



I am pleased to submit for your consideration a proposed Budget for the Department of Housing and Urban Development for Fiscal Year (FY) 2013, *Housing and Communities Built to Last*. This Budget is an essential component of the Administration's blueprint for an economy of the 21<sup>st</sup> century—one built on American manufacturing, American energy, skills for American workers, and a renewal of American values.

As the President made clear in his State of the Union address, this is a make-or-break moment for the middle class—both for those who are in it and for those who aspire to it. What's at stake is the survival of the basic American promise—the idea that if you work hard, you can do well enough to raise a family, own a home, and put a little away for retirement. And the defining issue of our time is how to keep that promise alive—how we can build a nation where everyone gets a fair shot, everyone does their fair share, and everyone plays by the same rules.

Nowhere is that challenge more evident than in the homes where we live. Too often in the years leading up to the housing crisis, mortgages were sold to people who could not afford or understand them. Banks made huge bets and bonuses with other people's money. And we all know what happened next, as the country lost 753,000 jobs per month. Housing prices sank for 30 months straight. And foreclosures surged to record levels month after month. Before the worst of it was over, the country lost more than 8 million jobs, and our economy and the world plunged into a crisis from which we are still recovering.

But this Administration responded. Because of the President's bold leadership, foreclosure notices nationally are down by nearly 50 percent since early 2009. More than 5.5 million families have received mortgage modifications with affordable monthly payments. And nearly 14 million families have been able to refinance their homes. Indeed, in the month since critical changes announced by the President to the Home Affordable Refinance Program (HARP) went into effect, tens of thousands of homeowners who owe more on their homes than they are worth have already refinanced to take advantage of historically low interest rates. Further, despite unprecedented economic headwinds, through innovative tools such as the Homelessness Prevention and Rapid Re-housing and HUD-Department of Veterans Affairs Supportive Housing (HUD-VASH) programs, we saved more than 1.2 million people from homelessness, helping one out of every five homeless veterans get off our streets in the last year alone.

We have seen similar progress throughout our economy, where, over the past 23 months, American businesses have created 3.7 million new private sector jobs. With a resurgent auto industry leading the way, last year our economy added more private sector jobs than in any year since 2005.

Now is the moment to build on this progress. But in so doing, we must recognize a fundamental truth: that an economy built to last cannot be built on a mountain of debt. Consequently, while this Budget makes critical investments to speed economic growth—from Choice Neighborhoods

to restoring Sustainable Communities planning grant funding—it also includes new savings proposals and some very difficult choices we would not have made otherwise.

These tough choices include reforms to HUD rental assistance programs that save more than \$500 million in 2013 without reducing the number of families served. For example, the Budget aligns policy across rental assistance programs and reduces costs by increasing the minimum rent to \$75 per month for all HUD-assisted households. The Budget also provides \$640 million less for Project-based Rental Assistance than last year by reducing upfront funding on some contracts. Similarly, funding for new grants provided in the Supportive Housing Programs for the Elderly and Disabled, as well as HOME Investment Partnerships, remain lower than historical levels. These choices do not reflect these programs' quality and efficacy but rather the fiscal reality the Department faces, in which more than 80 cents out of every dollar of the FY 2013 Budget is required merely to continue assistance for those who already receive it.

The Administration's overall Budget outlines the President's vision of an economy that is built to last. For HUD, that includes:

- Giving Hard-Working, Responsible Americans a Fair Shot—by helping responsible homeowners, by maintaining our commitment to core rental assistance programs, and by reducing the number of homeless veterans on our streets;
- Ensuring Everybody Plays By the Same Rules—by establishing a Homeowner Bill of Rights, and by bringing HUD-assisted housing into the mainstream of real estate finance;
- Creating New Jobs Here in America to Discourage Outsourcing and Encourage Insourcing—by maintaining funding for job-creating programs like the Community Development Block Grant, and by helping regions reduce the combined cost of housing and transportation to attract private investment and speed economic growth; and
- Reforming the Federal Government So It Is Leaner, Smarter, and More Transparent—by streamlining bureaucracy and identifying savings in our largest rental programs; and by making the Department more accountable for results through continued Transformation Initiative investments and the innovative HUDStat performance measurement system.

### **Giving Hard-Working, Responsible Americans a Fair Shot**

There is more work to do to ensure that more Americans have the opportunity to enter the middle class, and that the economic security of middle-class Americans does not continue to erode. As such, this Budget recognizes that we will fail to build broadly-shared prosperity essential to an economy built to last if:

- The economy lacks a vibrant housing sector—and a balanced housing policy—that enables families to rent or own a high-quality, affordable home, build wealth, and move to economic opportunity whenever and wherever such opportunity arises;

- A fifth of America’s children live in poverty, at a cost of \$500 billion per year—fully 4 percent 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 21<sup>st</sup>-century global economy;
- The poorest renters face the most severe housing shortage and cost burden of any Americans. The most recent HUD Worst Case Housing Needs report<sup>1</sup> showed an increase of fully 20 percent in worst-case needs renters between 2007 and 2009 (the largest increase over a 2-year period in the quarter-century history of the survey); and
- Millions of Americans continue to experience homelessness, some for years at a time, including too many of our Nation’s veterans.

Put simply, we cannot settle for a country where a shrinking number of people do really well, while a growing number of Americans barely get by. There are still millions of Americans who have worked hard, acted responsibly, and made their mortgage payments on time—who, because their homes are worth less than they owe on their mortgage, cannot take advantage of today’s historically low interest rates and are facing real economic insecurity.

That is why President Obama recently announced a series of measures to help responsible homeowners and heal the housing market. I join the President in calling on Congress to pass legislation that gives all borrowers who are current on their mortgages the opportunity to refinance. The housing market should not have to hit bottom for families to get relief. Indeed, a stronger housing market will help speed growth and jump-start our economic recovery. Accordingly, this Budget ensures that the Federal Housing Administration (FHA) and the Government National Mortgage Association (Ginnie Mae) can continue to support our housing recovery and does so while rebuilding the strength of the FHA insurance fund, including by implementing premium increases that go beyond those enacted by Congress in the fall.

This Budget also directly addresses the challenges facing the lowest-income Americans. First, it maintains our commitment to serving over 4.5 million families—more than 50 percent of whom elderly or disabled—in our core Tenant-Based (\$19 billion) and Project-Based (\$8.7 billion)

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<sup>1</sup> HUD defines “worst-case housing 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.

Rental Assistance and Public Housing (\$6.6 billion) programs,<sup>2</sup> while continuing signature Administration efforts, such as Choice Neighborhoods, which provides communities with the innovative tools they need to revitalize neighborhoods of concentrated poverty. Second, the Budget once again calls for funding of the National Housing Trust Fund at \$1 billion. Created in 2008, the Trust Fund is designed to provide capital resources to build and rehabilitate housing to fill the growing gap at the most affordable end of the Nation’s rental housing market. As the President noted in announcing new steps to stabilize the housing market, the time has come for Congress to provide this crucial funding. Finally, by continuing to invest in our Homeless Assistance Grants (\$2.2 billion) and HUD-VASH (\$75 million), we move toward realizing the vision of *Opening Doors*—the first Federal strategic plan to prevent and end homelessness—to finish the job of ending chronic and veterans homelessness inside of 5 years and set a path to ending family homelessness within the decade.

### **Ensuring Everybody Plays By the Same Rules and Pays Their Fair Share**

This Administration entered office confronting the worst economic crisis since the Great Depression—and a major reason for that crisis was that mortgages were sold to people who could not afford or understand them, while banks packaged them into complex securities on which they made huge bets (and bonuses) with other people’s money. The President also put forward a Homeowners Bill of Rights—a single, straightforward set of common-sense rules that families can count on when shopping for a mortgage, including the right to a new, simple, clear form for new buyers that gives people confidence when making the most important financial decision of their lives. And those rights should not end when homeowners get the keys to their new home. When Americans lose their job or have a medical emergency, they should know that when they call their lender, that call will be answered and that their home will not be sold in foreclosure at the same time they are filling out paperwork to get help.

This Budget recognizes that, similarly, we can no longer tolerate a federally supported rental housing system that is “separate and unequal” —one which expects public housing authorities (PHAs) to house more than three million families but, imposes overly burdensome regulations and denies them access to private capital available to virtually every other form of rental housing.

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<sup>2</sup> In FY2013, HUD anticipates serving a total of 5.4 million families through its core rental programs, in addition to programs such as HOME, Sections 202 and 811, Native American initiatives, and Homeless Assistance programs.

To bring our rental housing system into the 21<sup>st</sup> century and to begin addressing the \$26 billion in Public Housing capital needs, this Budget includes proposals that would increase PHA flexibility to fund critical supportive services while also moving them toward mainstream real estate financing and management practices through the consolidation of outmoded funding streams. At the same time, to continue implementation of the Rental Assistance Demonstration, the Department will use funding requested in the Budget for existing programs to ensure that thousands of units funded through the Public Housing and so-called “orphan programs” can leverage debt to access private capital and preserve affordable housing.

### **Creating New Jobs Here in America to Discourage Outsourcing and Encourage Insourcing**

HUD’s proposed Budget for FY 2013 makes an essential contribution to the Administration’s broader effort to speed economic growth and provide a level playing field and real opportunity for all Americans. At the proposed funding level of \$44.8 billion, \$1.4 billion—or 3.2 percent over FY 2012—this Budget will create or support hundreds of thousands of direct and indirect jobs.

Just as important as how many jobs this Budget creates is where many of these jobs would be created. As we learned from Recovery Act investments that modernized more than 500,000 Public Housing units and provided green retrofits to more than 750,000 properties, investments in affordable housing and community development represent a powerful engine for job creation in the places that need them the most. At the same time, we know that America’s cities, suburbs and rural communities are most competitive when they plan not as individual communities but as metropolitan regions.

This is why this Budget restores funding for Sustainable Communities grants (\$100 million). Sustainable Communities grants are part of a silo-breaking, interagency Partnership for Sustainable Communities with the Environmental Protection Agency and the Department of Transportation that embodies the President’s commitment to being a new kind of federal partner to states, regions, and localities. Mobility of capital and people requires cities and regions to compete on a global playing field—and a big part of what allows them to win that competition and collaborate with other places that share an economic future is their regulatory structures, from taxes to land use. These grants are helping metropolitan and rural communities undertake a new wave of transportation zoning, building code, and land use reform, and aligning housing and transportation investments, so that they can be responsive to the needs of regional economies. This is particularly critical at a time when the average household is paying 52 cents of every dollar it earns on housing and transportation and when congestion on our roads is costing us five times as much wasted fuel and time as it did 25 years ago.

We can see that these grants are making an impact. In Austin, Texas, a \$3.7 million Regional Planning grant provided in FY 2010 is helping link its long-term regional transportation plan to 37 mixed-income communities near transit and job centers. This grant will help 3,000 small, family-run businesses expand or open a second location. Provided that each of these businesses

hires at least one new worker who has been unemployed for a year or more, this work is expected to create more than 7,000 permanent jobs and save the taxpayer \$1.25 billion.

We know how important these planning tools are to regional economies—particularly those that rely on integrated supply chains that cross national borders and are essential to meeting the President’s charge to double U.S. exports over the next 5 years. These investments will also leverage and increase the ripple effects of other Administration proposals to overhaul America’s deteriorating infrastructure, including the Infrastructure Bank, as well as Project Rebuild and other elements of the American Jobs Act, as we leverage increased residential and commercial construction around transit and other infrastructure investments.

Of course, smart planning requires sustained follow-through. That is why HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; and aligns federal policies and funding to remove barriers to local collaboration. Accordingly, we will continue to make critical investments programs such as the Community Development Block Grant (CDBG): \$2.95 billion) and Native American Housing Block Grant (NAHGB): \$650 million. In particular, CDBG is an important catalyst for economic growth—helping leaders around the Nation bring retail businesses to their communities, forge innovative partnerships, and rebuild their economies. These programs provide real bang for the buck.

### **Reforming the Federal Government So It Is Leaner, Smarter, and More Transparent**

It is clear that an economy that meets the needs of the 21<sup>st</sup> century requires a Federal Government that is streamlined, transparent, and efficient. This Budget continues this Administration's work to transform how HUD, and the Federal Government as a whole, does business so that our state and local government and private sector partners, and individual Americans have a real federal partner accountable for measurable outcomes.

As such, the Budget proposes reforms to HUD rental assistance programs that would save more than \$500 million in fiscal year 2013 without reducing the number of families served. In the Project-Based Rental Assistance (PBRA) program, savings are achieved by improving oversight of market rent studies used to set subsidy payment levels, capping annual subsidy increases for certain properties, and using excess reserves to offset HUD payments to landlords. The Budget also aligns policy across rental assistance programs and reduces costs by increasing the minimum rent to \$75 per month for all HUD-assisted households, which is comparable to the minimum rent enacted in 1998, adjusted for inflation. Recognizing the potential burden that this higher minimum rent may impose, this Budget maintains the current exemption for families facing financial hardship. Finally, this Budget reduces costs by simplifying administration of the medical expense deduction, better targeting rental assistance to the working poor in rural areas, and setting Public Housing flat rents closer to market levels.

This Budget does not shy away from making tough choices. Due to the difficult fiscal environment, the Budget provides \$8.7 billion for PBRA, which is \$640 million below FY 2012. These savings in FY 2013 are generated by providing less than 12 months of funding upfront on some PBRA contracts that straddle fiscal years. This change will not reduce or delay payments to landlords, nor will it adversely impact the number of families served by the program. Nonetheless, it is a difficult choice, and not one that the Administration would choose to implement in a less austere fiscal environment. And while we kept our promise to restore its funding following last year's reserve offset, the same holds true for the proration of the Public Housing Operating Fund. Similarly, funding for new grants provided in the Supportive Housing Programs for the Elderly and Disabled, as well as HOME Investment partnerships, remain below historical levels.

To be clear, these choices were not made because of the quality or effectiveness of these programs—but rather because of the very difficult fiscal environment we face. HUD's mission is critically important—and taken together, these are the choices we felt we had to make to continue that mission.

Of course, making that possible is not just about making government leaner—but making it smarter and more accountable.

Central to that effort for HUD has been the Transformation Initiative (TI)—and this Budget once again calls for the flexible use of resources (up to \$120 million) that the Department needs to invest in technical assistance that builds local capacity to safeguard and effectively invest taxpayer dollars; conduct innovative research, and evaluations of program initiatives and demonstration programs so we can fund what works and stop funding what does not; and upgrade the information technology (IT) infrastructure that tracks and monitors our programs. Thanks to congressional support for TI, past appropriations are today funding a wide range of groundbreaking projects, including:

- Innovative, “silo-breaking” One CPD technical assistance in communities across the country that replaces a fragmented system with one that addresses the holistic and cross-cutting needs of our grantees, recognizing that these extend beyond the rules and regulations of any single funding stream;
- Major evaluations and demonstration programs to examine the outcomes of key Administration initiatives such as the Rental Assistance Demonstration and Choice Neighborhoods, the cost to local PHAs of administering the Housing Choice Voucher program, different approaches to rent reform in our largest programs, the housing needs of Native American and Hawaiian communities, and the impact of housing and services interventions on homeless families;
- Replacement of 30-year-old technology and information management practices to reduce risks, and implement higher-performing, cost-effective business solutions to more effectively administer the Department's rental housing assistance programs.

At the same time, the HUDStat system initiated in 2010 has focused the attention of senior leadership, principal staff, and operational managers, yielding significant performance improvements, including increasing the number of families assisted by the Public Housing and the Housing Choice Voucher programs and accelerating the pace of housing homeless veterans by a factor of 20. The number of homeless veterans dropped fully 12 percent between 2009 and 2010. We have also taken on “bureaucracy busting” efforts that have already yielded results, reducing the time it takes to post competitive program funds by 82 percent.

### **An America Built to Last**

Further detail on the Department’s proposed investments and savings are provided on the following pages. At its core, this Budget reflects the Administration’s belief that our housing recovery is essential to economic recovery—and to ensuring every American gets a fair shot, everyone does his or her fair share, and everyone plays by the same rules. It recognizes that robust growth requires tough choices—doing more with less and holding ourselves accountable for results. Most important of all, it expresses the continued confidence of the President in the capacity of HUD’s programs and its people to meet a high standard of performance.

As such, I believe *Housing and Communities Built to Last* will contribute substantially to economic recovery, by creating pathways to opportunity, and, thereby, to an America built to last.

A handwritten signature in black ink, appearing to read 'Shaun Donovan', with a long horizontal flourish extending to the right.

Shaun Donovan  
Secretary of Housing and Urban Development