



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

**Written Testimony of Secretary Shaun Donovan
Hearing before the Senate Committee on Appropriations
*on The Impacts of Sequestration***

Thursday, February 14, 2013

Chairwoman Mikulski, Ranking Member Shelby, and Members of the Committee, thank you for the opportunity to testify today regarding the effects of the across-the-board federal cuts that would result from the potential sequestration now scheduled for March 1, just two weeks from tomorrow. As the President stated last week, these arbitrary and indiscriminate cuts “will cost us jobs and significantly slow down our recovery.” With respect to the Department of Housing and Urban Development (HUD) that I am privileged to lead, these cuts would be deeply destructive, would damage the economy, and would harm numerous families, individuals, and communities across the nation that rely on HUD programs.

Harmful Effects of Sequestration on Homeless and Other Vulnerable Populations around the Country

The March 1 sequestration would have devastating effects on homelessness and on other vulnerable groups that HUD works with on housing needs across the country. In particular:

- About 125,000 individuals and families, including elderly and disabled individuals, could lose assistance provided through the Housing Choice Voucher (HCV) program and be at risk of becoming homeless. The HCV program, which is administered by state and local public housing agencies (PHAs), provides crucial assistance to families and individuals in renting private apartment units. There may be even more families affected by the sequestration cuts to the extent that PHAs are forced to absorb annual funding losses in less than a full twelve month time frame. In addition, since sequestration will also cut PHA administrative fees for the HCV program, numerous PHAs may find continued operation of the program financially untenable and thus stop operating the program entirely, which will harm even more families and individuals, including homeless veterans.
- Sequestration cuts would also result in more than 100,000 formerly homeless people, including veterans, being removed from their current housing or emergency shelter

programs, putting them at substantial risk of becoming homeless. Much of this damage will be done through cuts to HUD's Continuum of Care programs, under which formerly homeless families and individuals are quickly rehoused and given other assistance to move them towards self-sufficiency. In addition, the sequestration cuts would eliminate some of the key funding for the nation's shelter system for the homeless provided by the Emergency Solutions Grants (ESG) program. Because ESG is considered a critical glue, holding together the shelter system across the country, the cuts could have a ripple effect and force some shelters to close down altogether, with even more devastating effects. Over the last several years, we have made significant progress in reducing homelessness and in achieving the national goal of ending veterans' homelessness. These sequestration cuts would lead us in the opposite, and tragically wrong, direction.

- Sequestration cuts to the Housing Opportunities for Persons with AIDS program would result in 7,300 fewer low-income households receiving permanent and short-term supportive housing assistance, including rent or utility assistance. This could result in some people falling into homelessness, which would further exacerbate this tragic problem.
- Safe, decent, and affordable housing is desperately needed in Indian Country, and HUD is an important source of assistance. Sequestration cuts would mean that over 900 fewer Native American families would be able to obtain housing loan guarantees.
- Sequestration would cut important programs offered by HUD's Office of Healthy Homes and Lead Hazard Control and related HUD programs addressing housing-related health hazards. As a result, more than 3,000 vulnerable children would not be protected from lead poisoning and other safety hazards in the home. Such danger to our nation's most precious resource – our children – would be another tragic result of the arbitrary cuts required by sequestration.

Sequestration's Damaging Effects on Families, Communities, and the Economy across the Nation

From HUD's perspective, the March 1 sequestration would also have even broader harmful effects on middle class families, on communities, and on the economy across the nation. Specifically:

- Sequestration would result in 75,000 fewer households receiving foreclosure prevention, pre-purchase, rental or other counseling through HUD housing counseling grants. This counseling is crucial for middle class and other families who have been harmed by the housing crisis from which we are still recovering, and are trying to prevent foreclosure, refinance their mortgages, avoid housing scams, and find quality, affordable housing. Studies show that housing counseling plays a crucial role in those

efforts. Distressed households who receive counseling are more likely to avoid foreclosure, while families who receive counseling before they purchase a home are less likely to become delinquent on their mortgages.

- The impact of sequestration would force public housing agencies (PHAs) to defer maintenance and capital repairs to public housing, leading to deteriorating living conditions and, over the longer term, risking the permanent loss of this affordable housing that serves 1.1 million of the nation's poorest residents. The cuts would also harm the local economies in the areas served by PHAs. PHA spending on maintenance and capital repairs results in expenditures for goods and services throughout local economies. Sequestration would also reduce the number of families served by HUD programs designed to help families in public housing become more self-sufficient.
- The cuts caused by sequestration would prevent state and local communities that receive funding under the HOME Investment Partnerships program from building and rehabilitating 2,100 affordable housing units for low-income families. These cuts will have an even broader effect on local economies, particularly because historically, every dollar of HOME funding is leveraged with almost four dollars of other governmental or private investment for the production or rehabilitation of affordable single or multi-family housing. This will mean fewer jobs in and more harm to local construction and related industries.
- Sequestration will also result in significant cuts to community development funding for public services, facilities, and infrastructure improvements across the country. This will harm middle class families who rely on such services and reduce jobs in local economies across the nation. These funds improve our local communities, and also support jobs for construction workers and others who build or rehabilitate public facilities, infrastructure, and housing, and for those providing social services at the local level. Historically, it has been estimated that community development related funding over the past decade has sustained 400,000 jobs in local economies across the country. In 2012 alone, nearly 21,800 permanent jobs were created or retained using CDBG funds and more than 32.5 million people benefitted from CDBG funded public facilities activities. The negative effects of cuts in community development funding are multiplied because for every hundred dollars of funding from HUD for such activities, another \$150 in other governmental or private investment in such community development is generated. . In addition, these cuts will adversely impact confidence in the long-term sustainability of the private market rental housing that HUD supports.
- Only weeks ago, Congress appropriated community development and other funds for the recovery and rebuilding of the devastation caused by Superstorm Sandy and other natural disasters. The March 1 sequestration would force cuts to those crucial funds, preventing communities from making critical investments. This will not only prolong the suffering in a region that has been hit again this past weekend by a new storm. It will

also cost jobs that would be created by full expenditure of the approved funding and slow the full recovery and rebuilding of a region that is critical to our economy.

- Finally, sequestration would directly affect the employees who work for HUD itself, along with their families and communities. I am privileged to lead just over 9,000 HUD employees around the nation in 81 field offices around the country. Specific plans are still being reviewed and finalized, but we believe that furloughs or other personnel actions may well be required to comply with cuts mandated by sequestration. The public will suffer as the agency is simply less able to provide information and services in a wide range of areas, such as FHA mortgage insurance and sale of FHA-owned properties.

Conclusion

As the President and many members of Congress have made clear, sequestration is a blunt and indiscriminate instrument that was passed to help ensure that action is taken on a balanced deficit reduction package, not as an actual method of deficit reduction via arbitrary budget cuts. I firmly agree with the President's statement just last week that "our economy is headed in the right direction, and it will stay that way as long as there aren't any more self-inflicted wounds coming out of Washington." Sequestration is just such a self-inflicted wound that would have devastating effects on our economy and on people across the nation.