alaska, we can miss an entire construction season because the water transportation system is either too low or doesn't thaw in time for delivery. Moreover, small tribes receiving minimum NAHASDA allocation sometimes preserve their Indian Housing Block Grant funding over multiple years until they have pooled enough resources to engage in meaningful and strategic housing activities. This practice is expressly permitted by NAHASDA.

It is also confusing that the administration's budget request proposes such a substantial cut to the Indian Housing Block Grant only months after Congress implicitly recognized the efficacy of NAHASDA by providing millions of dollars for the Indian Housing Block Grant through the American Recovery and Reinvestment Act.

Had the Recovery Act funding been described to tribes and tribally designated housing entities as an advance rather than a supplement intended to address critical housing shortages in Indian country while stimulating the American economy, Cook Inlet Housing Authority would have vigorously opposed Recovery Act NAHASDA funding. Such an "advance" followed by a funding cut would require tribes and housing organizations to hire a significant number of new employees in order to spend Recovery Act funding, only to lay off those very workers and additional staff once Recovery Act funding is spent. This was clearly not the intent of Congress.

Because NAHASDA is an effective program enabling tribes and their designated housing entities to address the severe shortage of safe, affordable housing in Indian country, Cook Inlet Housing Authority respectfully requests that Congress fund the Indian Housing Block Grant at $875 million for 2011. This funding level will restore Indian Housing Block Grant funding to the fiscal year 2010 funding level and provide an additional $175 million to address inflationary forces and cost increases that were not taken into consideration between 1996, when NAHASDA was passed, and 2010.

On behalf of Cook Inlet Housing Authority, thank you for the opportunity to provide testimony opposing the administration's proposed cuts to the Indian Housing Block Grant and supporting an increase in the amount of $175 million for that program.

Prepared Statement of the Ely Shoshone Tribe Housing Department

It has been brought to my attention that the fiscal year 2011 budget proposed by President Obama includes unprecedented cuts to funding under the Native American Housing and Self-Determination Act (NAHASDA). As you may be aware, housing conditions and the availability of housing in Indian Country fall far below those of the general U.S. population. For example, according to the 2000 U.S. census, nearly 12 percent of Native American households lack plumbing compared to 1.2 percent of the general U.S. population. Further, Indian households are nearly three times more likely to be severely overcrowded.

Since the inception in 1996 and funding and implementation in 1998, NAHASDA has been the cornerstone of tribal housing programs. The President's budget proposes cutting funding for the Indian Housing Block Grant (IHBG) to $580 million, which is nearly 18 percent lower that the fiscal year 2010 funding level and would be the lowest single-year funding ever allocated to IHBG since NAHASDA was enacted. The proposed budget does not include sufficient resources for the Indian Community Development Block Grant (ICDBG) and completely eliminate the much-needed Training and Technical Assistance (T/TA) that tribes need to plan, implement and manage their housing programs. I urge you to support increased funding for the IHBG at $875 million, the ICDBG at $100 million, and to reinstate the allocation for T/TA at $4.8 million.

Thank you in advance and consideration.

Prepared Statement of the Fond du Lac Band of Lake Superior Chippewa

Mr. Chairman, members of the subcommittee, I am Karen R. Diver, chairwoman of the Fond du Lac Band of Lake Superior Chippewa. On behalf of the band, I would like to thank you for this opportunity to submit testimony on fiscal year 2011 appropriations relating to the United States Department of Housing and Urban Development. We submit this testimony to urge Congress to increase the Federal funding levels for Indian housing programs that are provided through the Department of Housing and Urban Development.

Specifically, we ask that Congress appropriate $875 million for the Native American Housing Block Grant Program (NAHASDA), and increase all other HUD programs serving Native Americans. Although the NAHASDA program is the principal source of Federal financial assistance for housing on Indian reservations, the President's proposed fiscal year 2011 budget would reduce funding for this program to only $580 million. This is substantially below the fiscal year 2010 enacted level of $700 million, and, in fact, is well below funding that had been provided for this program in each of fiscal years 2005 through 2009—which had averaged $630 million annually but which had not been adjusted to address increases in housing costs caused by inflation. While the band very much appreciates the additional funds provided for this program through the American Recovery and Reinvestment Act of 2009, the ARRA funds should supplement and not reduce program funding levels. Indeed, because of the severe and persistent deficiencies in housing in Indian Country, program funds should be increased above the fiscal year 2010 enacted level.

Native Americans suffer the most substandard housing—at a rate of six times that of the population at large. The Fond du Lac Band, like tribes nationwide, has longstanding and severe housing needs. Our reservation, located in northeastern Minnesota, is part of our aboriginal homeland. The reservation was established for us by treaty with the United States on September 30, 1854 as our permanent home. We have 3,900 enrolled tribal members, and provide a wide range of services not only to our members, but to approximately 6,500 Indian people who live and work on and near our reservation.

The Fond du Lac Reservation did not receive public housing until 1965, 30 years after public housing was established for all other Americans. The implementation of the housing program for Fond du Lac followed many years of failed Federal policy, which served to break up families by placing children in boarding schools and foster homes, and which relocated many of the residents of the Fond du Lac Reservation from the reservation to urban areas. In recent years, especially with the decline in the Nation's economy, many band members have come back to the reservation in the interest of obtaining jobs that the band has been able to provide as a result of the band's recent strides in economic development.

Although our reservation encompasses 100,000 acres of land, the Federal allotment policy, which was applied to the Fond du Lac Reservation in 1889, left us with the poorest lands; our most valuable lands went to timber companies and homesteaders. In addition, our reservation is located in a geographic area that contains mostly marginal lands that require costly drainage projects for the land to be useable. Our lands are considered a difficult environment for affordable housing because they require high development costs associated with substandard soils and expensive sewage systems and a lack of decent infrastructure. In an effort to meet our members' housing needs, the band has found it necessary to invest significant funds to remediate the band's current lands, purchase other lands, and construct the infrastructure (septic systems, water and sewer lines, roads, and utility services) that is essential to serve those lands.

The band cannot do this alone. The band has long depended on the funds made available to Indian tribes through HUD to assist us in meeting the housing needs of our members. But the deficits in housing for Indian people are so entrenched and so severe that they will not be remedied without continued Federal financial assistance.

We currently have 73 units of home ownership housing and 231 units of low rent housing. Many of our housing units are over 15 years old, with the oldest units built more than 30 years ago, in 1970. Because of the age of our housing stock, the units are constantly in need of maintenance and repairs. Approximately 30 percent of our housing units require major renovation, such as the replacement of roofs and siding, as well as upgrades in plumbing and other utility systems, and the replacement of windows and doors. Other units require routine repairs and maintenance, the average cost of which is $5,000 per year.

The Fond du Lac Housing Division currently has a waiting list of approximately 300 applicants seeking low income and home ownership housing. We have many other tribal members who are also in need of housing, but who have moderate incomes and therefore are not even shown on our waiting list. To meet the needs of our members we need to build at least 300 new housing units. Our greatest need is for low income rental units and funds to cover the cost of repairs and maintenance. We also have ongoing needs to build new and upgrade existing septic systems to serve that housing, the cost of which is estimated to be approximately $1–$2 million.

The disparity between housing conditions among our members and that of the general population is shown by the 2000 Census. In Minnesota, 0.5 percent of the population lives in homes lacking complete plumbing. In contrast, among Fond du Lac members that figure is 10 times higher—5.1 percent. In Minnesota, 0.48 percent of the population lives in homes that lack complete kitchens. In contrast, among Fond du Lac members, 4.2 percent live in homes without complete kitchens. In addition the poverty rate in Minnesota is 7.9 percent, while the poverty rate among Fond du Lac members is 14 percent.

Because of the severity of our housing shortage, approximately 20 percent of our people currently live in overcrowded homes. It is not uncommon on our reservation and among our people to find 10 or more individuals living together in a 2-bedroom home. Overcrowding, in turn, taxes the house itself by accelerating the wear and tear on those homes.

Overcrowding and dilapidated housing creates other risks. As discussed by the U.S. Commission on Civil Rights, in its report, A Quiet Crisis: Federal Funding and Unmet Needs In Indian Country, at 62–63 (July 2003), the high rate of overcrowded housing among Native Americans increases the risk of fire and accidents, and creates unsanitary conditions, with increased spreading of communicable but normally preventable illnesses. Overcrowded housing is especially harmful to children, who, as the Commission found, are likely to "suffer sleep deprivation and inability to concentrate in school." In addition, overcrowded housing "often results in stress, which can magnify family dysfunction and eventually lead to alcohol and child abuse." A Quiet Crisis at 63. We see these problems at Fond du Lac.

Our members who are compelled to live in overcrowded homes are also often only a step away from being homeless. As set out in a recent study of homeless and near-homeless persons on northern Minnesota Indian Reservations, including the Fond du Lac Reservation, "[d]oubling up with family or friends is often the last housing arrangement a person has before becoming literally homeless, and it is common for people to go back and forth between doubling up and homelessness." Wilder Research, Homeless and Near-Homeless People on Northern Minnesota Indian Reservations (Nov 2007), http://www.wilder.org/download.0.html?report=2018. The Report further found a substantial number of Indians on the six reservations studied to be in this near-homeless status.

Homelessness is an equally severe problem among Fond du Lac members. In 1994, the Minnesota Housing Finance Agency reported that while the homeless rate for all Minnesota residents was 0.92 percent, the homeless rate among Fond du Lac members was 6.54 percent. See Minnesota Housing Finance Agency, Comprehensive Housing Affordability Strategy 1996–2000 at 28, 43, 49 (December 29, 1995). The problem of homelessness continues to exist. A 2006 study shows that a disproportionately high number of Native Americans in Minnesota are homeless. See Wilder Research, Overview of Homelessness in Minnesota 2006: Key Facts from the Statewide Survey (April 2007), http://www.mnhousing.gov/initiatives/housing-assistance/Resources/index.aspx. The study reports that although Native American adults are only 1 percent of the population of the State, they are 11 percent of the adults identified as homeless. And while Native American youth (age 11 to 17) are only 2 percent of the youth population in the State, they are 22 percent of the homeless youth that are unaccompanied by an adult. Id. at p 9.

We see the problem of homelessness among our members every day. The band regularly receives requests from band members who are homeless and in need of housing. The band currently has no facilities to provide temporary shelters to house our members when emergencies arise and there are no homeless shelters in close proximity to the Fond du Lac Reservation. Instead, in an effort to combat this problem, the band has found it necessary provide temporary shelter to homeless band members in the band's Black Bear Hotel and other local hotels and motels.

In addition, several years ago, the band established an emergency rental assistance program. Under this program, the band provides emergency shelter to band members in need of housing by paying the security deposit and first month's rent on a rental unit anywhere within a 60 mile radius of our reservation. The band has provided rental assistance to many band members since the program was created. But although this program does address the immediate housing crisis faced by a family that becomes homeless, it is not a long term solution for many of our members who do not have sufficient financial resources to continue to pay the higher rents that are generally charged for housing outside the reservation. Those members risk becoming homeless again a few months after emergency rental assistance is provided. The band needs more units of affordable low-income rental housing to meet the needs of these individuals. However, because of budget limitations, we do not have enough funds to cover the cost of building and maintaining a sufficient number of low income rental housing units.

The Fond du Lac Band also needs to address the housing needs of our elderly population by providing assisted living accommodations for them if they so choose. Our elders are our teachers and mentors and we need to honor and respect them by giving them comfort and security, and allow them to live in a secure, healthy and worry-free environment. While the band has two housing complexes for our elders, there are not a sufficient number of units within those complexes to meet the need. Further, the units in those complexes do not have the medical and related facilities if the elders require greater assisted care. In such circumstances, our elders must find a nursing home outside the reservation.

The band relies on its annual grant from the Department under the NAHASDA program to meet some of these housing needs. The band has also relied on Indian Community Development Block Grants, which the band has been able to use for infrastructure. However, the funding for these programs has not materially increased over the years. At the same time, the costs of the supplies, materials and labor necessary to remodel and modernize our aging housing stock have increased every year with inflation. Each year we are forced to do more with less. Current funding levels simply do not meet the housing needs. The lack of any real increases in the

NAHASDA program before fiscal year 2010 and in the other HUD programs that are intended to serve Indians will only make this housing crisis worse. The Federal Government's trust responsibility demands that this Indian housing crisis be addressed.

Housing represents the single largest expenditure for most Indian families. The development of housing has a major impact on the national economy and the economic growth and health of regions and communities. Housing is inextricably linked to access to jobs and healthy communities and the social behavior of the families who occupy it. The failure to achieve adequate housing leads to significant societal costs.

Decent, affordable, and accessible housing fosters self-sufficiency, brings stability to families and new vitality to distressed communities, and supports overall economic growth. Very particularly, it improves life outcomes for children. In the process, it reduces a host of costly social and economic problems that place enormous strains on the education, public health, social service, law enforcement, criminal justice, and welfare systems. For these reasons the Fond du Lac Band strongly urges Congress to increase funding for our housing needs so we can meaningfully address the needs of the core of our communities.

Miigwech. Thank you.

PREPARED STATEMENT OF THE RAILWAY SUPPLY INSTITUTE, INC.

Thank you for the opportunity to submit this statement.

The Railway Supply Institute (RSI) appreciates the opportunity to provide this subcommittee with our views on important transportation funding policy.

Established in 1908, RSI is the international association of suppliers to the Nation's freight, passenger rail systems, and rail transit authorities. The domestic railway supply industry is a $20 billion a year business with some 500 companies employing 150,000 people. Approximately 25 percent of sales involve Amtrak, commuter railroads and transit authorities. A strong national freight and passenger rail system will not only continue to sustain good paying domestic jobs but will lead to future job creation as well.

RSI supports both our Nation's freight and passenger rail operations. We need a strong, national railroad passenger system that contributes to reducing dependence on foreign oil; reducing carbon emissions into the atmosphere; reducing congestion on our highways; improving transportation safety; reducing airport congestion; and that will enhance our ability to move vast numbers of people in emergency evacuation situations (i.e. 9/11, Katrina, etc).

As representatives of those who supply our Nation's railroad industry, we submit that a more balanced national transportation policy that places more emphasis on rail will significantly contribute to meeting our Nation's stated policy objectives that are designed to make this Nation stronger.

Our key requests for intercity passenger trains for fiscal year 2011 are:

—Amtrak's budget request: $592 million for operations; $1,299 million for capital (including $281 million for Americans with Disabilities Act compliance work); $305 million for debt service; $7 million for FRA oversight.

—Amtrak's fleet strategy requirement: $446 million.

—Capital grants for States: $4 billion, with an appropriate portion designated for rolling stock acquisition.

In addition, we urge the subcommittee to consider fully funding the FRA Railroad Safety Technology Grant Program in the amount of $50 million. The grant program is intended to accelerate the installation of Positive Train Control (PTC) on key portions of the Nation's rail system. As you know, the Rail Safety Improvement Act of 2008 (RSIA) mandates the deployment of interoperable PTC systems by December 31, 2015 on mainline tracks that carry passenger trains or Poison Inhalation Hazard/Toxic Inhalation Hazard materials. The new grant program was authorized under RSIA and has an 80/20 cost-sharing requirement. Funding assistance would help the railroads continue to expand needed capacity to meet both freight and passenger demands while still complying with the PTC mandate.

Finally, RSI requests that the subcommittee provide full funding for the Federal Railroad Administration's rail research and development program, ideally to the administration's requested level of $40 million. FRA's R&D program provides vital safety support including research on track issues, equipment crashworthiness, hazardous materials transport, human factor issues such as fatigue and many other areas supporting the Nation's rail safety program and saving lives.

Your continued support for a healthy and vital rail network is good public policy and good for the Nation.

Thank you for considering our views.

PREPARED STATEMENT OF THE HOOPA VALLEY TRIBE

This written testimony is submitted in support of appropriations for the Hoopa Valley Tribe's Senior Nutrition (Elder) Center in the amount of $1,150,000. The agency involved is Housing and Urban Development and the programs involved include Economic Development Initiatives.

The Hoopa Valley Tribe is a federally recognized Indian tribe governed by a chairman and a seven member tribal council. Our responsibilities include governing our tribal members and land; administering, managing and protecting our tribal property; safeguarding and promoting the peace and general welfare of the Hoopa Valley Indians; and negotiating with Federal, State and local governments.

Located in the rural and remote areas of Northern California, the Hoopa Valley Indian Reservation is 55 miles from the larger populated areas of Eureka and Arcata. The Hoopa Valley Tribe is the largest land based tribe in California. Our reservation is referred to as the "12 mile square;" it encompasses approximately 144 square miles (98,355 acres) including the Valley floor.

According to the U.S. Census Bureau (Census 2000), there are approximately 2,633 people living on the Hoopa Valley Reservation. About 84.7 percent of the residents are American Indian. Poverty, inadequate education, high rates of unemployment and limited access to health services are creating significant and alarming health disparities among our people. Around 32 percent of Hoopa residents are currently living in poverty, which is 2.3 times the statewide figure of 14.2 percent and 2.6 times the nationwide figure of 12.4 percent. These statistics include our elders who are disproportionately affected by chronic conditions and are principally low income individuals living on fixed incomes.

The K'ima:w Medical Center is an entity of the Hoopa Valley Tribe. It is an ambulatory clinic which offers a comprehensive set of services that include medical, dental, community health, nutrition, social services, senior nutrition, full laboratory and radiology services as well as specialty clinics for vision, podiatry and telemedicine. The service area of K'ima:w Medical Center includes the reservation as well as the surrounding areas of Willow Creek, Salyer and Johnson.

The tribe and its K'ima:w Medical Center are seeking appropriations to construct a new Senior Nutrition (Elder) Center. Our current center is located in a very old building. We have safety concerns as well as simply not enough space for the services and activities we wish to offer our seniors, and which our seniors need. The Center we envision would become a focal point for the community and a place where seniors in the community could go for nutritious meals, community programs, medical screenings, physical therapy, and general health education. The Center would enable us to promote a more fit and healthy senior population through these screenings, exercise, activity and nutrition. Importantly, the Center would serve tribal members and non-tribal members in the community.

Caring for our elders is of utmost importance to the Hoopa Valley Tribe. The Senior Nutrition (Elder) Center would greatly aid in improving the lives of senior citizens on the reservation. Because of the vast area and remote nature of our reservation, seniors can easily experience isolation from time to time. This Center would help alleviate this problem. It would provide a gathering place for elders to create and maintain social relationships and preserve their connection to the community. It would also provide opportunities for tribal members to learn from the tribe's elders as they administer care or simply visit with them at the Center.

The Center's services would not only enhance the quality of life for our elders but would also help prevent and detect unnoticed healthcare problems. Poor nutrition and delayed detection of illnesses can lead to serious consequences. It is expected that the Center would help prevent healthcare problems and the substantial medical costs associated with same. Our elders face high rates of diabetes, dyslipidemia and high blood pressure. The Center would help seniors take control of their health before more serious problems arise.

The tribe's current senior nutrition program serves meals to tribal and non-tribal elders in the community. Last year, we served 6,582 meals on-site and 7,953 meals via home delivery. This was an increase of 332 meals over 2008. We expect these needs to continue to rise and an upgraded Center is vital to meeting expected increased demands. Our services in this regard are critical as the meal we serve is likely the only opportunity for a nutritious meal for a senior, and may very well be the only opportunity for a meal, period.

Finally, a new Senior Nutrition Center would provide jobs in our remote area which is in need of economic development. The project is expected to create at least

15 construction positions. Further, permanent staff would be hired once the new Senior Nutrition Center is operational. Having more people employed on the reservation will stimulate the local economy, something which is seriously needed given our poverty rate and remote area.

The Total Project Cost and Total Appropriations Request are:

—Senior Nutrition (Elder) Center—Total $1,550,000

—Construction of the building: $1,150,000

—Kitchen equipment, furniture, additional building expenses—$400,000

Of the Senior Nutrition Center's total costs, $1,550,000, the tribe plans to contribute $400,000 (26 percent) through the use of tribal funds and more community fund raising.

Funding in the amount of $1,150,000 is requested for the construction of a new Senior Nutrition Center on the Hoopa Valley Reservation.

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.

Our key requests for intercity passenger trains for fiscal year 2011 are:

—Amtrak's budget request: $592 million for operations; $1,745 million for capital (including $281 million for Americans with Disabilities Act and $446 million for the fleet strategy); $305 million for debt service; $7 million for FRA oversight.

—Capital grants for States: $4 billion, with an appropriate portion designated for rolling stock acquisition.

—Any funding needed to restore service to Las Vegas. Amtrak, as part of its statutorily mandated California Zephyr performance improvement plan is considering restoring Salt Lake City-Los Angeles service. This would put Las Vegas back on the Amtrak map and restore direct Denver-Los Angeles service. Around 1996, when Amtrak was considering route reductions, the head of what was then Amtrak's Chicago-based "strategic business unit" told our chairman, "If I had known Congress was going to put back routes, based on the economics, I would have recommended the Desert Wind (Salt Lake City-Los Angeles) first."

—Funding needed to restore service between New Orleans and Florida, consistent with the PRIIA requirement that Amtrak by July 16, 2009, submit a plan to restart service.

—Funding needed to restore service between Salt Lake City and the Pacific Northwest and between Chicago and the Pacific Northwest via southern North Dakota and southern Montana, as Amtrak studied in response to the mandates in PRIIA.

Equipping Trains for Growth.—A major factor hurting customer satisfaction and inflating operating costs is the 37-year average age of its locomotives and cars, including 92 long-distance "Heritage" cars that are between 53 and 61 years old.

Amtrak's fleet strategy assumes ridership growth of only 2 percent. That is too conservative, given the need to increase capacity on existing routes and to add routes. We appreciate Amtrak's emphasis on their plan's "scalability," that is, the fact that car acquisitions can be increased if the market calls for it and funding is provided. Indeed, some trains are already outpacing similarly conservative ridership projections.

Nonetheless, this illustrates the financial challenge: failure to meet the funding targets Amtrak identified puts us close to a no-growth scenario regarding both additional capacity on existing routes and expanding the network to parts of the country that are not adequately served, a category that includes some of the fastest-growing regions in the United States.

In addition to funding fleet needs directly, consideration should be given to 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. Part of the goal is to reduce the high up-front costs that taxpayer-supported agencies face when procuring new equipment.

Also of critical importance is the $281 million Amtrak request to fulfill its obligation to bring stations into compliance with the Americans with Disabilities Act—money that is left out of the administration's budget. The Association supports Amtrak's current ADA policy as set forth in "Amtrak Guidelines on Platform Design" (April 2008). Previously, we joined with Amtrak, the Class I railroads and commuter railroad agencies in strongly opposing a rule that had been under consideration by U.S. DOT that would have required full length platforms for level boarding. In fiscal

2010, Amtrak was instructed to spend the $144 million for ADA which in effect reduced other vital capital expenditures.

The Importance of Trains.—More and better passenger trains and intermodal connections are crucial to maintaining mobility for our citizens, enhancing the quality of life in our communities, bolstering our Nation's economic competitiveness and energy efficiency, providing good jobs for Americans and reducing our transportation system's negative environmental impact.

Mobility and quality of life issues become more relevant as the proportion of older citizens dramatically increases, and as young people become more receptive to non-auto transport.

The national interest is well served by enabling as many people—especially older people—as possible to lead a satisfying life with little or no driving. This can improve both safety and mental health, as people in auto-dependent environments who cannot drive suffer from the resulting sense of isolation.

Fewer Teenaged Drivers.—At the same time, the Millennial Generation—people in their teens and twenties—is greatly attracted to a less car-dependent lifestyle. They increasingly do not view acquiring a driver's license as a "rite of passage to maturity" for 16-year-olds. Indeed, my two sons of driving age, now 21 and 19, both got their drivers' licenses a year or two after turning 16, becoming serious about getting their licenses only after realizing that mass transit served their transportation needs poorly. Media reports confirm that my sons are not unique, including WRAL.com in Raleigh (January 25), Tampa's News Channel 8 (February 11), and New York Times (February 25, 2008).

Ridership and Polls.—Americans' desire for improved train service is demonstrated through increasing ridership on Amtrak and rail transit systems nationwide. Amtrak gained riders for 6 straight years—from 2002 to 2008. The 2008 run-up in gasoline prices was a big factor in ridership growth of 11 percent from 2007 to 2008. While Amtrak and transit ridership fell in 2009, due in part to the recession and lower gasoline prices, Amtrak ridership still was 5 percent above the 2007 level. Amtrak ridership through the first half of fiscal year 2010 (October–March) was 4.3 percent above the year-earlier level (long-distance trains were up 5.2 percent).

For years, polls have consistently shown strong support for increased investment in passenger trains. A recent one, by Kelton Research—taken February 1–7, 2010 for HNTB Corporation—showed 88 percent "open to high-speed rail for long-distance travel within the U.S.," according to a February 18 report in Metro Magazine, which also cited 83 percent support for increasing the share of Federal funding that goes to public transit and high-speed rail infrastructure. HNTB's Peter Gertler said, "The pain we felt when gasoline was hovering near $4 a gallon has receded, yet we can't stand by for the next crisis to hit to address the underlying issues of congestion and our dependence on limited fossil fuels."

Amtrak's Funding Request.—We are concerned that reducing Amtrak's other capital items to make way for the "full ADA funding," which in effect happened this year, damages the overall system, with detrimental impact on all passengers including those with disabilities. Shorting the capital request creates a problem for the effort to let passenger trains assume their rightful place as a primary mode of transportation providing a desirable travel choice for all Americans—as envisioned by President Obama.

Grants to States.—We strongly support the general approach that U.S. DOT took in awarding the $8 billion in capital grants announced January 28. I commented on NBC Nightly News on January 30 that I was impressed both with "the amount of funds involved and the intelligence with which it was distributed."

Operating Grant.—This is critical, in part because the big increase in the capital budget (including Recovery Act funds) drives up operating costs, as not all personnel costs associated with capital projects can be capitalized. Moreover, the mandates of PRIIA also create upward pressure on operating costs. The organization is handling more than twice the amount of work of 5 years ago. This underscores the urgency of maintaining Amtrak's operating grant at the full requested amount of $592 million.

The Transportation for America Coalition's "United States of Transit Cutbacks" map vividly portrays the irony of transit agencies from Philadelphia to Phoenix receiving new Federal capital funds while withering operating support is forcing consideration of unacceptable service cuts—including the elimination of all service on certain days of the week, bus route terminations, station closures, and dramatic frequency reductions. As Secretary LaHood put it, it doesn't make sense to buy so many new trains and buses when we can't afford to pay operators to run them. On the intercity side, consideration should be given, at least in emergency situations, to allowing operation of State-supported intercity trains on a 50/50 matching basis, without making Amtrak swallow the difference.

Oak Ridge National Laboratory Statistics.—The following table, showing 2007 data, comes from the annual Transportation Energy Data Book (Edition 28, released in 2009), published by Oak Ridge National Laboratory under contract to the U.S. Department of Energy:

Mode	BTUs per passenger-mile [1]
Amtrak	2,516
Commuter trains	2,638
Certificated air carriers	3,103
Cars	3,514
Light trucks (2-axle, 4-tire)	3,946

[1] BTU = British Thermal Unit; passenger-mile = one passenger traveling one mile.

Overnight Trains.—We support Amtrak's initiative, discussed in the release, to combine the Texas Eagle and Sunset Limited into a daily, full-service Chicago-Los Angeles train via St. Louis, Dallas/Fort Worth, San Antonio, El Paso and Tucson. A connecting daily train between San Antonio and New Orleans via Houston is also planned, and we understand that some through New Orleans-Los Angeles cars will be restored if demand is strong. Currently, New Orleans-San Antonio-Los Angeles service runs tri-weekly.

Hudson River Tunnels; North Station-South Station Rail Link.—We continue to be concerned about the construction of Hudson River rail tunnels that will not connect to Penn Station but only to a dead-end, deep cavern station under 34th Street. We continue to discuss this with New Jersey Transit. We support the $6 million that Massachusetts requested to complete environmental work on a potential rail link that would unify Boston's commuter rail networks and connect Amtrak's Northeast corridor to northern New England.

Northeast Corridor Fares.—At an April 10 NARP membership meeting in Philadelphia, Dr. Vukan Vuchic of the University of Pennsylvania said trains "should play a maximum role in society, and not just serve businessmen. Students, tourists, young and old, should be able to ride." Amtrak's current fares don't support that. This may be partly due to faulty judgments by Amtrak, but relentless pressure to reduce the operating grant is probably the bigger cause.

Thank you for considering our views.

Prepared Statement of the National American Indian Housing Council

INTRODUCTION

Good afternoon Chairwoman Murray, Ranking Member Bond, and distinguished members of the Senate Subcommittee on Transportation and Housing and Urban Development, and Related Agencies. My name is Marty Shuravloff. I am the chairman of the National American Indian Housing Council (NAIHC), the only national tribal non-profit organization dedicated to advancing housing, physical infrastructure, and economic development in tribal communities in the United States. I am also an enrolled member of the Leisnoi Village, Kodiak Island, Alaska. I want to thank the subcommittee for the opportunity to submit testimony for its consideration as it prepares its fiscal year 2011 appropriations bill.

BACKGROUND ON THE NATIONAL AMERICAN INDIAN HOUSING COUNCIL (NAIHC)

The NAIHC was founded in 1974 and has, for 36 years, served its members by providing valuable training and technical assistance (T/TA) to all tribes and tribal housing entities; providing information to Congress regarding the issues and challenges that tribes face in terms of housing, infrastructure, and community and economic development; and working with key Federal agencies in an attempt to address such issues and meet such challenges. The membership of NAIHC is expansive, comprised of 271 members representing 463 [1] tribes and tribal housing organi-

[1] There are approximately 562 federal-recognized Indian tribes and Alaska Native villages in the United States, all of whom are eligible for membership in NAIHC. Other NAIHC members include State-recognized tribes that were deemed eligible for housing assistance under the 1937 Act and grandfathered in to the Native American Housing Assistance and Self-Determination Act.

zations. The primary goal of NAIHC is to support Native housing entities in their efforts to provide safe, quality, affordable, culturally relevant housing to Native people.

BRIEF SUMMARY OF THE PROBLEMS REGARDING HOUSING IN INDIAN COUNTRY

While the country has been experiencing an economic downturn in general, this trend is greatly magnified in Indian communities. The national unemployment rate has risen and has hopefully passed its peak at an alarming rate of nearly 10 percent;[2] however, that rate does not compare to the unemployment rates in Indian Country, which average 49 percent.[3] The highest unemployment rates are on the Plains reservations, where the average rate is 77 percent.[4] Because of the remote locations of many reservations, there is a lack of basic infrastructure and economic development opportunities are difficult to identify and pursue. As a result, the poverty rate in Indian Country is exceedingly high at 25.3 percent, nearly three times the national average.[5] These employment and economic development challenges exacerbate the housing situation in Indian country. Our first Americans face some of the worst housing and living conditions in the country and the availability of affordable, adequate, safe housing in Indian Country falls far below that of the general U.S. population.

—According to the 2000 U.S. Census, nearly 12 percent of Native American households lack plumbing compared to 1.2 percent of the general U.S. population.
—According to 2002 statistics, 90,000 Indian families were homeless or underhoused.
—On tribal lands, 28 percent of Indian households were found to be over-crowded or to lack adequate plumbing and kitchen facilities. The national average is 5.4 percent.
—When structures that lack heating and electrical equipment are included, roughly 40 percent of reservation housing is considered inadequate, compared to 5.9 percent of national households.
—Seventy percent of the existing housing stock in Indian Country is in need of upgrades and repairs, many of them extensive.
—Less than one-half of all reservation homes are connected to a sewer system.

There is already a consensus among many members of Congress, HUD, tribal leaders, and tribal organizations that there is a severe housing shortage in tribal communities; that many homes are, as a result, overcrowded; that many of the existing homes are in need of repairs, some of them substantial; that many homes lack basic amenities that many of us take for granted, such as full kitchens and plumbing; and that at least 200,000 new housing units are needed in Indian Country.

These issues are further complicated by Indian land title status. Most Indian lands are held in trust or restricted-fee status; therefore, private financial institutions will not recognize tribal homes as collateral to make improvements or for individuals to finance new homes. Private investment in the real estate market in Indian Country is virtually non-existent. Tribes are wholly dependent on the Federal Government for financial assistance to meet their growing housing needs, and the provision of such assistance is consistent with the Federal Government's centuries-old trust responsibility to American Indian tribes and Alaska Native villages.

THE NATIVE AMERICAN HOUSING ASSISTANCE AND SELF-DETERMINATION ACT

In 1996, Congress passed the Native American Housing Assistance and Self-Determination Act ("NAHASDA") to provide Federal statutory authority to address the above-mentioned housing disparities in Indian Country. NAHASDA is the cornerstone for providing housing assistance to low-income Native American families on Indian reservations, in Alaska Native villages, and on Native Hawaiian Home Lands. The Indian Housing Block Grant ("IHBG") is the funding component of NAHASDA. Since the passage of NAHASDA in 1996 and its funding and implementation in 1998, NAHASDA has been the single largest source of funding for Native housing. Administered by the Department of Housing and Urban Development

[2] See http://www.bls.gov/news.release/empsit.nr0.htm.
[3] Bureau of Indian Affairs Labor Force Report (2005).
[4] Many of these reservations are in the State of South Dakota, which has one of the lowest unemployment rates in the Nation. However, on some South Dakota reservations, the unemployment rate exceeds 80 percent.
[5] U.S. Census Bureau, American Indian and Alaska Native Heritage Month: November 2008. See http://www.census.gov.

("HUD"), NAHASDA specifies which activities are eligible for funding.[6] Not only do IHBG funds support new housing development, acquisition, rehabilitation, and other housing services that are critical for tribal communities; they cover essential planning and operating expenses for tribal housing programs. Between 2006 and 2009, a significant portion of IHBG funds, approximately 24 percent, were used for planning, administration, housing management, and services.

AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) AND FISCAL YEAR 2010 INDIAN HOUSING FUNDS

NAIHC would like to thank Congress, particularly this subcommittee, for its increased investment in Indian housing in fiscal year 2010. AARA provided over $500 million for the IHBG program. This additional investment in Indian Country supports hundreds of jobs, has allowed some tribes to start on new construction projects, and has assisted other tribes in completing essential infrastructure for housing projects that they could not have otherwise afforded with their IHBG allocations. Tribes have complied with the mandate to obligate the funds in an expedient manner, thus helping stimulate tribal and the national economies. In addition to ARRA funding, Congress appropriated $700 million for the IHBG in fiscal year 2010, the first significant increase for the program since its inception. This positive step reversed a decade of stagnate funding levels that neither kept pace with inflation nor addressed the acute housing needs in Native communities.

THE PRESIDENT'S FISCAL YEAR 2011 BUDGET REQUEST FOR THE INDIAN HOUSING BLOCK GRANT

On February 1, 2010, President Obama submitted to Congress a $3.8 trillion budget request. It proposes $580 million for the IHBG, which is a decrease of $120 million (−17 percent) from the fiscal year 2010 funding level.[7] At the same time, HUD's overall budget was reduced by only 5 percent. Should Congress accept the President's budget request, it would be the lowest, single-year funding level for the NAHASDA since it was enacted in 1996. To put this in proper perspective, funding appropriated by Congress in fiscal year 1998, 12 years ago, was $20 million more than the President's budget request for fiscal year 2011.

While the NAIHC and its members are aware of and appreciate the large investments made in Indian housing, we are disappointed that the current request fails to continue the positive budget trajectory of recent years. Therefore, the NAIHC strongly urges Congress to not only appropriate funds above the President's budget request, but to fund the IHBG at $875 million due to the increasing costs for housing development, energy efficiency initiatives, and other inflationary factors. Since the President's budget request was released, many of our members have expressed their deep concerns. They believe, and we agree, that this budget impacts not only housing, but also the very hope for self-sustaining economies in Indian Country.

Reduced funding would result in the loss of jobs for our people, reversing the positive impact of ARRA; the deterioration of existing housing units; and the curtailment of many housing projects that are currently under development. Without sufficient funding and proper training and technical assistance, progress regarding tribal housing will not only cease; years of hard work will be reversed, as tribes will lack the funds to maintain and operate existing housing units, much less provide new ones. Many tribes are at risk of losing between a quarter and a third or more of their housing budgets if the President's budget request were to take effect, the impact of which would be devastating.

OTHER INDIAN HOUSING AND RELATED PROGRAMS

The Title VI and Section 184 Indian Housing Loan Guarantee Programs

The President's budget request includes $2 million for the title VI Loan Guarantee program and $8.25 million for the section 184 program. The title VI program

[6] Eligible activities include but are not limited to downpayment assistance, property acquisition, new construction, safety programs, planning and administration, and housing rehabilitation. As HUD's funding justification acknowledges (see http://hud.gov/offices/cfo/reports/2011/cjs/nahb-grants2011.pdf, Page N–8), a large portion of tribal funds are spent on planning, administration, and operating expenses.

[7] Part of the rationale for reducing IHBG funding was what may appear to be a delay in use of available tribal housing funds. However, such apparent delay is an aberration. Since NAHASDA was initially funded in fiscal year 1998 through fiscal year 2009, tribal expenditure rates are 88 percent. Based on a HUD ARRA spending report dated March 20, 2010, tribes are spending HUD and ARRA funds at a rate that at least equals and, in some cases, exceeds the national average.

is important because it provides a 95 percent guarantee on loans made by private lenders, which is an incentive for lenders to get involved in the development of much-needed housing in tribal areas. Section 184 is specifically geared toward facilitating home loans in Indian Country. We request that these programs be funded at $2 million and $9 million, respectively.

Indian Community Development Block Grant (ICDBG)

While appreciated, proposed funds of $65 million for the ICDBG are insufficient to meet the current needs for essential infrastructure, including sewer and running water, in Indian Country. We request that this program be funded at $100 million.

Native Hawaiian Housing

Low-income Native Hawaiian families continue to face tremendous challenges, similar to those that tribal members face in the rest of the United States. The President's budget request of $10 million for the Native Hawaiian Housing Block Grant is appreciated, but the budget includes no funding for the section 184A program in Hawaii. While it has taken some time to get this program started—because lenders are not familiar with the section 184A program—providing no funding would be a step backward for Native Hawaiian families working toward home ownership. We urge Congress to consider this before agreeing to the administration's proposal to eliminate funding for the program.

TRAINING AND TECHNICAL ASSISTANCE (T/TA) AND THE PROPOSED TRANSFORMATION INITIATIVE

The President's budget request would eliminate entirely the much-needed, exceptional T/TA that has been provided by NAIHC since NAHASDA was implemented. The provision of T/TA is critical for tribes to build their capacity to effectively plan, implement, and manage tribal housing programs. Eliminating funding for T/TA would be disastrous for tribal housing authorities and would be a huge step in the wrong direction. Tribes need more assistance in building capacity, not less. Since NAIHC's funding for T/TA was restored in 2007, requests for T/TA have steadily grown. The funding that NAIHC is currently receiving is insufficient to meet the continuous, growing demand for T/TA. Therefore, we are forced to make difficult decisions regarding when, where, and how to provide the most effective T/TA possible to our membership.

The President's budget request proposes an agency-wide Transformation Initiative Fund ("TIF") with up to 1 percent of HUD's total budget, which would draw funds away from essential housing programs, including $5.8 million from the IHBG account, "to continue the on-going comprehensive study of housing needs in Indian Country and native communities in Alaska and Hawaii." While the NAIHC membership believes the TI may have merit, we do not believe that transferring nearly $6 million from the IHBG account to conduct a study on housing needs is a wise or even defensible use of Federal taxpayer funds. More importantly, the $6 million affects funding that has historically been appropriated to NAIHC for T/TA. Through resolutions, the NAIHC membership has repeatedly taken the position that a portion of the IHBG allocation should be provided to NAIHC for T/TA, which is a reflection of their confidence in NAIHC and the continuing demand for the essential capacity-building services that we provide. We request that funding in the amount of $4.8 million for T/TA be included in the fiscal year 2011 budget.

CONCLUSION

NAHASDA was enacted to provide Indian tribes and Native American communities with new and creative tools necessary to develop culturally relevant, safe, decent, affordable housing. NAIHC has very specific concerns regarding the President's budget request for Indian housing funding levels and we urge Congress, with the leadership of this subcommittee, to not permit excessive funding reductions in the NAHASDA program. To do so would be an enormous step backwards and devastate the progress that has been made in the past 12 years to improve housing conditions in Indian Country. Based on the facts outlined above and the potentially devastating impact a dramatic cut to Indian housing funds will most certainly have on Indian Country, NAIHC requests funding in the amounts outlined above in order to meet the immense needs in Indian country.

Thank you, Chairwoman Murray, Ranking Member Bond, and the members of this subcommittee for allowing us to express our budgetary priorities and concerns regarding Native American housing needs. Your continued support of Native American communities is truly appreciated, and the NAIHC is eager to work with you and your professional staff on any and all issues pertaining to Indian housing programs and living conditions for America's indigenous people.

PREPARED STATEMENT OF NA TANYA DAVINA STEWART

Subcommittee Members: I am submitting this testimony concerning the Federal and local transportation agencies charged with the creation and implementation of transportation projects in Lake County, Indiana and their non-compliance with Executive order 12898, 1994 and the provisions of Environmental Justice —"the fair treatment and meaningful involvement of all people regardless of race, color, national origin, or income with respect to the development, implementation, and enforcement of environmental laws, regulations, and policies."

On April 16 and 17, 2010, the Northwestern Indiana Regional Planning Commission (NIRPC), the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA) held corrective action workshops as a result of NIRPC's certification review to address the ongoing challenges NIRPC has with their technical analysis and lack of adherence to environmental justice mandates.

During the course of the workshops several issues emerged that are of grave concern to those of us who were in attendance. We stated our concerns to NIRPC and feel compelled to address this subcommittee since NIRPC receives Federal funding from you.

—*On the Issue of Fair Treatment.*—The Federal funding ratio of 80:20 for projects places an excessive burden upon cities that are experiencing extreme revenue shortfalls. Gary, Indiana and the entire Northwest Indiana Region once reigned as an industrial giant and the steel industry was the backbone of the economy. In this post-industrial age, cities like Gary have been slow to transition to the information and technology economies. This is a regional as well as a national problem. Our economic base continues to erode along with our property values that incidentally, are the source of our scant city revenues. Is it possible for the Federal Government to make special allowances when it comes to funding basic road maintenance projects by lowering or eliminating the cost distressed cities have to pay especially when budget cuts dictate that a city may be unable to prioritize such basic yet essential projects? Safe and paved streets are a quality of life issue.

—*On the Issue of Meaningful Involvement.*—NIRPC receives most of its funding from Lake County residents. The diverse ethnic and intergenerational demographic make-up of the county is not reflective in NIRPC's workforce and governing board. NIRPC's board is appointed by dictates of State law and consists of elected officials. We are aware that NIRPC's board appointments are not an issue for the Federal Government to resolve. In keeping with the call for meaningful involvement as put forth by the definition of environmental justice and in our right to fully engage in our democracy; it is imperative that we also hold positions of power on the board and/or have a say in whom we desire to represent our interests on the board in order to be more involved in the decision-making on projects that will affect our lives. Our calls to have grassroots organizations, youth, the elderly, and differently able people represented in these positions of power have fallen upon deaf ears and we feel are a direct violation of our rights. It is our tax dollars that fund NIRPC yet we do not play a significant role in the development, implementation, and enforcement of the policies and transportation projects that directly impact our lives. If the Federal Government continues to fund agencies like NIRPC then it is your responsibility to weigh in on ensuring said agencies truly involve the community residents in every stage of the development of projects.

During the meeting, a board member of NIRPC just happened to mention that NIRPC had recently created a 501c3 on Economic Development within their organization. NIRPC had already appointed the 501c3 board that is comprised of elected officials and members from the business community. If a city within NIRPC's jurisdiction wants to move forward on an economic development plan and is in need of additional revenue from the Federal Government, that city would have to go through NIRPC to secure Federal dollars. Based upon NIRPC's history of non-inclusion of marginalized people and their technical analysis and environmental justice shortcomings as cited by the certification review process, we are gravely concerned about the acquisition of NIRPC's new power.

We implore the Federal Government to re-evaluate their funding allocation policies. When Federal funds for transportation are directed to State governments and Metropolitan Planning Organizations (MPO) how are those monies dispersed? Do cities with the greatest need receive the bulk of the money or cities more adapt with the grant writing process? Is the national objective to secure and maintain center cities and make them more energy efficient and accessible or is it to continue to fund urban sprawl and construct new highways that will decimate farmland and open spaces we all rely upon for food and oxygen?

Sending monies to the State government and MPO's may be an efficient mechanism to maintain Federal and State highways and regional projects like light and speed rail but may not be an efficient distribution of funds for local projects like street and bridge maintenance. When cities have to compete for monies from a funding pool that encompasses projects that include regional and State projects, cities may lose out on funding opportunities and continue to decline, especially during economic down turns.

We ask that you take our funding concerns and efforts to hold MPO's like NIRPC to the high standards of inclusion set forth by Executive order 12898, 1994 into consideration as you weigh in on the fiscal year 2011 appropriations and general national transportation policies.

PREPARED STATEMENT OF THE NATIONAL AIDS HOUSING COALITION

The National AIDS Housing Coalition (NAHC) requests $410 million for the Housing Opportunities for Persons With AIDS Program (HOPWA) for fiscal year 2011. NAHC is a national non-profit 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, service providers, developers, researchers, public health and housing departments and advocates.

Research presented through NAHC's Research Summit Series overwhelmingly confirms housing as a strategic point of intervention to address HIV/AIDS and the impacts of homelessness and the concomitant effects of race and gender, poverty, mental illness, chronic drug use, incarceration and exposure to trauma and violence. Housing has been shown as cost effective by stabilizing people with HIV/AIDS and reducing reliance on other public systems.

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 and their families living with HIV/AIDS. 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. Finally, 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

Lack of housing is associated with remaining outside of medical care and improved housing status has been shown to significantly affect access to healthcare, including anti-retroviral treatment (ART) and adherence. In summary:

Housing Impacts Continuity of Care.—Over time, housing status is among the strongest predictors of entry into HIV care, primary care visits, continuous care, and care that meets clinical practice standards.

Housing Improves Health Outcomes.—Improved housing status has a significant, positive association with better HIV-related health, including CD4 counts, viral load, and co-infection with HCV or TB.

AIDS Housing is a Powerful Weapon Against Homelessness.—Research confirms that homelessness is a major risk factor for HIV, and HIV is a major risk factor for homelessness: for example, at any given time, up to 16 percent of people living with HIV/AIDS are homeless, while as many as 70 percent report a lifetime experience of homelessness or housing instability.

AIDS Housing is Prevention.—Over time, persons who improve their housing status reduce their risk behaviors by one-half. Access to housing improves access and adherence to ART, which lowers viral load and reduces the risk of transmission.

AIDS Housing is Cost-effective.—AIDS housing investments reduce other public costs by improving the health of people living with HIV/AIDS and preventing new infections, making housing dollars a wise use of limited public resources.

HOUSING NEED AMONG PEOPLE WITH HIV/AIDS

Over 56,000 people became infected with HIV in the past year in the United States. Experts estimate that over one-half of people living with HIV/AIDS 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 below $30,000; the number in need is likely to increase proportionally with the weakened economy and sustained high unemployment levels.

In 2010, HOPWA will continue providing housing support for over 58,000 households in 133 formula eligible jurisdictions, providing assistance in all 50 States, the District of Columbia, Puerto Rico and the Virgin Islands. Three new jurisdictions became eligible for formula funding—Little Rock, Arkansas; Albuquerque, New Mexico; and Allentown, Pennsylvania. In addition, 93 competitive grants are currently operating. The program is tied to positive client outcomes in the 58,367 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 $410 million, which would permit assistance to an additional 14,000 people with HIV/AIDS in need of housing assistance and reduce unmet need by over 10 percent.

EXAMPLES OF AIDS HOUSING NEED ACROSS THE COUNTRY

AIDS housing need has exploded in virtually every region of the country. As the affordable housing crisis envelopes higher income people, persistently vulnerable populations are squeezed out of assistance. Though waiting lists are no longer maintained in many jurisdictions, affordable housing need continues to grow.

In Alabama, just 414 people with HIV/AIDS and their families receive HOPWA assistance, while 2,173 HOPWA-eligible households have unmet housing needs. The tenant-based rental assistance program has been closed to new applicants since June 2008. Of the families on the waiting list, 77 percent are living at or below the poverty level.

Across Massachusetts, 1,699 families are on waiting lists for AIDS housing assistance—355 in greater Boston alone.

In San Francisco, the city's centralized housing waiting list has over 1,000 people and has been closed to new applicants since November 2001.

There are 4,637 people living with HIV/AIDS on the waiting list for housing assistance in Dallas—almost one-third of all HIV-positive people in the city. In needs assessments, housing assistance was consistently ranked second in overall unmet need, surpassed only by dental care.

The overall number of unmet AIDS housing need in Central Ohio from 2004–2009 is 770 households, based on the current Consolidated Plan for the city of Columbus.

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 Housing Opportunities for Persons With AIDS 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 $410 million for the Housing Opportunities With AIDS program for fiscal year 2011.

PREPARED STATEMENT OF THE UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH (UCAR)

On behalf of the University Corporation for Atmospheric Research (UCAR) and the larger university community involved in weather and climate research, I submit this written testimony for the record of the Senate Committee on Appropriations, Subcommittee on Transportation and Housing and Urban Development, and Related Agencies.

UCAR is a consortium of 75 universities that manages and operates the National Center for Atmospheric Research and additional programs that support and extend the country's scientific research and educational capabilities. UCAR is supported by the National Science Foundation and other Federal agencies, including the U.S. Department of Transportation (USDOT)'s Federal Highway Administration (FHWA) and Federal Aviation Administration (FAA).

I want to thank the subcommittee for its leadership in supporting research and development programs at the FAA and FHWA. I urge you to support the President's commitment to ensuring safer, more efficient air and road travel. One essential piece of this commitment to modernizing air and surface travel is providing drivers, pilots, and other vehicle operators with access to real-time weather information. I urge you to support these relatively small but critically important R&D programs within the FAA and FHWA budgets.

FEDERAL HIGHWAY ADMINISTRATION (FHWA)

The highest priority for the USDOT and the FHWA is transportation safety. Last month, the National Highway Traffic Safety Administration released a report projecting that traffic fatalities have declined for the 15th consecutive quarter, the lowest annual level since 1954. Still, 24 percent of weather-related vehicle crashes occur on snowy, slushy or icy pavement, causing 1,300 deaths and more than 116,800 injuries annually. There are also economic costs: snow and ice significantly increase road maintenance costs, and State and local agencies spend more than $2.3 billion on snow and ice control operations annually.

Since the late 1990s, researchers and engineers from several national labs and universities have played a pivotal role bringing the surface transportation and weather communities together to increase traffic safety, efficiency, and mobility. Applications of successful research and development supported by the Road Weather Research and Development Program (SAFETEA–LU sec. 5308) have significantly reduced the cost of State DOT winter snow and ice control activities and are likely to have significantly reduced weather-related accidents. This program, authorized at $5 million per year, has proven quite successful. For example, the Winter Maintenance Decision Support System, which supports pavement snow and ice control operations, was successfully developed, tested, and implemented by the private sector in more than 13 States. The Road Weather Research Program is also developing advanced weather and road condition safety applications as part of the USDOT's IntelliDrive Initiative.

In the absence of a new surface transportation reauthorization bill, the President's fiscal year 2011 request keeps funding for the Road Weather Research Program frozen at $4 million. It is imperative that this be increased to the authorized level of $5 million per year. A fully-funded Program would support the development of technologies that integrate weather and road condition information into traffic management centers, improve understanding of driver behavior in poor weather, develop in-vehicle information systems and wireless technologies that provide warnings to drivers when poor weather and road conditions exist, improve the understanding of the impact of weather on pavement condition, and develop new active control strategies optimized for poor weather and road conditions. I urge the subcommittee to fund the Road Weather Research and Development Program at its full authorized level of $5.0 million in fiscal year 2011.

THE FEDERAL AVIATION ADMINISTRATION (FAA)

Projections indicate that the demand for aviation will increase by a factor of two or three over the next two decades. Expansion of aviation is likely to continue and, as in the past, could outpace economic growth. To meet future aviation capacity needs, the United States is developing and implementing a dynamic, flexible and scalable Next Generation Air Transportation System (NextGen) that is safe, secure, efficient and environmentally sound.

I urge you to support the President's overall fiscal year 2011 request of $16.5 billion for the FAA, an increase of $476 million above fiscal year 2010 enacted levels. This increase reflects the administration's recognition of future passenger growth and its commitment to safety and performance.

INTEGRATING WEATHER INTO THE FUTURE AIR TRANSPORTATION SYSTEM

The primary goal of NextGen is to address and meet the rapidly changing needs of the National Airspace System (NAS). Providing accurate, timely weather information required by aviation decisionmakers is fundamental to NextGen's success in achieving capacity, efficiency, and safety goals. Improved weather forecasts, plus a shared source of decision support information for NAS decisionmakers, are crucial elements of achieving the goal of reducing the weather impact. The first step, though, is establishing a clear understanding of the impacts that have the most effect on NAS efficiency and capacity. The most visible impact to us all is "delays," both airborne and ground, affecting both airplanes and people. Delay translates to operational cost for the airlines, and lost productivity for the users of the system—people and cargo.

RESEARCH, ENGINEERING, AND DEVELOPMENT

The fiscal year 2011 request of $190 million for the Research, Engineering, and Development (RE&D) line office at the FAA continues important work in current research areas, including aviation weather research. This 7.6 percent increase over fiscal year 2010 supports enhanced NextGen research and development efforts in the areas of air-ground integration, 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 line office of the President's fiscal year 2011 FAA budget request.

WEATHER PROGRAM

Aviation weather research and applications are critical to the FAA's safety, operations and efficiency record. A number of research projects are underway, through the Weather Program and in collaboration with industry representatives, which focus on in-flight icing, turbulence, winter weather and deicing protocols, thunderstorms, ceiling, and visibility.

One example system that translates a large amount of weather data into a significant safety and delay impact is the Weather Decision Support for Deicing Decision Making System (WSDDM). The accumulation of ice on aircraft prior to take off has long been recognized as one of the most significant safety hazards affecting the aviation industry today. Using WSDDM, airport snowfall rate in terms of liquid water content is translated into deicing fluid application procedures and aircraft holdover times.

While the goal of the Weather Program is to increase safety, capacity, and support NextGen, I am very concerned that the request of $16.5 million simply will not support the R&D needs of the program which is down almost 2 percent from last year's level and operating with one-half the funding level of 10 years ago. To address the challenges and meet the research needs of NextGen, the Weather Program must receive, at a minimum, $18 million for fiscal year 2011.

WEATHER TECHNOLOGY IN THE COCKPIT

The crash of an Air France jet last year over the Atlantic Ocean, killing all 216 passengers and 12 crew members, is 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, which is where some of the worst turbulence occurs. Providing pilots with at least an approximate picture of developing storms could help guide them safely around areas of potentially severe weather.

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. It seeks to ensure the adoption of cockpit, ground, and communication technologies, practices, and procedures that will provide pilots with shared and consistent weather information to enhance common situational awareness, plus engage the aircraft as a "node" that autonomously exchanges weather information with surrounding aircraft and ground systems. One system being developed combines satellite data and computer weather models with cutting-edge artificial intelligence techniques to identify and predict rapidly evolving storms and other potential areas of turbulence, and alert pilots and air traffic controllers to storms and turbulence over the continental United States.

I am very disappointed that the fiscal year 2011 request for this small but lifesaving program was reduced almost 3 percent from fiscal year 2010 to $9.3 million. I urge you to fund the Weather Technology in the Cockpit program at $10 million, at a minimum.

FACILITIES AND EQUIPMENT

In the FAA's Facilities and Equipment line office, I would like to call your attention to two very important programs, NextGen Network Enabled Weather (NNEW) and Reduce Weather Impact, and ask you to support the fiscal year 2011 request for both.

NEXTGEN NETWORK ENABLED WEATHER (NNEW)

Exploring, identifying, and employing methods and techniques that will help facilitate the flow of operation-specific weather-related data and information to end users is critical. The NextGen Network Enabled Weather project is dedicated to using and developing technologies and standards for NextGen that will support effective dissemination of weather data. The concept of a 4–D Weather Data Cube is a foundational element of NextGen. It is envisioned that this virtual data cube will comprise weather data and information from disparate data contributors and locations. From this Cube, end users (e.g., air traffic managers, pilots, etc.) will be able to obtain a common weather picture of the NAS. The fiscal year 2011 request for NNEW is $28.25 million, an $8 million increase over 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 U.S. airspace to reduce congestion and meet projected demand in an environmentally sound manner. The Program addresses implementation of improved forecasts and provides weather forecast information tailored for integration into traffic management decision support systems. Some of this work starts with identification of the air traffic management impact of interest, and then translating weather into metrics associated with that impact.

The current weather observing network is inadequate to the needs of NextGen. Improvements will be central to 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 continue this work, I urge you to support the President's fiscal year 2011 request of $43.2 million for the NextGen Reduce Weather Impact Program, an increase of $7.6 million above fiscal year 2010.

On behalf of UCAR, as well as all U.S. citizens who use the surface and air transportation systems, I want to thank you for the important work you do in supporting the country's scientific research, training, and technology transfer. We appreciate your attention to the recommendations of our community concerning the fiscal year 2011 FHWA and FAA budgets and your concern for the safety of the Nation's transportation systems.

PREPARED STATEMENT OF THE NATIONAL RECREATION AND PARK ASSOCIATION

Thank you Chairwoman Murray, Ranking Member Bond, and other members of the subcommittee for this opportunity to submit written testimony on the fiscal year 2011 appropriations bill.

NRPA is a 501(c)3 national non-profit organization with more than 21,000 members. We represent both citizens and park and recreation professionals. Our mission is to advance parks, recreation and environmental conservation for the benefit of all people. Because we represent the public park and recreation agencies in the United States, we touch the lives of over 300 million people in virtually every community.

As your subcommittee works to craft the fiscal year 2011 appropriations bill, we request that you include $4.2 billion for the Community Development Block Grant (CDBG) Program.

The CDBG program equips communities with the resources they need to address serious community development challenges. The program has been an invaluable tool to help cities replace decaying infrastructure and provide safe places to live, work, learn and become physically active. Unfortunately, despite proven success, the CDBG formula grant program has seen a decrease in funding over the past few years going from $4.9 billion in fiscal year 2004 to $3.9 billion in fiscal year 2010. This is a decrease of more than 20 percent in only 6 short years.

According to the Department of Housing and Urban Development, approximately $100 million of CDBG funds are utilized annually for parks and recreation projects. This is not surprising since studies have shown that parks and recreational resources are often key components to the revitalization of communities and blighted areas as they increase property values, reduce storm water runoff, mitigate urban heat islands and improve health and wellness. The flexibility afforded through the

CDBG program allows communities to implement funds in ways that best meet their specific needs such as including park and recreation projects as part of a comprehensive redevelopment initiative.

The 2005–2010 5 year community development plan for Olympia, Washington cited an unmet need of $2.7 million for parks and recreation projects relative to community development. Throughout the State hundreds of projects are seeking funding for the acquisition of, and improvements to, parks and recreation facilities in order to improve the livability of moderate to low income neighborhoods and promote healthier, sustainable communities. Such projects are well positioned to be funded through the CDBG program.

Missouri has utilized CDBG funds to address a host of community development needs throughout the State. In 2009 St. Louis leveraged over $5 million in CDBG money to improve accessibility of playgrounds for children with disabilities, for environmental remediation to reduce stormwater runoff, for sidewalk, and streetlight enhancements to make parks safer for families, and parks and recreation infrastructure improvements to support recovery efforts for neighborhoods suffering from high foreclosure and diminishing property values.

The city of Tuscaloosa, Alabama leverages an average of nearly $1.5 million in CDBG money on an annual basis to fund projects that address community development needs. Among these were projects bringing park and recreation facilities into ADA compliance to make them more accessible for persons with disabilities, improving playground equipment to make them safer for children, building walking trails to help the city become healthier and more livable, as well as enhancing park and recreation infrastructure to provide economic stimulus in economically depressed areas.

The importance of CDBG, however, goes beyond providing safe infrastructure. Funding provided through the CDBG program often serves as the catalyst for private investment. In fact, the National League of Cities concluded that over the more than 30-year life of the program, CDBG has leveraged nearly $324 billion in new private investment in our Nation's communities. This equates to a three to one return on investment.

CDBG funds also help to reduce crime and build a skilled workforce. Various parks and recreation departments throughout the country use CDBG funding in coordination with other community organizations, to provide educational services, employment training and youth development initiatives to low-income youth and their families. For example, in Phoenix, Arizona, the city parks and recreation department partners with a local non-profit called Kids Café to provide a safe and secure after school environment for children. This program provides low-income children with healthy, nutritious meals, as well as tutors and mentors, and engages them in recreational sports.

For more than 30 years the CDBG program has played a critical role in revitalizing neighborhoods and improving the quality of life in communities throughout this country. CDBG funding provides valuable resources that allow communities to tailor projects to address their unique community needs. From ensuring the energy efficiency of public buildings to reducing crime and providing safe recreational infrastructure, CDBG funding is building healthy, livable and economically viable communities. The National Recreation and Park Association strongly supports increased funding for the CDBG program and calls on Congress to fund the program at $4.2 billion in fiscal year 2011.

Thank you for this opportunity to present testimony.

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