

**Statement of Secretary Shaun Donovan U.S. Department of Housing and
Urban Development Hearing before the Committee on Banking, Housing, and
Urban Affairs, United States Senate
June 16, 2009**

Good morning, Chairman Dodd and members of the Committee. It is a pleasure to be here today to speak about the critical link between housing, transportation and environmental policy. I want to thank you and your Committee for your leadership in developing and pushing for innovative and integrated approaches to these issues. And I want to thank you for the opportunity to announce a landmark agreement between the three agencies before your Committee today that includes six “livability principles” that will guide our work together.

I think it is crucially important that the federal government speak with one voice on these issues, and these principles reflect that conviction. They represent a powerful statement of common goals, strategies and purpose – not only for the three agencies you have here today, but for communities across the country whose vitality in the 21st century depends on our ability to work together in partnership.

Earlier this year, I was pleased to testify before the House with my colleague, Secretary Ray LaHood from the Department of Transportation. I’m glad I have the opportunity to share the table with him again today, because since that March testimony, we’ve taken important steps to improve coordination between our departments.

I am especially pleased to have EPA Administrator Lisa Jackson join us today as a partner in this effort – providing further evidence of our commitment to collaboration and coordination across the entire federal government.

It has been a remarkable several months, Mr. Chairman, since I first appeared before you at my confirmation hearing. As I said at the time, my number one job was to address the nation’s mortgage crisis. I believe we have begun to get real results with the ambitious foreclosure plan we’ve offered. Last week alone, 30,000 additional modification offers were made to borrowers, bringing the total number to over 150,000. But as I saw for myself when I traveled with the Chairman to Connecticut several weeks back, there remains a great deal more to be done. We still need the servicers to do their part in helping to keep Americans in their homes to complete more modifications and refinance more loans.

But more than ever, I am convinced that solutions to the myriad challenges facing our housing markets must be addressed in a comprehensive way, to reduce our

dangerous dependence on foreign oil and drive down energy costs for consumers and businesses alike.

This means that HUD, in collaboration with our partner agencies, must find new, integrated solutions to the multidimensional challenges faced by cities and suburbs and rural areas. This new approach will require collaboration across jurisdictional lines and enable metropolitan leaders to “join up” housing, transportation, and other policies to address the critical issues of affordability, competitiveness, and sustainability.

Problem Statement

As I mentioned in my testimony before the House Appropriations Committee, HUD’s central mission – ensuring that every American has access to decent, affordable housing – cannot be achieved in a vacuum. For all our housing challenges today, I believe that goal can be realized – but only in the broader context of housing, transportation, and energy costs and choices that American families experience each day in cities, suburbs and rural areas.

The average American household now spends 34 percent of their annual budget on housing and 18 percent on transportation. More than half of their budgets are wrapped up in these two expenses alone.

For low-income working families, the impact is particularly severe – transportation constitutes almost a third of household income. The extremes can be eye-opening – the average Houston-area household spends over \$11,000 per year on transportation. That means less money for groceries, child care, doctor’s visits. And in many metropolitan areas, working families are spending more on transportation than on housing.

The connection between transportation options and home values is clear. As the recent housing downturn has shown, auto-dependent houses—that is, homes that virtually require the resident to have access to a car—are more vulnerable to price devaluation. Homes in distant or remote neighborhoods showed a greater decline in value, while some centrally-located homes held or increased their value compared to regional averages. For millions of Americans, these declines can mean weakened retirement security, or inability to send their children off to college.

In less-connected developments—for instance, many suburbs—while housing costs may be lower, transportation costs are higher – and the combination of housing and transportation costs now averages 57 percent of income for working families in metropolitan areas.

The destructive effects of this mismatch between good housing choices and good transportation choices are particularly acute in metropolitan regions, which look very different from those that existed in the mid-1960's, when HUD was created and much of our transportation system was built. The populations of metropolitan areas and employment opportunities available in them are now widely dispersed, with only 22 percent of the jobs in the top metropolitan areas located within 3 miles of the central business district. That can mean less time spent with family and more time stuck in traffic.

These changes have made our work at HUD that much more challenging. As decentralization has increased, the spatial mismatch between the location of affordable housing and employment and educational opportunities in metropolitan areas has worsened. Fewer low-wage families can find housing near their work, as affordable housing is often located in older urban and suburban areas. And businesses located in those areas are dependent on workers who can commute – shrinking the talent pool and incurring higher transportation and energy costs.

As my colleague from EPA will tell you, decentralization and sprawl have a clear impact on the environment as well – through the loss of wetlands and open space, and increased greenhouse gas emissions.

In recent years, we've made great progress in our understanding of the sources behind carbon emissions. As the American people are well aware, transportation accounts for a third of all greenhouse gas emissions. But I think most people would be surprised to learn that buildings account for almost 40 percent of our emissions – about half of which is through our homes¹.

In response to these trends, we have made a strong commitment to energy efficient green building through the President's Recovery Act investments. We're directing nearly \$4 billion to public housing authorities for public housing modernizations, including significant green and energy-efficiency upgrades. We're investing approximately \$250 million more in energy-efficient retrofits of multifamily

¹ Department of Energy 2008 Building Energy Data Book – buildings account for 38 percent of carbon emissions, residential buildings account for 20 percent.

housing with project-based assistance, and emphasizing energy efficiency in Native American housing programs.

We are also using the Neighborhood Stabilization Program to stabilize and revive neighborhoods with heavy concentrations of foreclosed properties and are using sustainability measures developed in partnership with EPA's Smart Growth program, such as access to transit and use of green building criteria, to help direct that \$2 billion resource.

Looking beyond the Recovery Act, our Fiscal Year 2010 budget proposal includes initiatives to support sustainable growth. We propose to create a \$100 million Energy Innovation Fund that will help catalyze a home energy retrofit market through innovative public and private sector financing, and re-engineering FHA energy efficient mortgages to increase the number of homes retrofitted for energy efficiency.

But as HUD works to make buildings more energy efficient, offer more affordable housing options that increase opportunity in our communities, and help working families facing foreclosure or rapidly declining home values, it's clear that we need to integrate our housing and transportation systems in a way that encourages smart land use, making our communities more resilient, more productive and more sustainable for the decades to come.

Sustainable Communities Initiative

That is why our budget also includes a proposal for a \$150 million Sustainable Communities Initiative, to be managed by our new Office of Sustainable Housing and Communities.

As the Chairman has said, we need to coordinate climate change, energy, community development, housing and transportation policy in the most comprehensive, holistic way possible.

I believe creating an Office of Sustainable Housing and Communities inside HUD to serve as a single point of contact with other federal agencies is the best way we can achieve that goal. Already, these kinds of offices at our partner agencies have helped break down barriers to change – they have proven to be a successful model for interagency coordination and collaboration.

First, HUD and DOT will jointly administer a \$100 million fund to encourage metropolitan regions, via competition, to develop integrated housing, land use, and transportation plans – and to use those integrated plans to drive the planning and

decision-making of localities, which will help increase transportation choices and reduce combined housing and transportation costs for American families.

The goal of this initiative is not just to develop plans – it is to articulate a vision for growth tailored to specific metropolitan markets that federal housing, transportation, and other federal investments can support.

Funding to these metropolitan regions would generally be used to support the development of integrated, state-of-the-art regional development plans that use the latest data and most sophisticated analytic, modeling, and mapping tools available.

These efforts will benefit urban, suburban and rural communities alike. The 2007 American Housing Survey estimates that nearly 50 percent of people who live in rural places today live within the boundaries of metropolitan statistical areas. This requires a level of integrated planning that spans jurisdictional boundaries in new and unprecedented ways.

We can't afford to be territorial about these issues any longer.

Our fiscal year 2010 budget also includes a proposal for \$40 million in grants that will be used to support metropolitan and local leaders in making market-shifting changes in local zoning and land use rules. The grants will also assist states and localities to design and implement a variety of planning reforms at the local and regional levels.

As we work towards an integrated planning process, we will also plan to recast the definition of “affordability” in America. With the costs of transportation now approaching or exceeding those of housing for many working families, we will work to jointly develop, with our partners in the Department of Transportation as well with EPA, a housing and transportation affordability index.

Just as a potential car buyer can see on the window sticker how energy efficient an automobile is, we need the same thing for our homes and our buildings. An affordability index will empower consumers and businesses alike with the information they need to make informed choices about where they and how they live, and in the process helping to create a more dynamic, efficient marketplace.

That is why we intend to share all this data, research, and evaluation with the private sector to catalyze innovation and maximize market efficiency.

We will also conduct an intensive review of our respective programs to ascertain how to support the marriage of housing and transportation, and to emphasize location efficiency in all that we do.

In housing programs, for example, perhaps we can give preference to projects that offer participants choices for public transit, employment opportunities, and other important advantages. We have begun to do that with the second round of Neighborhood Stabilization Program funding, as I described earlier. I intend to subject all of our programs – including FHA – to a rigorous review that determines how we can reorient the business of our department in support of this integrated planning.

Finally, we are also establishing a jointly-administered research and evaluation effort. Our budget proposal requests \$10 million to support this research. This historic effort will aggressively engage on joint data development, information platforms, analytic tools, and research to better track housing and transportation expenditures by location. It will establish standardized and effective performance measures and engage in rigorous analysis of the transit-oriented development projects already in existence to identify best practices. And it will evaluate location efficient mortgages and energy efficient mortgages.

Partnership Update – Livability Principles

I'm also pleased to report that since March, when we announced our agreement with DOT, we have made significant progress. Teams from our agencies are meeting on a weekly basis, and addressing each element of the partnership.

Further, we are happy to announce that EPA is now a full partner in this effort. They will work with HUD and DOT to address water infrastructure issues, expand technical assistance to state and local governments, return brownfield sites to productive use, and address hazardous waste and other barriers to reinvestment in older communities.

As a result of our agencies' work, I am pleased to join with my DOT and EPA colleagues to announce a uniform statement of livability principles. For the first time, these principles provide a uniform set of guidelines for each agency to formulate and implement policies and programs. More importantly, they mean that we will all be working off the same playbook to better serve American families who expect more affordable and sustainable choices in their communities.

For the first time, the Federal government will speak with one voice on housing, environmental and transportation policy.

The first principle – *Providing More Transportation Choices* – addresses our need to expand the options available to American families, whether commuting to work, dropping children off at school, or running errands. It is no secret that providing safe, reliable and affordable transportation choices is essential to making a home livable. Expanding transportation choices by making public transit, biking, and walking viable options is also a key strategy towards reducing our dependence on foreign oil, improving the quality of the air we breathe, limiting the threat of greenhouse gas pollution and protecting the public health.

The second principle – *Promoting Equitable, Affordable Housing* – is at the heart of HUD’s mission. A livable community must be both equitable and affordable.

Livability is about more than just being efficient – we must also be inclusive.

In order for our neighborhoods to thrive, our regions to grow, and our nation to prosper, we must support communities that provide opportunities for people of all ages, incomes, races and ethnicities to live, work, learn and play together.

The third principle – *Increasing Economic Competitiveness* – pinpoints the need to coordinate housing, transportation and environmental policy to make us more competitive and productive. Our nation’s ability to compete in a global economy is dependent upon how quickly and efficiently we can connect our labor force to education and employment opportunities. That mission depends on efficient housing and transportation patterns that ensure the timely delivery of goods and services.

The fourth principle – *Supporting Existing Communities* – identifies the need to support community revitalization, build upon existing public investments, and preserve our nation’s rural land.

This has been a historic role for HUD, through our block grant investments in cities, counties and rural areas. It makes no sense to ignore the vast resources ready to be rediscovered in America’s cities and towns. And when we take advantage of these cost-effective opportunities to invest in our existing neighborhoods, we help mitigate the loss of open space, preserve farmlands and reduce commuting burdens on working families.

The fifth principle – *Expanding Partnerships and leveraging Investment* – focuses on increasing the effectiveness of American government at all levels. We want to boost the capacity of local communities to more effectively plan for future growth,

by addressing housing, transportation and other critical issues through coordinated work, and support the ability of local communities to think and act regionally.

Finally, the last principle – *Valuing Communities and Neighborhoods* – brings the entire effort together. We must ensure that federal investments support cohesive, safe, healthy and walkable communities, whether in cities, suburbs, or rural areas. Research shows that people who live in walkable communities are more likely to be active and less likely to be overweight, thus improving their health.² As I said at the outset, each of the federal partners represented today, while we manage separate programs, must be dedicated to the single principle of building strong, sustainable communities.

So we have our playbook, Mr. Chairman: strong evidence that by working collaboratively across agencies – housing, transportation, and environment – we can better rise to the challenges before us, and implement the sort of innovative solutions that the American people deserve. Solutions that will allow us to protect our environment, support their mobility, and deliver safe, decent, affordable homes in which to live.

But the real test of our commitment will be in putting the principles into action. I propose to do that in several ways:

First, over the next few months I intend to implement a process at HUD, led by Deputy Secretary Sims, and our new Office of Sustainable Housing and Communities, to engage every program and every office, at headquarters and in the field, to identify the barriers that they encounter, whether institutional, regulatory, or statutory, in implementing these principles. I look forward to working with you to determine the best way to break down these barriers – be it through legislation or regulatory reform.

I will also be asking for their ideas, suggestions and recommendations about how we can incorporate these livability principles throughout our programs. I will also reach out to our partners, and work with them, to adopt these principles as they invest in their communities.

This must be an inclusive process – and an inclusive process depends on listening.

Second, I will ask our program offices to incorporate these principles in HUD's next Annual Performance Plan, and our annual Management Plan, which

² A Study of Land Use, Transportation, Air Quality and Health in King County, WA Lawrence Frank and Company, Inc.

represents the operating statement for the Department, both here in Washington and in 82 field offices around the country. Our field offices are a unique and important resource for bringing these principles to life in the communities we serve.

Third, we look forward to sharing with you the performance measures that we are developing for each of these principles – so that they can be measured in tangible outcomes on the ground.

As I told you during my confirmation, Mr. Chairman, I'm a numbers guy. I believe in evidence-based government and accountability. I've directed our new Transformation Office to develop strong performance measures for HUD's programs, and I expect nothing less as we turn these principles into policy.

These performance measures will form the criteria for measuring the success of our proposed \$150 million FY 2010 Sustainable Communities Initiative. We will also look at ways that these can be used to measure the results of other HUD programs.

So I'm optimistic – that with these ideas, these new partnerships and the leadership of my colleagues here today – and you as well, Mr. Chairman – we are poised to build the stronger, more resilient and sustainable communities Americans want and need in the 21st century.

Thank you Mr. Chairman, and members of the Committee – I look forward to answering your questions.