



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410

Written Testimony of Julian Castro
Secretary of U.S. Department of Housing and Urban Development (HUD)
Hearing before the Subcommittee on Transportation, Housing and Urban Development, and Related
Agencies
House Committee on Appropriations
on
“FY 2017 Budget Request for the Department of Housing and Urban Development”
Tuesday, March 1, 2016

Thank you, Chairman Diaz-Balart and Ranking Member Price, for this opportunity to discuss how HUD’s fiscal year 2017 budget proposal follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building. This Budget targets our investments to the families and geographies that need them the most, and puts more Americans back to work.

HUD’s Budget is an essential component of the President’s vision of investing in the things we need to grow our economy, create jobs, increase skills training and improve education, while continuing long term deficit reduction. Our request maintains assistance to low-income families currently served by HUD programs, expands assistance to targeted vulnerable populations, including the homeless and Native Americans, and revitalizes neighborhoods with distressed HUD-assisted housing and concentrated poverty. HUD’s work is critical to the Administration’s efforts to strengthen communities, bolster the economy, and improve the quality of life of the American people.

Overall, the President's Budget provides \$48.9 billion for HUD programs, an increase of \$1.9 billion above the 2016 enacted level. This spending is offset by projected receipts of \$10.9 billion. Increases are provided to protect vulnerable families, make significant progress toward the goal of ending homelessness, and support community-centered investments, including funding to revitalize neighborhoods with distressed HUD-assisted housing and concentrated poverty. This budget is built on rigorous research and evidence of what works, providing flexibility and investing in strategies that have been proven to pay dividends for families and communities.

The fiscal year 2017 HUD Budget:

Provides Opportunities for America’s Most Distressed Neighborhoods to Revitalize and Increase Economic Growth. The Budget provides \$200 million for Choice Neighborhoods to continue to transform neighborhoods of concentrated poverty into opportunity-rich, mixed-income neighborhoods. This funding level will be used to revitalize HUD-assisted housing and surrounding neighborhoods through partnerships between local governments, housing authorities, nonprofits, and for-profit developers. Preference for these funds will be given to designated Promise Zones—high-poverty communities where the Federal Government is working with local leadership to invest and engage more intensely to create jobs, leverage private investment, increase economic activity, reduce violence and expand educational opportunities. To further support Promise Zones, the Budget includes companion investments of \$128 million in the Department of Education’s Promise Neighborhoods program and \$24 million in the Department of Justice’s Byrne Criminal Justice Innovation Grants program, as well as tax incentives to promote investment, jobs and economic growth.

The Budget proposes \$300 million in mandatory funds for a new Local Housing Policy Grants program. This program will provide grants to localities and regional coalitions to support new policies, programs or regulatory

initiatives that create a more elastic and diverse housing supply, and in turn, increase economic growth, access to jobs and improve housing affordability. These funds will support a range of transformative activities in communities across the nation that reduce barriers to housing development, increase housing supply elasticity and affordability, and demonstrate strong connections between housing, transportation, and workforce planning.

Supports Strategic Infrastructure Planning and Investments To Help Make America a Magnet for Jobs.

HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; helps communities address the lingering neighborhood impacts of the foreclosure crisis; and aligns federal policies and funding to remove barriers to local collaboration. The Budget provides \$2.8 billion for the Community Development Block Grant (CDBG) formula program, and proposes reforms to better target CDBG investments to address local community development goals. The budget also provides \$950 million for the HOME Investment Partnerships Program to help state and local governments increase the supply of affordable housing and expand homeownership opportunities for low-income families.

Protects the Vulnerable Recipients of HUD Rental Assistance and Makes Progress on the Federal Strategic Plan to End Homelessness.

The Budget includes \$20.9 billion for the Housing Choice Voucher program to help about 2.2 million low-income families afford decent housing in neighborhoods of their choice. This funding level supports all existing vouchers and adds 10,000 new vouchers to the program, targeted to families with children experiencing homelessness. The Budget also includes \$10.8 billion for the Project-Based Rental Assistance program to maintain affordable rental housing for 1.2 million families, and provides \$6.4 billion in operating and capital subsidies to preserve affordable public housing for an additional 1.1 million families.

The Budget provides \$2.7 billion for Homeless Assistance Grants, \$414 million above the 2016 enacted level. The increased funding will enable HUD to maintain existing projects, fund the increased competitive renewal demand for Continuums of Care in fiscal year 2016, and create 25,500 beds of permanent supportive housing for chronically homeless persons to reach the goal of ending chronic homelessness in 2017. In addition, the Budget includes 8,000 rapid rehousing interventions for households with children, which will support the goal of ending child, family and youth homelessness by 2020, and \$25 million in new projects targeted to homeless youth.

In addition to the targeted requests for homeless families with children above, the Budget requests \$11 billion in mandatory funds for vouchers and rapid rehousing to end family homelessness. Approximately 550,000 families will be supported over ten years to stabilize their housing and assist them to become more self-sufficient. This proposal is based on rigorous research and will give families the right support at the right time to promote better outcomes.

Improves mobility through the Housing Choice Voucher program. The Budget provides \$2.1 billion in Public Housing Authority (PHAs) administrative fees using a new evidence-based formula that not only more accurately reflects the actual cost of running the program, but ensures that PHAs have sufficient resources to provide low-income families greater access to opportunity areas. In addition, the Budget requests \$15 million for a new mobility counseling demonstration that is designed to help HUD-assisted families move and stay in higher-opportunity neighborhoods. A portion of the funding will also support an evaluation to measure the impact of the counseling pilot to further inform the policy process and design.

Puts HUD-subsidized Public and Assisted Housing on A Financially Sustainable Path. Public housing authorities (PHAs) house over three million families. To bring our rental housing system into the 21st century and continue to address the \$26 billion in public housing capital needs, the Budget includes proposals that would facilitate the conversion and preservation of additional Public Housing and other HUD-assisted properties under the Rental Assistance Demonstration (RAD). At the same time, the Budget provides \$50 million for a targeted expansion of RAD to Public Housing properties in high-poverty neighborhoods and requests authority to convert Section 202 Housing for the Elderly Project Rental Assistance Contract properties to Section 8 platforms.

Improves the Way Federal Dollars are Spent. The Administration supports legislation to modernize the Housing for Persons With AIDS (HOPWA) program to better reflect the current case concentration and understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner. The Budget's \$335 million

investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay connected to treatment, and therefore improving health outcomes for this vulnerable population.

The Budget also provides \$35 million for the evidence-based Jobs-Plus program, a proven model for increasing public housing residents' employment and earnings. Through Jobs-Plus, public housing residents will receive on-site employment and training services, financial incentives that encourage work and "neighbor-to-neighbor" information-sharing about job openings, training, and other employment-related opportunities.

Invests in Research and Support to Make HUD and its Grantees More Effective. The American economy of the future requires a federal government that is efficient, streamlined, and transparent. This Budget once again calls for the flexible use of resources through HUD's Office of Policy Development and Research, which the Department will use to invest in technical assistance to build local capacity to safeguard and effectively invest taxpayer dollars; conduct innovative research; and evaluate program initiatives and demonstration programs so we can fund what works and stop funding what doesn't.

The Budget also continues to invest in focused upgrades to the IT infrastructure to improve service delivery and to better track and monitor our programs.

Consistent with the previous three years, HUD's fiscal year 2017 Budget is structured around the five overarching goals the Department adopted in its new Strategic Plan 2014-2018. These goals reflect the Department's—and my—commitment to 'moving the needle' on some of the most fundamental challenges facing America. Indeed, every month, I hold *HUDStat* meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: 1) ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other federal agencies; and 2) hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

Goal 1: Strengthen the Nation's Housing Market to Bolster the Economy and Protect Consumers

This Administration entered office confronting the worst economic crisis since the Great Depression. And while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the administration for leadership and action in righting our nation's housing market. HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges. This Budget drives economic growth by increasing access to credit and strengthening the FHA.

In fiscal year 2017, HUD is requesting \$400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, and \$30 billion in loan guarantee authority for the General and Special Risk Insurance Fund. The need for FHA is clear as it stepped up in recent years to address the unprecedented challenges wrought by the housing crisis, playing an important countercyclical role that has offered stability and liquidity throughout the recession. While a recovery of the housing market is currently underway, FHA continues to act as a crucial stabilizing element in the market, and to assure ongoing access to credit for qualified first-time, low-wealth or otherwise underserved borrowers.

The Budget also includes a request for the FHA Administrative Fee that will assist FHA in performing critical Quality Assurance work by funding important Information Technology investments as well as administrative investments to maintain FHA as an effective partner with borrowers and lenders. This modest fee on lenders will be applied only prospectively, and these funds will make it possible for FHA to continue to increase access, helping to place homeownership within the reach of more Americans.

Goal 2: Meet the Need for Quality, Affordable Rental Homes

In an era when more than one-third of all American families rent their homes and over 7.7 million unassisted families with very low incomes spend more than 50 percent of their income on rent and/or live in substandard housing, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families – particularly since, in many communities affordable rental housing does not exist without public support. HUD’s 2017 Budget maintains HUD’s core commitments to providing rental assistance to some of our country’s most vulnerable households as well as distributing housing, infrastructure, and economic development funding to states and communities to address their unique needs. Overall, 85 percent of HUD’s total 2017 budget authority requested goes toward renewing rental assistance for current residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs, and to some limited, strategic expansion of rental assistance to specific vulnerable households.

HUD’s core rental assistance programs serve some of the most economically vulnerable families in the country. In these programs, including Housing Choice Vouchers, Public Housing and Project Based Rental Assistance (PBRA): almost 75% of families are extremely low-income (below 30 percent of area median income) and an additional 20 percent are very low-income (below 50 percent of area median income). Although worst case housing needs decreased to 7.7 million in 2013 from the record high of 8.5 million in 2011, these needs are still a national problem. Housing needs have expanded dramatically during the past decade and were exacerbated by the economic recession and associated collapse of the housing market, which reduced homeownership through foreclosures and increased demand for renting.”

Preserving Affordable Housing Opportunities in HUD’s Largest Programs

This Budget provides \$20.9 billion for HUD’s Housing Choice Vouchers program, which is the nation’s largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. This 2017 funding level is expected to assist approximately 2.2 million families and support new incremental vouchers for areas of high need, for targeted populations. This Budget adds voucher leasing opportunities through funding for approximately 10,000 new units of housing for homeless families with children.

The Budget also provides a total of \$6.4 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating (\$4.6 billion) and Capital (\$1.9 billion) funds, a critical investment that will help over 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a \$10.8 billion request in funding for the PBRA program, the Department will provide rental assistance funding to privately-owned multifamily rental housing projects to serve over 1.2 million families nationwide.

Rebuilding our Nation’s Affordable Housing Stock

Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country’s most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Unlike other forms of assisted housing that serve very similar populations, the public housing stock is nearly fully reliant on federal appropriations from the Capital Fund to make capital repairs. Funding and regulatory constraints have impaired the ability for these local and state entities to keep up with needed life-cycle improvements. The most recent capital needs study of the public housing stock, completed in 2010, estimated the backlog of unmet need at approximately \$26 billion, or \$23,365 per unit. Funding for the Capital Fund has been insufficient to meaningfully reduce public housing’s backlog of repair and replacement needs or even meet the estimated \$3 billion in annual accrual needs. Under the strain of this backlog, and without financing tools commonly available to other forms of affordable housing, the public housing inventory has lost an average of 10,000 units annually through demolitions and dispositions.

- ***Rental Assistance Demonstration***

To help address the backlog of unmet capital needs and to preserve this critical source of affordable housing, HUD is continuing to implement the Rental Assistance Demonstration (RAD), a program which enables PHAs to convert public housing to the Section 8 platform. In addition to the public housing stock,

the RAD program targets certain “at-risk” HUD legacy programs. Prior to RAD, units assisted under Section 8 Moderate Rehabilitation (MR) and Section 8 Moderate Rehabilitation Single-Room Occupancy (MR SRO) were limited to short-term renewals and constrained rent levels that inhibit the recapitalization of the properties, and units assisted under Rent Supplement (RS) and Rental Assistance Program (RAP) had no ability to retain long-term project-based assistance beyond the current contract term. As a result, as their contracts expired, these projects would no longer be available as affordable housing assets.

Conversion to Section 8 rental assistance, as permitted under RAD, is essential to preserving these scarce affordable housing assets and protecting the investment of taxpayer dollars these programs represent. Long-term Section 8 rental assistance allows for state and local entities to leverage sources of private and public capital to rehabilitate their properties. While the Department expects and continues to process Public Housing conversions of assistance without additional subsidy, HUD requests \$50 million in 2017 for the incremental subsidy costs of converting assistance under RAD for properties that cannot feasibly convert to Section 8 at existing funding levels. This funding would also support a requested expansion of the RAD authority to include Section 202 Housing for the Elderly Project Rental Assistance Contracts (PRACs). Overall, the requested funding will be targeted to: 1) Public Housing properties located in high-poverty neighborhoods, including designated Promise Zones, and in areas where the Administration is supporting comprehensive revitalization efforts as well as transfer of assistance to high opportunity locations where there is a limited supply of affordable housing, and 2) Section 202 PRACs with significant recapitalization needs, including those properties with service coordinators for frail and elderly residents. The Department estimates that the \$50 million in incremental subsidies will support the conversion and redevelopment of approximately 25,000 Public Housing and Section 202 PRACs, while helping to increase private investment in the targeted projects.

In addition to the funding request, the proposed legislative changes to RAD are designed to allow for maximum participation by those PHAs and private owners whose current funding levels are sufficient for conversion. This includes, for example, elimination of the 185,000 unit cap, which will allow for a greater portion of the Public Housing stock that can convert at no cost to the federal government to participate in the demonstration.

Goal 3: Use Housing as a Platform for Improving Quality of Life

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or long-term self-sufficiency, as well as proximity to crucial services. HUD’s fiscal year 2017 Budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

Preventing and Ending Homelessness

Nowhere is the relationship between housing and supportive services clearer than in the successful efforts in communities around the country to address homelessness, which have led to a 36 percent reduction in veterans’ homelessness and a 22 percent reduction in chronic homelessness, and a 19 percent in family homelessness since 2010. Additionally, this work has yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost saving in public health, criminal justice, and other systems. This year’s Budget once again invests in this critical effort, by providing \$2.7 billion in Homeless Assistance Grants. This funding level will support competitive programs that annually serve over 800,000 homeless families and individuals, and create 25,500 beds of permanent supportive housing for chronically homeless persons to reach the goal of ending chronic homelessness in 2017. The Budget also includes 8,000 rapid rehousing interventions for households with children. In addition, the Budget includes \$88 million for housing vouchers for homeless families with children and also proposes another \$11 billion in new mandatory spending to reach and maintain the goal of ending family homelessness by 2020.

Leveraging Capital Resources and Serving our Most Vulnerable

This Budget provides a total of \$659 million for the Housing for the Elderly and Housing for Persons with Disabilities programs. Doing more with less, the Budget proposes reforms to the Housing for the Elderly program to target resources to help those most in need, reduce the up-front cost of new awards, and better connect residents with the supportive services they need to age in place and live independently.

Historically, HUD has provided both capital advances and operating subsidies to non-profit sponsors to construct and manage multifamily housing for low-income people with disabilities. In an effort to maximize the creation of new affordable units in a time of funding restraints, in fiscal year 2012 HUD began providing operating assistance to state housing agencies that formed partnerships with state health care agencies for service provision to low-income persons with disabilities. These funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through Low-Income Housing Tax Credits, HOME funds, or other sources. Investing Section 811 funds under this authority allows HUD to rely on the expertise of the State housing agencies to administer the award and on the State health care agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2014, HUD requested, and received, similar authority for the Section 202 program. Drawing on lessons learned from implementation in the Section 811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding.

Goal 4: Build Strong, Resilient and Inclusive Communities

No longer can the American economy tolerate the marginalization from the labor force of significant numbers of people because of individualized or systemic discrimination, or because they live in isolated neighborhoods of concentrated poverty. An American economy built to last requires an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and, most importantly, economic self-sufficiency. As such, HUD's fiscal year 2017 Budget puts communities in a position to plan for the future and draws fully upon their resources, most importantly their people.

Each year HUD dedicates approximately 16 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, offer choices that help families live closer to jobs and schools, and support locally driven solutions to overarching economic development challenges. HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—are focused on assisting areas of great need, including communities with high unemployment.

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

Through both formula and competitive grants, HUD has partnered with local organizations and state and local governments to fund innovative solutions to community development challenges. Underpinning these partnerships is the fundamental philosophy that local decision-makers are best poised to drive a cohesive development strategy. In 2017, HUD is requesting a total of \$2.9 billion in funding for the Community Development Fund to support economic development initiatives and projects that demonstrate the ability to connect private sector growth to some of our country's most distressed citizens and communities, and \$950 million for the HOME program.

The Budget requests \$2.8 billion for the Community Development Block Grant (CDBG), which remains the largest and most adaptable community and economic development program in the Federal portfolio for meeting the unique needs of states and local governments. Since its inception in 1974, CDBG has invested in economic development at the local level, investing in infrastructure, providing essential public services and housing rehabilitation, and creating jobs primarily for low- and moderate-income families. Altogether, CDBG funding annually reaches an estimated 7,000 local governments across the country, in communities of all shapes and sizes. However, to ensure that CDBG funds effectively provide targeted benefits to these communities, especially to low- and moderate-income populations, HUD proposes a suite of reforms to strengthen the program; help grantees target funding to

areas of greatest need; enhance program accountability; synchronize critical program cycles with the consolidated plan; and reduce the number of small grantees while providing more options for regional coordination, administration and planning.

Often, CDBG dollars alone are insufficient to complete crucial economic development projects that communities desperately need. In those instances, HUD offers another potent public investment tool in the form of the Section 108 Loan Guarantee program. Section 108 allows states and local governments to leverage their CDBG grants and other local funds into federally guaranteed loans in order to pursue large-scale physical and economic investment projects that can revitalize entire neighborhoods or provide affordable housing to low- and moderate-income persons. In 2017, HUD is requesting Section 108 loan guarantee authority of \$300 million, and the continuation of a fee-based structure will eliminate the need for budget authority to cover the program's credit subsidy.

In addition, the HOME program is proposed at \$950 million and the Budget proposes legislative changes to better target the assistance provided with this funding. HOME is the primary federal tool of state and local governments for the production of affordable rental and for-sale housing for low-income families. In the past 21 years, HOME has completed 1.22 million affordable units. The Budget also proposes statutory changes that would eliminate the 24-month commitment requirement, eliminate the 15 percent Community Housing Development Organization (CHDO) set-aside, establish a single qualification threshold, revise "grandfathering" provisions so that HOME participating jurisdictions that fall below the threshold three out of the five years would be ineligible for direct grants, and provide for reallocation of recaptured CHDO technical assistance funds.

Notably in 2017, CDBG and HOME are part of the proposed Upward Mobility Project, a new initiative to allow states, localities or consortia of the two to blend their CDBG and HOME allocations with funding from the Department of Health and Human Services' Social Services Block Grant and Community Services Block Grant in a flexible way to achieve local goals. Communities would design Upward Mobility Projects around achieving a specific outcome—like increasing families' earnings, improving children's outcomes, expanding employment opportunities, or increasing housing stability—then employ the most promising evidence-based methods to achieve that goal. To support the Upward Mobility Projects, Federal agencies will partner with applicants to blend the identified funds and provide the appropriate waivers needed for required flexibilities, including but not limited to aligning household eligibility criteria, aligning and streamlining reporting requirements, and coordinating and sustaining service delivery.

In addition, the new Local Housing Policy Grants program would complement and leverage communities' CDBG and HOME activities by providing a total of \$300 million in mandatory funding for competitive grants to increase economic growth, access to jobs and improve housing affordability by supporting new policies, programs or regulatory initiatives to create a more elastic and diverse housing supply. To that end, the funding would allow localities to make investments in areas like infrastructure expansion or improvement, housing market evaluations, code writing or design assistance, and stakeholder outreach and education.

Assisting Native Americans

Through innovative programming, HUD has found new ways to partner with American Indian and Alaska Native tribal governments to help these communities craft and implement sustainable, locally-driven solutions to economic development challenges. HUD recognizes the right of Indian self-determination and tribal self-governance, and has fostered partnerships that allow tribal recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. In most of these communities, housing and infrastructure needs are severe and widespread, disconnected from transportation networks and isolated from key community assets including jobs, schools and healthcare facilities. In fiscal year 2017, HUD is requesting a total of \$786 million to fund programs that will directly support housing and economic development in American Indian, Alaskan Native, and Native Hawaiian communities nationwide, including:

- \$700 million for the Indian Housing Block Grant (IHBG) program, which is the single largest source of Federal funding for housing on Indian tribal lands today.
- \$80 million for Indian Community Development Block Grants, a flexible source of grant funds for Federally-recognized tribes or eligible Indian entities, requested within the Community Development Fund.

Of this funding, \$20 million is set aside for projects to improve outcomes for Native Youth, such as the development, rehabilitation or acquisition of community centers and health clinics.

- \$5.5 million for the Indian Housing Loan Guarantee Fund, which provides loan guarantees to increase the availability of mortgage lending on Indian reservations and other Indian areas.
- Increases the set-aside for *colonias* investment in communities along the US-Mexico border from 10 percent to 15 percent, to address problems with lack of infrastructure, including adequate water, sewer facilities and decent housing.

In addition, up to \$5 million in funding requested for Jobs-Plus would be used to implement a demonstration of the successful Jobs-Plus model in Indian Country.

Transforming Neighborhoods of Poverty

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

That's why HUD's fiscal year 2017 Budget provides \$200 million for Choice Neighborhoods to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. Choice Neighborhoods—along with RAD—is an essential element of the President's Promise Zones initiative, which is designed to support revitalization in some of America's highest-poverty communities by creating jobs, attracting private investment, increasing economic activity, expanding educational opportunity, and reducing violent crime.

The President announced the first five Promise Zones in January 2014 and will designate an additional 15 Zones by the end of calendar year 2016. Communities compete to earn a Promise Zone designation by identifying a set of positive outcomes, developing a strategy, encouraging private investment and realigning federal, state, and local resources to support achievement of those outcomes. The Promise Zone designation process ensures rural and Native American representation. Promise Zones will receive tax incentives, if approved by Congress, to stimulate hiring and business investment along with intensive federal support and technical assistance aimed at breaking down regulatory barriers and using Federal funds available to them at the local level more effectively. Applicants from Promise Zones will also receive points for competitive federal grants that will increase the odds of qualifying for support and assistance to help them achieve their goals.

Promise Zones are aligning the work of multiple federal programs in communities that have both substantial needs and a strong plan to address them. The Promise Zones initiative builds on the lessons learned from existing place-based programs like the Department of Education's Promise Neighborhoods and the Department of Justice's Byrne Criminal Justice Innovation program, both of which receive substantial increases in the Budget. Other federal agencies that will be aligning their work with that of local Promise Zone partners include the Departments of Commerce, Health and Human Services, and Agriculture.

The Choice Neighborhoods initiative is a central element of the Administration's inter-agency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department's administration of the first rounds of funding for Choice Neighborhoods grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past, many federal grant programs followed a rigid, top-down, 'one-size fits all' approach that dictated what local policymakers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs – and believe the results thus far demonstrate that we are making good on that commitment.

Ensuring Inclusive Housing Nationwide

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

The Fair Housing Initiatives Program (FHIP) is critical to building and sustaining inclusive communities. FHIP is the only grant program within the federal government whose primary purpose is to support private efforts to educate the public about fair housing rights and conduct private enforcement of the Fair Housing Act. In fiscal year 2017, HUD is requesting \$46 million in FHIP funds, representing the Department's strong commitment to fair housing. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition, it will fund fair housing education at the local, regional and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD's effort to ensure the public's right to housing free from discrimination. FHAP multiplies HUD's enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. In fiscal year 2017, the Budget provides \$21.9 million in FHAP grants to nearly 90 government agencies to enforce laws that prohibit housing discrimination that have been reviewed and deemed substantially equivalent to Federal law.

Ensuring that an Economy Built from the Middle Class Out Includes Opportunities for Rural Americans

The Administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the global economy – particularly given the reality that rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. HUD serves families in small towns and rural communities through almost every major program it funds.

As the single largest sources of funding for housing on Indian tribal lands today, HUD initiatives in Indian country continue to have some of the Department's most successful track records. Programs like Indian Housing Block Grants, Indian Housing Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, affordable housing is desperately needed. HUD recognizes the right of Indian self-determination and tribal self-governance by allowing the recipients the flexibility to design and implement appropriate, place-based housing programs according to local needs and customs. Taken together, in fiscal year 2017 HUD is requesting \$786 million to fund programs that will support housing and development in American Indian, Alaska Native, and Native Hawaiian communities.

In addition, HUD and the Departments of Treasury and Agriculture meet regularly through the interagency Rental Housing Policy Working Group to better align and coordinate affordable rental housing programs. For homeowners, the FHA helps first-time homebuyers and other qualified families all over the country purchase their own homes. HUD has also entered into a Memorandum of Understanding with the Department of Treasury's Community Development Financial Institutions Fund and the Department Agriculture – Rural Development, to expand the capacity of organizations providing loans and investment capital in underserved rural regions. The initiative, which is being piloted in *colonias* along the U.S.-Mexico border, will improve the delivery of funding from federal agencies and private sources supporting small business, affordable housing and community facilities.

Goal 5: Achieving Operational Excellence

A 21st century American economy that is a magnet for jobs and equips its residents with the skills they need for those jobs demands a government that's leaner, smarter, and more transparent. The current economic and housing crisis; the structural affordability challenges facing low-income homeowners and renters; and the new, multidimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. As such, HUD remains committed to transforming the way it does business. This transformation is more crucial now than perhaps ever before – HUD remains at the forefront of the Federal response to the national mortgage crisis, economic recovery, Hurricane Sandy

recovery, and the structural gap between household incomes and national housing prices – roles that require an agency that is nimble and market-savvy, with the capacity and expertise necessary to galvanize HUD’s vast network of partners. HUD’s 2016 Budget reflects these critical roles, by investing in transformation, research, and development that will be implemented strategically.

Investing In Our Staff

HUD’s greatest resource is its dedicated staff. When employees attain skills and are motivated to use those skills to help their organization reach goals, the capacity of the organization grows and employees in the organization grow as well; which is why HUD is creating training and leadership development opportunities for employees at all levels. Over time, the rules and regulations that develop within an organization become hurdles instead of the helpful pathways they were intended to be. HUD is in the process of simplifying and combining programs, streamlining regulations, and eliminating rules and constraints. In addition, the Department is in the middle of a major reform of its information technology, human resources, procurement, and other internal support functions to give more authority to managers and provide better service to HUD customers.

In 2016, HUD is requesting \$1.365 billion in salaries and expenses, in addition to \$23 million for Ginnie Mae and \$129 million for HUD’s Office of Inspector General (OIG). The HUD request includes several initiatives to streamline the HUD organization, consolidate functions for increased efficiency, and increase training for our staff. HUD is making specific investments of more staff to manage major rental assistance programs, increasing our ability to enforce new fair housing rules and provide more oversight to our community grant programs. The Department will continue to improve operations and create a dynamic organization capable of addressing some of our nation’s most difficult challenges.

Carrying Out Critical Program Demonstrations and Research

HUD’s ongoing transformation is a multiyear effort that can only be achieved through the relentless focus of agency leadership, full transparency and accountability for real results, and sustained and flexible budget resources. The Department has taken an enterprise-wide approach to both technical assistance and research that has bolstered these efforts and increased the efficiency and effectiveness of the Department’s programs. Further, this shared approach has provided a mechanism for innovative, cross-cutting technical assistance that goes beyond program compliance to improve grantee capacity, performance and outcomes.

While the Department’s transformation is a crucial long-term commitment, HUD continues to prioritize these efforts in a responsible manner that ensures HUD’s constituent services don’t suffer at the hands of internal transformation. This year’s Budget proposes to again fund research and demonstrations by transfers from program accounts. In fiscal year 2017, HUD’s request includes transfer authority of up to \$120 million into the Office of Policy Development and Research, up to \$35 million of which will be for research, evaluations and program demonstrations, and at least \$85 million of which will be for cross-cutting technical assistance, including place-based technical assistance. This includes training, education, support and advice to help community development corporations and community housing redevelopment organizations carry out community development and provide affordable housing activities for low- and moderate-income persons, as previously funded through the Self-Help and Assisted Homeownership Opportunity Program (SHOP) account. This modified approach will enable HUD to better integrate technical assistance and capacity building.

Upgrading the Department’s Information Technology Infrastructure

In 2017, HUD is requesting \$286 million for the Information Technology Fund. HUD will continue development efforts and will focus on delivery of discrete capabilities in our FHA and voucher management systems, as well as exploring consolidation of several grant management applications. In fiscal years 2015 and 2016, HUD deployed three successful releases of the New Core project, which transitioned key administrative and financial management functions to the Treasury Department in the largest financial management shared service arrangement established to date. HUD also implemented an enterprise-wide financial system that allows the Department to resolve material weakness and audit findings through a consolidated shared services infrastructure platform. These changes are allowing HUD to deliver services and manage these multi-billion dollar programs faster, more accurately and using better information for analysis.

Conclusion

Chairman Diaz-Balart, this Budget reflects the Administration's recognition of the critical role the housing sector must play to ensure that America becomes a magnet for jobs that strengthen the nation's middle class, including providing economic opportunity for all Americans, whatever their circumstances. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance.

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