CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 15, 2007

H.R. 1227
Gulf Coast Hurricane Housing Recovery Act of 2007

As ordered reported by the House Committee on Financial Services on March 7, 2007

SUMMARY

H.R. 1227 would authorize various forms of housing assistance for the areas of the Gulf Coast affected by hurricanes in 2005. CBO estimates that enacting the bill would increase direct spending by $224 million in 2007, by $469 million over the 2007-2012 period, and by $269 million over the 2007-2017 period. H.R 1227 would increase direct spending in 2007 by requiring the Federal Housing Administration (FHA) to pay some additional mortgage insurance claims associated with certain properties either damaged or destroyed by Hurricanes Katrina or Rita. Through a reappropriation of funds, the bill would increase spending for the Housing and Urban Development's (HUD's) Disaster Voucher Program (DVP) by a total of $45 million in 2008 and 2009. Finally, the bill would accelerate expenditures for some funds that have been previously appropriated, increasing direct spending by $200 million over the 2008-2012 period; however, this acceleration would have no net effect on direct spending over the 2008-2017 period.

H.R. 1227 also would authorize funding for the repair, rehabilitation and development of public housing operated by the Housing Authority of New Orleans (HANO) and authorize new tenant replacement and project-based housing vouchers. CBO estimates that the bill would authorize the appropriation of about $1.3 billion over the 2008-2012 period. Assuming the appropriation of the estimated amounts, implementing H.R. 1227 would result in additional outlays of nearly $1.3 billion over the same period.

H.R. 1227 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates, however, that the mandate would not impose additional costs, and therefore the annual threshold established in UMRA ($66 million in 2007, adjusted annually for inflation) would not be exceeded. The bill contains no new private-sector mandates as defined by UMRA.

ESTIMATED BUDGETARY EFFECTS OF H.R. 1227

	By Fiscal Year, in Millions of Dollars					
	2007	2008	2009	2010	2011	2012
CHANGES IN DIRECT SPENDING						
Eliminate Prohibition on Duplicate Benefits [a]						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	450	550	450	-750	-500
New Orleans Recovery Authority Pilot Program						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	6	6	3	-15	0
Extension of Disaster Voucher Program						
Estimated Budget Authority	0	80	0	0	0	0
Estimated Outlays	0	41	4	0	0	0
Treatment of Non-Conveyable Properties						
Estimated Budget Authority	224	0	0	0	0	0
Estimated Outlays	224	0	0	0	0	0
Total Changes [a]						
Estimated Budget Authority	224	80	0	0	0	0
Estimated Outlays	224	497	560	453	-765	-500
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Repair and Rehabilitation						
Estimated Authorization Level	0	664	0	0	0	0
Estimated Outlays	0	113	199	199	133	20
Tenant Replacement Vouchers for All Lost Units						
Estimated Authorization Level	0	42	0	0	0	0
Estimated Outlays	0	25	17	0	0	0
Voucher Assistance for Supportive Housing						
Estimated Authorization Level	0	37	38	39	40	41
Estimated Outlays	0	11	37	38	39	40
Transfer of DVP Vouchers to Voucher Program						
Estimated Authorization Level	0	97	92	86	82	77
Estimated Outlays	0	58	94	89	84	79
Fair Housing Initiatives Program						
Estimated Authorization Level	0	5	5	0	0	0
Estimated Outlays	0	2	4	3	1	0
Total Changes						
Estimated Authorization Level	0	845	134	125	121	118
Estimated Outlays	0	209	351	329	256	139

a. In addition to the effects shown through 2012, CBO estimates that enacting H.R. 1227 would reduce direct spending by $200 million in 2013. There is no estimated impact on direct spending after 2013.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1227 is shown in the above table. The costs of this legislation would fall within budget functions 370 (commerce and housing credit), 450 (community and regional development), and 600 (income security).

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 1227 will be enacted by the end of fiscal year 2007, and that the amounts necessary to implement the bill will be appropriated for each year. Components of the estimated costs are described below.

Direct Spending

CBO estimates that enacting H.R. 1227 would increase direct spending by $224 million in 2007, $469 million through 2012, and $269 million through 2017.

Elimination of Prohibition on Duplication of Benefits. In 2005 and 2006, the Congress provided about $16.7 billion to HUD's Community Development Fund to aid the states of Louisiana, Mississippi, Texas, Alabama, and Florida following the 2005 Gulf Coast hurricanes (see Public Laws 109-148 and 109-234). From these amounts, HUD allocated about $10.4 billion to Louisiana for various projects including the rebuilding of public infrastructure, business recovery loans, and homeowner and rental assistance. For such projects, HUD and the Louisiana Recovery Authority (LRA) developed procedures to prevent the duplication of benefits to individuals from other sources, such as claims payments from private hazard insurers or the National Flood Insurance Program, as required by current law. H.R. 1227 would allow the state of Louisiana to forgo this requirement with respect to benefits obtained from hazard insurance, flood insurance, and Federal Emergency Management Agency (FEMA) disaster payments.

For this estimate, CBO assumes that LRA would eliminate this requirement and would no longer reduce benefits provided through its homeowner grant program by amounts received from other sources. Based on information from HUD and the state, CBO estimates that the average benefit provided through this program would thereby increase by about $20,000 and that this increase would apply retroactively to grants already made. As of March 2007, LRA has received over 115,000 applications for its homeowner grant program. Benefits have been calculated for over 48,000 of these applicants, of which almost 3,000 have already been paid. CBO expects that increasing the average benefit for homeowner grants would cause expenditures to occur faster than anticipated under current law. Because this legislation would not appropriate any new funds for this activity, such an acceleration of expenditures would result in an equivalent decline in spending in later years. As such, CBO estimates that this provision would cost $450 million in 2008, but would have no net effect over the 2008-2017 period. (We expect the acceleration of spending would increase outlays in 2008, 2009, and 2010; but that it would lower outlays—relative to current law—in 2011, 2012, and 2013.)

Both HUD and the state of Louisiana indicate that implementing this provision of H.R. 1227 could lead to a need for additional appropriations to provide benefits to all eligible homeowners. This cost estimate does not include an estimate of any such additional costs, however, because CBO has no basis for assessing the total needs for such funds relative to the amounts the Congress has already provided. Furthermore, H.R. 1227 does not authorize the appropriation of additional funds to HUD. However, it does authorize Louisiana's Road Home program to use $1.175 billion provided for FEMA's Hazard Mitigation program.

New Orleans Redevelopment Authority Pilot Program. H.R. 1227 would allocate $15 million from funds provided to HUD for the state of Louisiana to establish the New Orleans Redevelopment Authority Pilot Program. Such funds would be used to purchase individual parcels of land that, in turn, would be sold to private entities for development. CBO expects that expenditures for such a program would be slightly faster than would occur under current law. Because this legislation would not appropriate any new funds, such an acceleration of expenditures would result in an equivalent decline in expected outlays in later years. Thus, CBO estimates that this provision would cost $6 million in 2008, but would have no net effect over the 2008-2017 period.

Extension of Disaster Voucher Program. Section 301 would increase direct spending by a total of $45 million over the 2008-2009 period by extending for three months the authority to obligate funds previously appropriated for the Disaster Voucher Program. Such an action would constitute a reappropriation of the affected funds. Based on information provided by HUD, CBO estimates that about $80 million in budget authority will remain unobligated when the current period of obligation expires on September 20, 2007. CBO expects that the obligation rate for the three additional months ending January 1, 2008, will be similar to the projected fiscal year 2007 monthly average of $15 million. Because each month's new obligations would be spent over a 12-month period, the provision would increase outlays by an estimated $41 million in 2008 and $4 million in 2009.

Treatment of Non-Conveyable Properties. Enacting section 501 would increase direct spending by $224 million in 2007 by requiring FHA to pay the full claims for and accept conveyance of properties that were either damaged or destroyed by Hurricanes Katrina or

Rita, as long as there was no failure on the part of the lender to provide hazard insurance or flood insurance, to the extent such insurance is required under federal law.

Under the Mutual Mortgage Insurance program, FHA provides mortgage insurance to protect lenders against the risk of default on mortgages made for single-family housing. If a borrower defaults on the mortgage, the lender then files a claim with FHA, who then compensates the lender based on the outstanding unpaid balance of the mortgage. Upon payment of the claim, FHA takes possession of the property and then eventually sells the property to recover some of the costs of such claims. Currently, FHA will only pay the claim and accept conveyance of the property if the property is in marketable condition to be sold. Where exceptions are made by FHA, repair costs are deducted from the mortgage insurance payment.

According to FHA, about 2,630 properties (with an average unpaid balance of $73,000 per property) would be eligible for full claims payments under the bill. Currently, the mortgage payments for these properties are over five months delinquent, and no apparent corrective measures are being taken by the respective lenders. Thus, these properties are presumed to be in unmarketable condition. Furthermore, in the absence of this legislation, CBO expects those lenders would write off the outstanding debt associated with these properties in lieu of filing a claim with FHA, given that the cost of repairs to bring the properties back to marketable condition would most likely exceed the FHA claims payments.

Based on information from FHA, CBO estimates that the subsidy rate for the underlying loans on those 2,630 properties includes an estimated 10 percent default rate with a claims cost, net of recoveries, of about 14 percent of the unpaid balance on the mortgage. However, under this legislation, CBO estimates that nearly all 2,630 properties would default and FHA would be required to cover 100 percent of the loans' unpaid balances. Because these 2,630 properties would not be in marketable condition upon conveyance to FHA, most would eventually be sold for $1 to local governments, resulting in no significant net recoveries for FHA. CBO estimates that total net claims would cost $190 million.

In addition to the estimated $190 million in net claims cost, CBO estimates that FHA would pay some holding costs, including accrued interest on the properties and other transactional costs. According to FHA, such costs would increase the net claims payment by about 18 percent. Thus, CBO estimates that enacting this provision would cost a total of $224 million.

Because enacting this provision would change the expected cash flows associated with the FHA single-family loan guarantee program, paying additional claims and holding costs is considered to be a modification of existing federal loan guarantees. Under credit reform procedures, the costs of a loan modification are estimated on a net-present-value basis and recorded in the year in which the legislation is enacted. Assuming that the bill is enacted late in fiscal year 2007, CBO estimates direct spending of $224 million this year. (Such estimated costs would be recorded in 2008 if the bill is enacted after September 30, 2007.)

Spending Subject to Appropriation

CBO estimates that implementing H.R. 1227 would incur new discretionary costs of about $1.3 billion over the 2008-2012 period.

Authorization of Appropriations for Repair and Rehabilitation. Section 206 would authorize the appropriation of such sums as may be necessary for the repair, rehabilitation, and development of HANO's public housing units and for community and supportive services for the residents of those units. According to HUD, approximately 2,000 of HANO's 7,000 units of public housing have been repaired and are habitable. Using HUD's estimated development costs for the city of New Orleans, CBO estimates that repairing and rehabilitating the remaining 5,000 units of public housing would cost, on average, about $135,000 per unit (for a total of $676 million). According to HUD, HANO currently has $62 million available to spend on these costs. Community and supportive services provided through HUD's HOPE VI program cost about $7,200 per unit. Assuming a similar cost per unit, CBO estimates that about $51 million would be required to provide such services. Together, the provisions of section 206 would increase authorization levels by $664 million in 2008, and, assuming appropriation of that amount, would result in additional outlays of $664 million over the 2008-2012 period.

Tenant Replacement Vouchers for All Lost Units. Section 304 would authorize the appropriation of such sums as may be necessary for fiscal year 2008 to provide tenant replacement vouchers under section 8 of the United States Housing Act of 1937. Specifically, the provision would authorize tenant-based vouchers for all subsidized units that will not be put back into use for occupancy, less the number of previously awarded replacement vouchers for these units. Based on information provided by HUD, CBO estimates that approximately 5,000 vouchers would be authorized by this provision, at an average cost of about $8,800. Assuming appropriation of the necessary amounts, CBO estimates that providing such vouchers would cost $25 million in 2008 and $42 million over the 2008-2012 period.

Voucher Assistance for Supportive Housing. Section 305 would authorize the appropriation of such sums as may be necessary for 4,500 project-based housing vouchers to be used to house elderly families, persons with disabilities, or homeless persons. The state of Louisiana or its designee would receive 3,000 such vouchers. Based on cost data provided by HUD, CBO estimates that such vouchers would cost about $8,000 each in 2008. Assuming appropriation of the necessary amounts, CBO estimates that implementing this provision would cost $11 million in 2008 and $165 million over the 2008-2012 period.

Transfer of Disaster Voucher Program Vouchers to Voucher Program. Section 306 would authorize the appropriation of such sums as necessary to provide tenant-based vouchers to households that are assisted through the Disaster Voucher Program at the program's expiration date. The authorization for such assistance would continue so long as the households are eligible for voucher assistance. Based on data provided by HUD, CBO estimates that approximately 12,300 families are currently assisted by the DVP at an average cost of $11,900 per year. Assuming that appropriations are increased accordingly, an annual voucher turnover rate of 8 percent, and that voucher recipients will begin paying about $3,700 per year in tenant contributions at the expiration of the DVP, CBO estimates that implementing this provision would cost $58 million in 2008 and $403 million over the 2008-2010 period.

Fair Housing Initiatives Program. Section 601would authorize the appropriation of $5 million for each of fiscal years 2008 and 2009 for HUD to make grants to states, localities, and nonprofit organizations for programs to prevent discriminatory housing practices in areas affected by Hurricanes Katrina and Rita. Assuming appropriation of the authorized amounts, CBO estimates that implementing this provision would cost $10 million over the 2008-2012 period.

Other Provisions

In addition, H.R. 1227 also would:

- Authorize the use of $1.175 billion provided to Louisiana from FEMA's Hazard Mitigation Grant Program for activities approved by HUD under the terms of Louisiana's Road Home program;

- Authorize the use of about $5.2 billion appropriated to the Community Development Fund (see Public Law 109-234) as a matching requirement for other federal programs;

- Authorize the use of previously appropriated funds to reimburse communities that used Community Development Block Grant funding to provide rental housing assistance for hurricane evacuees;

- Authorize the use of previously appropriated funds to reimburse landlords for losses resulting from participation in FEMA's city lease program.

The Road Home program is the proposed plan for the $10.4 billion that was allocated to Louisiana through HUD's Community Development Fund for the 2005 Gulf Coast hurricanes. CBO anticipates similar expenditure patterns for both FEMA's Hazard Mitigation Grant Program and Road Home, and thus does not expect that reallocating funds between the programs would result in a significant acceleration of spending. As such, CBO estimates that enactment of this provision will have no significant net impact on the budget.

CBO expects that authorizing the use of Community Development Fund appropriations as a matching requirement for other federal programs would have no significant effect on overall program expenditures. Such use is typical of regular appropriations to this account and is also permissible for funds appropriated to the fund in Public Law 109-148 for the 2005 Gulf Coast hurricanes. Based on information from the agencies and from state and local governments, CBO expects that such new authorizations for previously appropriated funds would not have a significant effect on the pace of program expenditures. As such, CBO estimates that implementation of these provisions would have no net impact on the federal budget.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 1227 would preempt state and local laws by prohibiting the Housing Authority of New Orleans, and any other manager of public housing units defined as replacement units, from excluding any households that request to be placed in replacement units. That preemption would be considered an intergovernmental mandate as defined in UMRA; CBO estimates, however, that the mandate would not impose additional costs on state or local governments and therefore the threshold established in the act would not be exceeded.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains no new private-sector mandates as defined in UMRA.

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