



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 28, 2010

H.R. 5814 **Public Housing Reinvestment and Tenant Protection Act of 2010**

As ordered reported by the House Committee on Financial Services on July 27, 2010

SUMMARY

H.R. 5814 would make changes to the Department of Housing and Urban Development's (HUD's) public housing and voucher programs, including:

- Providing funding for the Choice Neighborhood Initiative, which would serve principally as a successor to the HOPE VI public housing revitalization program for severely distressed properties;
- Requiring the Secretary of HUD to provide replacement vouchers for rental assistance for all dwelling units that are demolished or disposed;
- Authorizing the Secretary to guarantee, over the 2011-2013 period, \$500 million a year in notes or other obligations issued by public housing agencies to finance the rehabilitation of public housing units; and
- Creating grant programs to convert public housing to assisted living facilities and to train public housing residents to provide home-based health services.

Assuming appropriation of the authorized and necessary amounts, CBO estimates that implementing H.R. 5814 would cost \$2.7 billion over the 2011-2015 period. Additional discretionary spending of \$2.2 billion from amounts authorized over the next five years would occur after 2015.

Pay-as-you-go procedures do not apply because enacting the legislation would not affect direct spending or revenues.

H.R. 5814 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5814 is shown in the following table. The costs of this legislation fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars					2011- 2015
	2011	2012	2013	2014	2015	
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Title I: Choice Neighborhood Initiative						
Grants						
Estimated Authorization Level	575	581	587	594	603	2,939
Estimated Outlays	6	35	121	237	355	754
Rental Assistance						
Estimated Authorization Level	23	24	36	48	49	180
Estimated Outlays	*	12	31	43	48	134
Total, Title I						
Estimated Authorization Level	598	605	623	642	652	3,119
Estimated Outlays	6	47	152	280	403	888
Title II: Tenant Protection Vouchers						
Estimated Authorization Level	37	60	76	77	78	329
Estimated Outlays	22	51	70	77	78	298
Title III: Public Housing Preservation and Rehabilitation						
Capital Loan Fund Guarantee						
Estimated Authorization Level	502	502	502	1	1	1,507
Estimated Outlays	502	502	502	1	1	1,507
Grants to Convert Public Housing to Assisted Living Facilities						
Estimated Authorization Level	11	11	11	11	12	57
Estimated Outlays	1	7	8	10	11	37
Total, Title III						
Estimated Authorization Level	513	513	513	12	12	1,564
Estimated Outlays	503	509	510	11	11	1,544
Title IV: Pilot Program to Train Public Housing Residents to Provide Home-Based Health Services						
Authorization Level	5	5	5	0	0	15
Estimated Outlays	1	3	5	4	2	15
Total Changes						
Estimated Authorization Level	1,153	1,183	1,217	731	743	5,027
Estimated Outlays	532	610	737	372	495	2,745

Note: * = less than \$500,000.

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 5814 will be enacted near the end of calendar year 2010 and that the full amounts authorized or estimated to be necessary will be appropriated each year. Components of the estimated costs are described below.

CBO estimates that implementing H.R. 5814 would increase discretionary spending by \$2.7 billion over the 2011-2015 period. From amounts authorized over those five years, additional spending of \$2.2 billion would occur after 2015, mostly for the Choice Neighborhood Initiative.

Title I: Choice Neighborhood Initiative

CBO estimates that implementing Title I would require the appropriation of \$3.1 billion over the 2011-2015 period. We estimate outlays of \$888 million over that period and additional spending totaling \$2.2 billion after 2015.

Grants. Title I would authorize the appropriation of \$575 million in 2011 and such sums as may be necessary for each year over the 2012-2015 period for the Secretary of HUD to make grants to eligible entities, such as public housing authorities and nonprofit organizations which meet criteria specified in the bill, to revitalize severely distressed public housing and replace units on a one-for-one basis. The Choice Neighborhood Initiative created under the bill would serve as a successor to the HOPE VI public housing revitalization program for severely distressed properties.

For this estimate, CBO assumes that funding levels over the 2012-2015 period would remain at the \$575 million level specified for 2011, adjusted for anticipated inflation. Assuming appropriation of those amounts, CBO estimates that spending would total \$754 million over the 2011-2015 period. Additional spending of \$2.1 billion would occur after 2015. CBO assumes that spending would follow the historical pattern of the HOPE VI program, which has been slow due to the time it takes to award grants and complete revitalization projects.

Rental Assistance. The bill would authorize the appropriation of such sums as may be necessary for each of fiscal years 2011 through 2015 for tenant-based rental vouchers to help residents relocate as a result of housing demolition or rehabilitation under the Choice Neighborhood Initiative. Currently, residents who are displaced as a result of HOPE VI activities can either move to another public housing property, receive a housing voucher, or leave the public housing system altogether.

Based on information provided by HUD, CBO estimates that the bill's authorization for the Choice Neighborhood Initiative would encompass enough funding to demolish roughly 6,000 units of public housing each year. Historically, about 50 percent of units demolished under the HOPE VI are replaced with tenant-based rental vouchers. This estimate assumes a similar rate would apply, leading to about 3,000 new vouchers (plus renewal of previously provided vouchers) under the bill. Based on an average voucher cost of about \$7,700 in 2011, and adjusting for inflation, CBO estimates that providing rental assistance would require an appropriation of \$23 million in 2011, with that amount growing to \$49 million in 2015.

Again, CBO expects that initial expenditures for voucher assistance would be slow, due to the time it takes for revitalization projects to get underway. Assuming appropriation of the necessary amounts, CBO estimates that outlays for rental assistance would total \$134 million over the 2011-2015 period.

Title II: Tenant Protection Vouchers

Title II would require the Secretary of HUD to provide replacement vouchers for rental assistance for all dwelling units that are disposed of or demolished. The bill would apply to any demolition or disposition that is approved by the Secretary after the date of enactment. On average, over the 2000-2009 period, about 12,000 public housing units were removed annually from the system through programs other than HOPE VI. Currently, HUD only awards tenant protection vouchers to replace units that have been occupied within the past 24 months. Based on information provided by HUD, about 60 percent of lost units are replaced with vouchers.

Under the bill, CBO assumes that the Secretary would need to provide voucher assistance to replace the remaining 40 percent of units that are removed. Assuming a similar number—12,000 units—are removed annually, CBO estimates that nearly 5,000 new vouchers would be provided each year (plus renewal of previously provided vouchers). Assuming an average voucher cost of about \$7,700 in 2011, and adjusting for inflation, CBO estimates that providing rental assistance would require an appropriation of \$37 million in 2011, with that amount growing to \$78 million in 2015. Assuming appropriation of those amounts, CBO estimates that outlays for rental assistance would total \$298 million over the 2011-2015 period.

Title III: Public Housing Preservation and Rehabilitation

CBO estimates that implementing Title III would cost \$1.5 billion over the 2011-2015 period.

Capital Loan Fund Guarantee. Title III would authorize the Secretary to guarantee, over the 2011-2013 period, \$500 million a year in notes or other obligations issued by public housing agencies to finance:

- Rehabilitation of public housing;
- Modernization, through energy efficiency improvements, of public housing units; and
- Construction, rehabilitation, purchase, or conversion of units to replace public housing units that are disposed of or demolished.

Public housing agencies that are unable to finance improvements without a guarantee, or could obtain substantially lower financing costs or interest rates with a guarantee would be eligible for the loan guarantees under the bill.

The budgetary accounting for direct loans and loan guarantees administered by federal agencies is governed by the Federal Credit Reform Act of 1990, which requires an appropriation of the subsidy and administrative costs associated with such loan operations. The subsidy cost is the estimated long-term cost to the government of a loan or loan guarantee, calculated on a net-present-value basis, excluding administrative costs.

Administrative costs, recorded on a cash basis, include activities related to making, servicing, and liquidating loans as well as overseeing the performance of lenders.

Loans obtained by public housing agencies under this provision would be paid back through their capital funds, which are funded through annual Congressional appropriations. For purposes of estimating an up-front subsidy cost, CBO cannot assume that appropriated amounts would be available in the future for the agencies to repay their obligations since those amounts are subject to future legislative action. As a result, CBO estimates that the subsidy cost would be the entire amount that is guaranteed under this provision. Accordingly, CBO estimates that providing loan guarantees under the bill would require annual appropriations of \$500 million over the 2011-2013 period. Assuming the appropriation of those amounts plus an additional \$7 million for administrative costs, CBO estimates that implementing this provision would cost \$1.5 billion over the 2011-2015 period.

Grants to Convert Public Housing to Assisted Living Facilities. Title III would authorize the appropriation of such sums as may be necessary for each of fiscal years 2011 through 2015 to provide grants to public housing agencies to convert certain units to assisted living facilities or service-enriched housing for elderly persons. Based on a similar program for properties subsidized by project-based vouchers, CBO estimates that about

\$11 million a year, adjusted for inflation, would be required for grants under the bill. Assuming appropriation of the necessary amounts, CBO estimates that spending would total \$37 million over the 2011-2015 period. Outlays after 2015 would total \$22 million.

Title IV: Pilot Program to Train Public Housing Residents to Provide Home-Based Health Services

Title IV would authorize the appropriation of \$5 million a year over the 2011-2013 period to create a pilot program for grants to train public housing residents to provide home-based health services to elderly and disabled residents of public and federally assisted rental housing. Eligible grantees would include public housing agencies; public health centers; home care provider, faith-based, and labor organizations; and other qualified organizations determined by the Secretary.

Half of the \$5 million would be for the new training program and the remaining half would be available for a subset of the grantees to provide compensation to those residents providing home-based services to other residents. Assuming appropriation of the authorized amounts, CBO estimates that implementing this program would cost \$15 million over the 2011-2015 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5814 contains no intergovernmental or private-sector mandates as defined in UMRA. State, local, and tribal governments that provide housing assistance and services to residents of public housing facilities would benefit from activities authorized in the bill.

ESTIMATE PREPARED BY:

Federal Costs: Leigh Angres and Chad Chirico
Impact on State, Local, and Tribal Governments: Lisa Ramirez-Branum
Impact on the Private Sector: Jimmy Jin

ESTIMATE APPROVED BY:

Peter H. Fontaine
Assistant Director for Budget Analysis