Message from Secretary Donovan

I am pleased to submit the fiscal year 2012 Budget for the Department of Housing and Urban Development, Creating Strong, Sustainable, Inclusive Communities and Quality Affordable Homes. This budget proposal builds on HUD's two prior budgets during this Administration—Roadmap to Transformation (2010) and Investing in People and Places (2011)—helping lead America out of an unprecedented economic crisis and ensure our economy is competitive – growing and working for all Americans.

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

HUD's FY 2012 budget tackles these challenges head on: by helping responsible families at risk of losing their homes and meeting the need for quality affordable rental housing; by transforming neighborhoods of poverty and ensuring that children there have access to the quality education we need to compete in the 21st century; by rebuilding the national resource that is our federally-assisted public housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires, and by leveraging private sector investments in communities to create jobs and generate the economic growth we need to out-innovate, out-educate and out-build the rest of the world.

This budget also reflects the need to ensure that America's future isn't built on a mountain of debt. As a down payment toward reducing the deficit, the President has proposed a freeze on domestic spending for the next five years, cutting the deficit by $400 billion over 10 years and bringing non-security discretionary spending to the lowest share of the economy since President Eisenhower. Every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. HUD's fiscal year 2012 budget more than meets the President's goal – the Department's $48 billion in gross budget authority is offset by $5 billion in projected FHA and Ginnie Mae receipts credited to HUD's appropriations accounts, leaving net budget authority of $43 billion, or 1% below the fiscal year 2010 enacted level of $43.5 billion. To maintain this commitment to fiscal discipline, we have protected existing residents and made the difficult choice to reduce funding for new units and

projects, including cuts to the Community Development Block Grant, HOME Investment Partnerships, and new construction components of the Supportive Housing Programs for the Elderly (202) and Disabled (811).

And because winning the future also means reforming government so it's leaner, more transparent, and ready for the 21st century, we are also reforming the administrative infrastructure that oversees those programs. Through the Section 8 Voucher Reform Act legislative proposal that is part of this budget, the Department will simplify and rationalize the rent setting provisions of our largest program, yielding—if enacted—over $150 million in savings in the first year and over $1 billion in savings over the next half decade. Finally, the Transformation Initiative—important funding and programmatic flexibility Congress provided in 2010—is enabling the Department to conduct the kinds of research and demonstrations that will ensure that we are funding what works and identifying what doesn't and what we need to do better.

Responding to the Crisis

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

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

The results of these extraordinary but necessary actions are clear. More than 4.1 million borrowers have received restructured mortgages since April of 2009, including more than 1.4 million HAMP trial modification starts, more than 650,000 FHA loss mitigation and early delinquency interventions, and nearly 2 million proprietary modifications under HOPE Now – more than twice the number of foreclosures completed in that time. The 30-month slide in home prices was stopped. And as of this writing, the private sector has created jobs for 13 straight months.

Given that much of the economic pain was triggered by a crisis in the housing market, HUD has been central to many of this Administration's efforts to spur the economy. This began with

the Department's careful and effective stewardship of $13.61 billion in American Recovery and Reinvestment Act (ARRA) funding. As of this writing, HUD has obligated nearly 100% of its ARRA grant and loan funds and expended over 63.5% of this funding – more than 5 months ahead of the aggressive timelines the Administration set down and to which the Vice President has held every Department accountable. These funds have led to the development and renovation of more than 360,000 homes (Public Housing Capital Fund, Native American Housing Block Grant, Tax Credit Assistance Program, Community Development Block Grant, Lead Hazard Reduction and Healthy Homes grants). Through homelessness prevention assistance (Homelessness Prevention and Rapid Re-Housing Program/HPRP), local partners have prevented or ended homelessness for more than 850,000 people. Lastly, through Lead Hazard Reduction and the Healthy Homes Program, over 3,800 children have been protected from lead paint-based hazards and other home health and safety risks. As a result of these activities, in the third quarter of calendar year 2010 alone, HUD ARRA recipients reported over 31,000 jobs saved or created.

Winning the Future

Now, having prevented our economy from falling into a second Great Depression, the Administration is focused on ensuring that America wins the future. The Department's budget for fiscal year 2012 follows the roadmap the President has laid out for keeping America at the forefront of the rapidly changing global economy. As discussed further below and in the pages that follow, this budget helps America:

- **Win the Race to Educate our Kids.** America cannot out-educate the rest of the world if a lack of quality, affordable housing prevents Americans from accessing good schools in safe neighborhoods, or if homelessness threatens the schooling of a young child. That is why the budget continues the Choice Neighborhoods initiative (closely linked with the Department of Education's Promise Neighborhoods initiative), and proposes to target housing vouchers—coupled with educational and other supportive services—to homeless and at risk families with school age children. Simply put, America needs all of our players in the game if we hope to compete successfully in the 21st century global economy.

- **Win the Future Through Innovation.** A clean energy economy is vital for America to compete in the new century. Building on the Recovery Act's dramatic investments to green America's housing stock, under which HUD is improving efficiency in 245,000 publicly-owned affordable homes and providing comprehensive energy retrofits that will reduce energy costs by as much as 40 percent for an additional 35,000 public housing units, the funding in this budget will continue to improve energy efficiency and save money for the taxpayer. It will also allow us to work more closely with the private sector to scale up energy retrofits that pay for themselves through loan products like the FHA PowerSaver and Green Refinance Plus.

- **Outbuild the Rest of the World.** The President's focus on repairing our existing infrastructure and building new ways to move people, goods and information will not only put people to work now, but also spur investments that build a stronger economy. Building on the successful Partnership for Sustainable Communities with the Department of Transportation and the Environmental Protection Agency, the Budget includes $150 million to create incentives for communities to develop comprehensive housing and transportation plans that spur jobs, reduce the combined cost of housing and transportation and attract more private investment.

- **Reform Government So that It's Leaner, Smarter, More Transparent, and Ready for the 21st Century.** President Obama said in his State of the Union that removing overlapping and contradictory rules and regulations is essential to generating economic growth. That's why we continue to make it our focus to improve and simplify the way HUD works with other agencies. The level of interagency cooperation with both our federal and non-federal partners is unprecedented – from the Sustainable Communities Partnership (discussed above) to initiatives targeting housing and services to the homeless (with the Department of Health and Human Services and the Department of Education) to a new multi-agency economic development initiative led by HUD and the Economic Development Administration in the Department of Commerce , this Department is committed to removing barriers to local innovation at the federal level. Through our Transformation Initiative, HUD can continue to deliver the kind of cutting edge technical assistance and research that our local stakeholders need to innovate and grow their economies. But this improved partnership with local stakeholders also means holding them accountable for their use of federal resources. As noted, the Transformation Initiative is already supporting research and demonstrations that will allow the Department to closely monitor local strategies for expending the taxpayers' money. And through the newly instituted HUDStat internal reporting system (discussed further below), the Department is holding itself accountable for the funds it invests.

Meeting Our Responsibilities

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

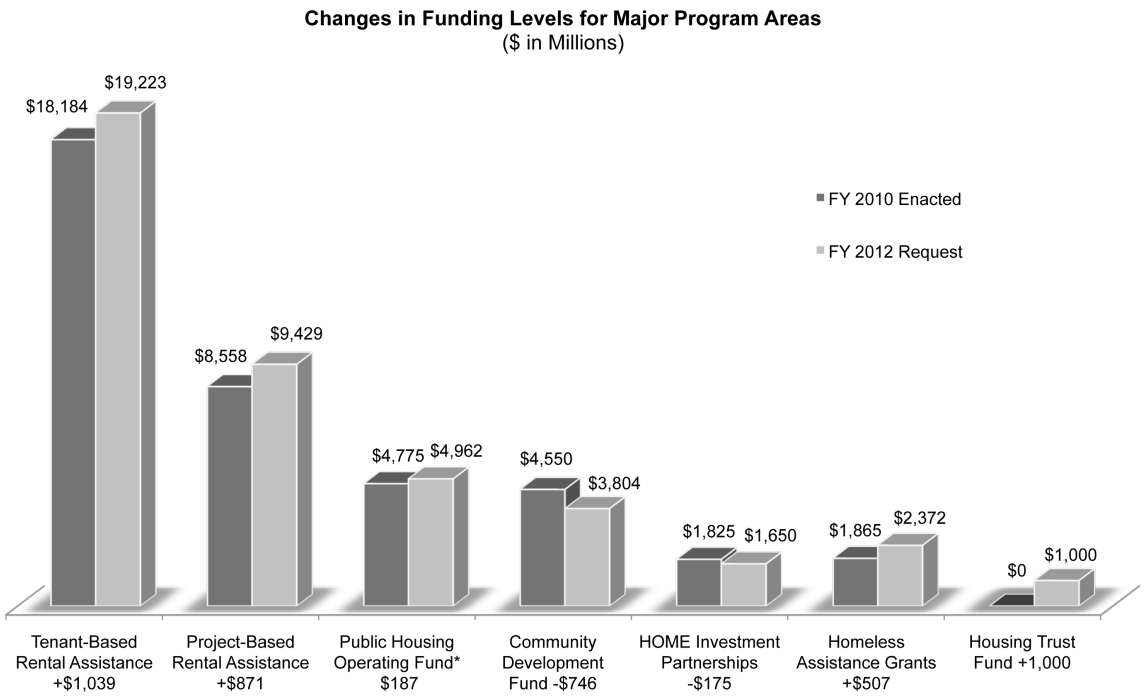
offered by HUD through the Recovery Act is a key part of HUD's response to this challenge. The report shows a clear link between unemployment and housing needs —one of the reasons President has been so focused on creating jobs.

In short, this budget will achieve substantial results not only for vulnerable, low income Americans but also for hard-hit local and state economies across the country. Its carefully targeted investments will enable HUD programs to: house almost 2.5 million families in public and assisted housing (over 60% elderly and/or disabled); provide tenant-based vouchers to more than 2.2 million households (over 45% elderly and/or disabled), an increase of over 86,000 from 2010; more than double the annual rate at which HUD assistance creates new permanent supportive housing for the homeless; and create and retain over 100,000 more jobs than in 2010 through the Department's housing and economic development investments in communities across the country. Critically, in this time of focus on job growth—particularly in the hard-hit construction and broader housing sectors—this funding, collectively, will not only generate 300,000 jobs directly but can also be expected to create or retain over 350,000 jobs elsewhere in the economy.

As in fiscal year 2011, HUD's fiscal year 2012 budget is structured around the five overarching goals the Department adopted in its Strategic Plan 2010-2015. These goals reflect the Department's—and my—commitment to 'moving the needle' on some of the most fundamental challenges facing America as we try to win the future. Indeed, every month, I hold "HUD Stat" 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 your hard-earned dollars.

Further detail on the Department's proposed investments and savings are provided in the following pages. Overall, this budget reflects the Obama Administration's recognition of the critical role the housing sector must play for the nation to experience a robust, long-term economic recovery. Equally important, it expresses the confidence of the President in the capacity of HUD's programs and the Department to meet a high standard of performance. In short, while it requires hard choices to reduce the deficit, this blueprint for fiscal year 2012 is one that will deliver results for the vulnerable people and often-distressed places that HUD helps.

Secretary Shaun Donovan



** The fiscal year 2012 funding level for the Public Housing Operating Fund includes new budget authority of $3.962 billion and $1 billion in offsetting reserves that will be used to fully fund the Public Housing Operating Fund at $4.962.*

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

We project that FHA will insure $218 billion in mortgage borrowing in 2012. These guarantees will support new home purchases and re-financed mortgages that significantly reduce borrower payments. Since taking office, FHA has helped over 2 million families buy a home – 80 percent of whom were first-time buyers. FHA also has helped nearly 1.5 million existing homeowners refinance into stable, affordable products, with monthly savings exceeding $100 in most cases. FHA financing was used by 38 percent of all homebuyers, insuring, along with the VA and federal farm programs, 81 percent of loans to African Americans and 73 percent for Hispanics in 2009. It is a vital financing source for first-time homeowners, roughly 30 percent of whom use FHA insured financing.

It is critical, however, that we pave the way toward a robust private mortgage market. To that end, the FHA will raise premiums pursuant to authority granted by Congress last year, which – along with the Administration's proposal to reform the Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac-- will incentivize private sector actors. But FHA is also a vital resource for homeowners facing foreclosure. FHA's loss mitigation program minimizes the risk that financially struggling borrowers go into foreclosure. Since the start of the mortgage crisis, it has helped more than half a million homeowners.

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

Meet the Need for Quality, Affordable Rental Homes

As in fiscal year 2011, this budget maintains HUD's commitment to its core rental assistance programs. The budget requests $19.2 billion for the Housing Choice Voucher program to help more than two million extremely low- to low-income families with rental assistance live in decent housing in neighborhoods of their choice. The budget funds all existing mainstream vouchers and provides new vouchers targeted to homeless veterans, families, and the chronically homeless. The Administration remains committed to working with the Congress to improve the management and budgeting for the Housing Choice Voucher program, including reducing inefficiencies, and re-allocating Public Housing Authority reserves based on need and performance. The budget also provides $9.4 billion for Project-Based Rental Assistance to preserve approximately 1.3 million affordable units through increased funding for contracts with private owners of multifamily properties. This critical investment will help extremely low- to low-income households to obtain or retain decent, safe and sanitary housing. Similarly, full funding of the Public Housing Operating and Capital Fund will help to preserve the over 1 million units within that program's portfolio.

The preservation of critically needed rental housing in this country is among our top priorities, including putting the Department's stock of public housing on sound, rational financial and regulatory footing for the long-term. We also remain committed to the goals of preserving public and assisted housing, regulatory reform, and choice. To this end, the budget includes $200 million for a demonstration and rigorous process evaluation of the conversion of up to 255,000 public housing units to long-term project-based rental assistance contracts. Public housing authorities will then be able to leverage private capital to make repairs. Through similar conversions, the demonstration will preserve 7,600 privately-owned, HUD-assisted units at risk of leaving the affordable housing stock. This funding request will allow us, working with key stake holders, to develop new preservation tools that will ensure that we protect our affordable rental and public housing stocks.

The Department's overall preservation agenda is complemented in the Department of Treasury's budget for fiscal year 2012, which proposes two reforms to the Low Income Housing Tax Credit (LIHTC) that will:

- Replace the current cap on household income at 60 percent of area median income with the option that properties serve households whose average income is no greater than 60 percent of AMI and with no individual household above 80 percent of AMI. These

changes to the Code's low-income occupancy threshold requirements will accomplish three things: (i) allow greater income-mixing at the project level, creating opportunities for workforce housing; (ii) help align LIHTC with HUD's and USDA's affordable housing programs (which define low-income at 80 percent of area median income); and (iii) lead to the creation of more units targeted to the lowest income households.

It's important to note that this income averaging proposal increase our ability to preserve HUD-assisted properties. 69,224 households living in public housing and 23,271 households in multifamily housing have incomes above 60% of AMI. This proposal allows these units to be counted in basis, increasing the equity flowing to these projects for preservation.

- Make the 4% credit a more viable source of funding for the preservation of the federal affordable housing stock by giving qualifying properties a 30% basis boost in the context of preserving, recapitalizing, and rehabilitating existing affordable housing, particularly public housing targeted by TRA (as well as Multifamily Housing, 236s, BMIRs, RAP, Rent Sup, 202, 811, HOME, McKinney and CDBG funded units, USDA-RD (515s)). This means that a greater amount of equity could be raised per credit even at the higher yields required by investors for 4% investments, which in turn will generate more interest in LIHTC preservation deals within the investor and developer community.

Finally, the budget once again calls for funding of the National Housing Trust Fund (NHTF) at $1 billion. The recent Worst Case Housing Needs report underscores what has been the case since well before the recent recession, namely, that extremely low income renters (those whose household incomes are below 30 percent of median) face the most severe housing shortage and cost burden of any Americans. In addition to the Worst Case Housing Needs report, the most recent data available from the American Housing Survey shows that, for renters below 50 percent of area mean income, the shortage of affordable and available units increased from 5.2 to 6 million from 2007 to 2009, with just 39 affordable and available units for every 100 renters in 2009, compared to 44 two years prior. Enacted in 2008, the NHTF was designed to provide capital resources to build and rehabilitate housing to fill this precise – and growing – gap in the nation's rental housing market. The time has come for Congress to provide this crucial funding.

Utilize Housing as a Platform for Improving Quality of Life

HUD, as well as state and local policymakers and our private sector partners recognize that stable, affordable housing provides an ideal launching pad for the delivery of healthcare and

[1] $1 billion of the amount needed to fully fund the Operating Fund at $4.962 billion will be provided through a targeted reduction of PHA reserves, which have grown substantially over the past several years. The Department will ensure that PHAs have sufficient remaining reserves to stay on sound financial footing.

[2] Ludwig, Jens and Steven Raphael, "The Mobility Bank: Increasing Residential Mobility to Boost Economic Mobility." Hamilton Project Discussion Paper, 2010, The Brookings Institution, *http://www.brookings.edu/papers/2010/10_mobility_bank_ludwig_raphael.aspx.*

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

This year, we have made a specific effort to target homeless veterans. As our young men and women return from Afghanistan and Iraq, they deserve to be treated with dignity and honor. Yet our nation's Veterans are fifty percent more likely than the average American to become homeless. More than 11,000 service members returning from those wars have already been forced to live on the streets or in homeless shelters. And still, more Vietnam-era Veterans remain homeless today than troops who died during the war itself. Nowhere is our obligation to our citizens, and to those who have defended our nation, more important, more visible, or more urgently necessary than in our commitment to end homelessness.
As the outgoing Chair of the Interagency Council on Homelessness, I am pleased that this budget provides over $2.5 billion to make progress toward the ambitious goals of Opening Doors, the Federal strategic plan to end homelessness, which was released by the Administration in June 2010. Opening Doors establishes a five year timeline for ending chronic and veterans homelessness and commits to ending family homelessness over a decade. This budget will enable our stakeholders to make substantial progress on these ambitious timelines. It includes:

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

- $145 million in new housing vouchers for over 19,000 homeless veterans and homeless persons who receive education, health care and other services through the Departments of Education (DoE), Health and Human Services (HHS) and Veterans Affairs (VA).

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

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

The budget also provides a total of $953 million for the Housing for the Elderly (Section 202) and Housing for Persons with Disabilities Programs (Section 811). This not only preserves assistance in all existing units, but also includes $499 million for new construction and incremental project rental assistance contracts. The Administration remains committed to further updating and reforming these crucial programs, building on a foundation that was

provided by two bipartisan bills passed in the 111th Congress. Those bills offered key steps forward – for Section 811, authorizing HUD to provide operating-assistance-only funding through States which demonstrated an integrated health care and housing approach to serving disabled households and for Section 202, authorizing key preservation tools including new Section 8 like contracts to maintain long-term affordability on aging properties. In 2012, the Administration will seek to improve targeting of new supportive housing projects for seniors and persons with disabilities to the most vulnerable populations.

Build Inclusive Sustainable Communities Free from Discrimination

Attracting new businesses to our shores depends on urban, suburban and rural areas that feature more housing and transportation choices, more energy independence and more clean air and water. Unfortunately, today congestion on our roads costing us five times as much wasted fuel and time as it did 25 years ago and Americans spend 52 cents of every dollar they earn on housing and transportation combined.

Communities from Dallas to Denver have demonstrated that by planning for "sustainable communities" parents can spend less time driving and more time with their children; more families can live in safe, stable communities near good schools and jobs; more kids can be healthy and fit; and more businesses have access to the capital and talent they need to grow and prosper. Indeed, communities that embrace sustainability have a built-in competitive edge when it comes to attracting the jobs and private investment we need to win the future.

Regions across the country understand this, which is why this budget continues one of the most robust, groundbreaking cross-agency collaborations in recent history: the Partnership for Sustainable Communities, including HUD, DOT and EPA. The Budget includes $150 million to create incentives for more communities to develop comprehensive housing and transportation plans that result in jobs, economic growth, and easier commutes. Up to $5 million will be used to improve energy efficiency in HUD-assisted public and privately-owned housing through better energy use data collection and analysis.

The demand for these grants has been extremely high. When the Obama Administration announced the availability of local planning grants for sustainable communities, we received applications from every state and two territories – from central cities to rural areas and tribal governments. These grants weren't just about central cities. Over half of the grants were awarded to regions with populations less than 500,000 and rural places with fewer than 200,000 people.

At a time when every dollar the federal government invests in jumpstarting the economy is critical, the Partnership ensures that all these agencies are coordinating efforts and targeting resources with precision. Reflecting this new collaboration, the initial round of grants was

judged by a multidisciplinary review team, drawn from eight federal agencies and from partners in philanthropy. We have heard clearly from our local partners that the HUD, DOT, EPA and joint grants supported by the Partnership are helping them achieve their own local visions: working across their own jurisdictional lines to coordinate land use, housing, and transportation investments on a regional basis; creating more sustainable development patterns that reduce the crushing financial housing and transportation cost burden too many working families face today; and putting in place an infrastructure that will make them competitive in the global, 21st century economy.

The budget also brings federal partnership to connect historically isolated people and neighborhoods to local, regional, and national economies by providing a third year of funding ($250 million) for another signature element of the Administration's place-based approach -- the Choice Neighborhoods initiative. Choice Neighborhoods builds upon the HOPE VI program launched by previous HUD Secretaries Jack Kemp and Henry Cisneros and congressional champions like Senator Kit Bond . HOPE VI leveraged twice the government investment in additional private development capital. This funding will continue transformative mixed-finance investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. The budget will bring private capital and mixed-use, mixed income tools to transform affordable housing in 5 to 7 neighborhoods with grants that primarily fund the preservation, rehabilitation and transformation of HUD-assisted public and privately-owned multifamily housing. Like HOPE VI, it will also engage the private sector and the "third sector" of non-profits, philanthropies and community development corporations who have become some of our most sophisticated affordable housing developers and civic institutions.

Choice Neighborhoods is a central element of the Administration's inter-agency strategy to provide local communities with the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The budget reflects a strategy in which HUD, the Department of Justice, the Department of Education, the Department of Health and Human Services, and other agencies will work together, co-investing, and pooling their expertise as part of a focused Neighborhood Revitalization Initiative. In particular, through coordination with Education's Promise Neighborhoods initiative, Choice Neighborhoods will help ensure that the President's commitment to out-educating the rest of the world applies to every child in America, regardless of their neighborhood or the kind of housing they grow up in.

The Department's administration of the first rounds of funding for Choice Neighborhoods and the Sustainable Communities Regional and Community Challenges grants exemplify how we are changing our practices to become a more effective partner. For too long, federal grant programs to support local housing and community development efforts followed a rigid, top-down, 'one-size fits all' approach that dictated what local policymakers could and couldn't do rather than listening to them and providing the tools they need to meet local needs. Having served in local government myself, I am committed to changing that dynamic

– and believe the results thus far demonstrate that we are making good on that commitment. The Administration has placed a significant emphasis on ensuring America's rural communities are competitive in the 21st century economy. Rural communities generally have less access to public transportation, higher poverty rates and inadequate housing. This Administration recognizes that residents of these communities also face unique challenges when it comes to accessing health care, grocery stores, adult education opportunities, among others. That is why, in addition to the billions of dollars that HUD invests in rural communities through its core rental assistance programs and block grants, as well as the special category of funding we created for small towns and rural places in the Sustainability Regional Grant program, this budget requests $790 million to fund programs that are specifically targeted to housing and economic development activities in rural communities including:

- $25 million for the Rural Innovation Fund to support innovative approaches dedicated to addressing the problems of concentrated rural housing distress and community poverty through comprehensive community development, housing and economic development activities. The fund builds on the Rural Housing and Economic Development program which has built and rehabbed over 15,000 homes, created credit unions and business incubators that have helped more than 1,600 businesses get off the ground, and supported housing counseling and homeownership programs – creating nearly 12,000 jobs, providing job training to nearly 30,000 people and leveraging more than three times the quarter billion dollars HUD has invested in this program over the last decade in other funds providing an excellent return for the taxpayer. With the Rural Innovation Fund, we will support these kinds of efforts on the larger scale these challenges require. Indeed, in developing the Rural Innovation Fund, HUD worked closely with federal partners, including the Department of Agriculture and the Economic Development Administration at the Commerce Department, to ensure that other federal programs serving rural communities can be leveraged for additional impact. Increasing the maximum award from $300,000 to $2 million, the fund sets aside $5 million for Native American tribes, but will make them eligible for broader funding by linking up with other partners to develop innovative proposals. Using a new online Rural Mapping Tool, applicants will be able to measure poverty and community housing distress – so they can spend less time and money doing paperwork and more on how they can best meet the needs of their communities.

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

- $715 million to fund programs that will support housing and development initiatives

in American Indian, Alaska Native, and Native Hawaiian communities. As the single largest sources of funding for housing Indian tribal lands today, HUD initiatives in Indian country continue to have some of the Department's most successful track records. Programs like Indian Housing Block Grants, Indian Home Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, decent, affordable housing is desperately needed. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program and Native Hawaiian Loan Guarantee Program. HUD recognizes, moreover, the right of Indian self-determination and tribal self-governance, allowing the recipients the flexibility to design and implement appropriate, place-based housing programs, according to local needs and customs.

This budget reduces funding for the Community Development Block Grant (CDBG) by 7.5 percent or $300 million and HOME Investment Partnerships by 9.5 percent, or $175 million relative to current funding levels. These are extraordinarily tough choices that balance the need to decrease the budget deficit with the tough fiscal conditions confronting state and local governments. The remainder of these funds, over $5.5 billion in total, will provide substantial, flexible resources that allow State and local grantees to improve infrastructure, build and rehab affordable housing, provide rental assistance, and create and retain jobs.

The budget also includes a multi-agency initiative to **assist communities in using their funds more effectively to support job creation—an improved successor to the Empowerment Zones that expire this year. Coupling targeted tax benefits and grant funding**, the budget supports the launch of an interagency effort led by HUD and the Department of Commerce's Economic Development Administration (EDA) to help communities to better employ the Federal investments they already receive (such as CDBG and HOME), promote high-impact strategies, and build the local capacity needed to execute those strategies in economically distressed areas. This effort will enable these communities to create more effective partnerships with businesses and non-profits that will attract critical private investments to promote job creation. With leveraged support from HUD, other Federal agencies, and the philanthropic community, the Federal Government offers targeted EDA funds, technical assistance, and a National Resource Bank – a "one-stop shop" of experts that communities can draw upon for a full range of services, including fiscal reforms, re-purposing land use, and business cluster and job market analysis.

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

end, the Department is requesting $72 million—$11 million more than the fiscal year 2011 request - to support the division of Fair Housing and Equal Opportunity's administration of the Fair Housing Initiative Program (FHIP) and Fair Housing Assistance Program (FHAP).

Transform the Way HUD Does Business

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

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

Technical Assistance

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

The Transformation Initiative recognizes that enhanced and focused information, and more targeted support for grantees, will result in better program administration and more integrated planning and action that cross programs and jurisdictions. Effective responses to urban and housing issues increasingly require coordination and awareness of diverse areas of knowledge: housing finance as well as land use planning; economics as well as energy efficient design; community development as well as transportation planning; accessible design as well as job creation strategies.

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

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

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

As part of this effort, the Transformation Initiative will support the creation of a National Resource Bank (NRB). The Bank is so named because it will be a repository of technical assistance for local governments across the nation, but will not provide direct financial resources. The NRB will align and aggregate public and private funds to provide cities tailored technical support through a "one-stop-shop" of national experts with wide-ranging skills that are critical for economic development. These include fiscal reforms, repurposing land use, and business cluster and job market analysis, to name a few. The NRB will help lay the foundation for economic recovery and transformation in these cities through truly place-based support that leverages existing strategic partnerships between local governments, Federal regional office staff, and the philanthropic community and helps to foster further

linkages for the long-term benefit of these cities. The local demand for the capacity-building assistance that the NRB will provide is broad and sustained. Cities have had few options for building organizational capacity since the 1970s, and recent budget cuts and retirements have created even greater strains on capacity at the same time that local challenges are growing more complex. The NRB will play an essential role in helping to coordinate and direct Federal technical assistance functions at a time of severe local government need.

Research and Demonstrations

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

The Research, Evaluation, and Performance Metrics initiative will supplement Research and Technology (R&T) appropriations in order to provide the nation's basic infrastructure of housing data. . The more careful and scientific approach enabled by these additional research investments will highlight for policymakers what works and what needs reform. Systematic research enables HUD to monitor results and undertake timely modifications of programs and policies that fail to produce results. A component of this research and evaluation will develop the right set of metrics to track program performance between evaluations to inform management decision-making. For example, in fiscal year 2010, the Department was able to supplement a $48 million R&T appropriation with $26 million in Transformation Initiative Research, Evaluation, and Program Metrics funds. This funding permits the Department to determine how much some program functions ought to cost or ought to operate. For example, the current allocation system for Housing Choice Voucher (HCV) administrative funds is not based on rigorous and objective studies, and may over-compensate some public housing agencies (PHAs) while underfunding others. The Department has used TI funds to develop and sustain a careful examination of the costs of implementing the HCV program at high-performing and efficient PHAs in a wide variety of communities.}For fiscal year 2012, the Department anticipates approximately $25 million to be allocated for research projects. HUD's proposed transformational approach to research would also inform the decisions of a broad network of public and private sector actors. A key feature of the new approach is to partner with other Federal agencies, such as the Departments of Transportation and Energy, and the Environmental Protection Agency, on research topics of mutual interest. HUD will confer with OMB and the appropriate Congressional Appropriations and Authorizing committees before finalizing the research agenda for funding under the Transformation

Initiative. Combined with efforts already in progress, HUD expects that research will both improve program effectiveness and generate substantial savings over time.

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

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

Information Technology (IT)

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

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

The Next Generation Voucher Management Systems (NGVMS) performs a Department-wide reengineering of the current voucher management business models and processes across the Department. NGVMS will replace 20 year old legacy systems and Excel-based budget spreadsheets with a solution that establishes uniform processes and a standard set of rules and regulations that support all of HUD's rental assistance programs. The system will support enhanced budget planning and forecasting capabilities, improve grantee reporting and data integrity, and ensure that programs comply with the requirements of the Section 8 Voucher Reform Act (SEVRA).

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