



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

June 30, 2010

H.R. 2336 GREEN Act of 2010

*As ordered reported by the House Committee on Financial Services
on April 22, 2010*

SUMMARY

H.R. 2336 would define minimum energy efficiency standards for properties that are assisted by the Department of Housing and Urban Development (HUD) and authorize a number of programs to encourage residential energy efficiency and conservation. CBO estimates that implementing H.R. 2336 would cost about \$10 billion over the 2011-2015 period, assuming appropriation of the necessary amounts. Enacting the bill would not affect direct spending or revenues; therefore, pay-as-you-go procedures would not apply.

H.R. 2336 contains an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA) because it would preempt underwriting laws and regulations established by public housing finance authorities. CBO estimates the cost of complying with the mandate would be small and would fall well below the threshold established in UMRA for intergovernmental mandates (\$70 million in 2010, adjusted annually for inflation).

H.R. 2336 would impose a mandate on the private sector as defined in UMRA. It would increase the reporting requirements on mortgage lenders for certain loans. CBO estimates that the aggregate cost of complying with this mandate would not exceed the threshold established by UMRA for private-sector mandates (\$141 million in 2010, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 2336 is shown in the following table. The costs of this legislation fall within budget functions 450 (community and regional development) and 600 (income security).

	By Fiscal Year, in Millions of Dollars					2011-
	2011	2012	2013	2014	2015	2015
CHANGES IN SPENDING SUBJECT TO APPROPRIATION						
Residential Energy Efficiency Block Grants						
Estimated Authorization Level	2,500	2,525	2,552	2,582	2,621	12,780
Estimated Outlays	25	650	1,957	2,427	2,503	7,562
Green Guarantees						
Authorization Level	500	500	500	500	0	2,000
Estimated Outlays	500	500	500	500	0	2,000
Alternative Energy Sources State Loan Fund						
Estimated Authorization Level	100	0	0	0	0	100
Estimated Outlays	8	14	24	20	12	78
Energy Efficiency and Conservation Demonstration Program						
Authorization Level	50	50	50	50	50	250
Estimated Outlays	17	34	50	50	50	201
Community Building Code Administration Grants						
Authorization Level	20	20	20	20	0	80
Estimated Outlays	5	15	20	20	15	75
Sustainable Community Development Capacity Grants						
Authorization Level	10	10	10	10	0	40
Estimated Outlays	2	6	10	10	8	36
Energy-Efficient Mortgages Education and Outreach Campaign						
Authorization Level	5	5	5	5	0	20
Estimated Outlays	1	5	5	5	4	20
HOPE VI Green Developments						
Estimated Authorization Level	15	15	15	16	16	77
Estimated Outlays	*	1	3	6	9	19
Total Changes						
Estimated Authorization Level	3,200	3,125	3,152	3,183	2,687	15,347
Estimated Outlays	558	1,225	2,569	3,038	2,601	9,991

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

BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 2336 will be enacted by the end of fiscal year 2010, that amounts authorized and estimated to be necessary will be appropriated near the beginning of each fiscal year, and that outlays will follow historical spending patterns for similar programs. Components of the estimated costs are described below.

Residential Energy Efficiency Block Grants

Section 14 would authorize the appropriation of \$2.5 billion for the first year and such sums as may be necessary for subsequent years for HUD to make grants to state and local governments to encourage energy efficiency improvements in single-family and multifamily residences. CBO estimates that the program would continue at the \$2.5 billion per year level, adjust for anticipated inflation. Implementation of the new program, including the formula used to distribute funding, would be similar to HUD's Community Development Block Grant (CDBG) program. Based on historical expenditures for CDBG and other similar federal programs, CBO estimates that implementing this provision would cost about \$7.6 billion over the 2011-2015 period.

Green Guarantees

Section 25 would authorize HUD to guarantee the repayment of the portion of a mortgage that is used to finance energy efficiency or environmental sustainability elements for the housing that is subject to the mortgage. Such guarantees could not exceed 10 percent of the total principal obligation of the mortgage. The bill would authorize \$500 million for each of fiscal years 2011 through 2014 for the subsidy cost of such guarantees. Assuming appropriation of the authorized amounts beginning in 2011, CBO estimates that implementing this section would cost \$2.0 billion over the 2011-2015 period.

Alternative Energy Sources State Loan Fund

Section 21 would authorize appropriations for an Alternative Energy Sources State Loan Fund in the Department of the Treasury. The bill would allow HUD to use the fund for the cost of making direct loans to states and Indian tribes to provide incentives for property owners to use renewable energy sources, build infrastructure, and undertake energy efficiency and conservation projects. Loans would be for a term of no longer than 10 years and would bear interest at a rate not to exceed the primary credit rate charged by the Federal Reserve Bank (also known as the discount rate). Based on historical defaults in other direct loan programs for states and Indian tribes and CBO's projected interest rates, CBO estimates that the subsidy rate for these loans would vary between 1 percent and 10 percent over the next five years. Due to the limited experience of the states with this

type of program and the large amount of grant funding recently provided to the states for similar purposes, we expect the demand for loans would be low in the first few years of the program (between \$1 billion and \$2 billion over the first five years). CBO estimates the subsidy cost of providing that level of loans and the administrative costs associated with such loans under this section would total \$78 million over the 2011-2015 period.

Energy Efficiency and Conservation Demonstration Program

Section 5 would authorize the appropriation of \$50 million each year to implement a demonstration program to assist properties that receive project-based rental assistance to meet new energy efficiency standards. The demonstration program would assist not fewer than 50,000 units over the five-year period after the date of enactment. Assuming appropriation of the authorized amounts, CBO estimates that implementing this section would cost \$201 million over the 2011-2015 period.

Community Building Code Administration Grants

Section 29 would authorize the appropriation of \$20 million for each of fiscal years 2011 through 2014 for HUD to make grants to local departments that enforce building codes. Funding would be used to increase staff levels, provide training and accreditation, and cover capital expenditures related to department administration. Based on historical spending patterns for similar federal programs, CBO estimates that implementing this provision would cost \$75 million over the 2011-2015 period.

Sustainable Community Development Capacity Grants

Section 16 would authorize the appropriation of \$10 million for each of fiscal years 2011 through 2014 for HUD to make grants to nonprofit organizations that work on affordable housing to improve energy efficiency and conservation. Funds would be used to cover no more than half of the cost of providing education and training programs, direct loans, grants, and other support to local governments, community housing development organizations, Indian tribes, and public housing agencies. Based on historical spending patterns for similar federal programs, CBO estimates that implementing this provision would cost \$36 million over the next five years.

Energy-Efficient Mortgages Education and Outreach Campaign

Section 7 would authorize the appropriation of \$5 million for each of fiscal years 2011 through 2014 to establish a commission to develop and recommend model mortgage products and underwriting guidelines to provide incentives to incorporate energy efficiency upgrades as a component of new mortgage transactions. Assuming

appropriation of the authorized amounts beginning in 2011, CBO estimates that implementing this section would cost \$20 million over the 2011-2015 period.

HOPE VI Green Developments

Section 17 would require that HOPE VI grant recipients comply with the national Green Communities criteria checklist, which sets certain standards for residential construction and rehabilitation. Based on information from HUD and industry groups, CBO estimates that meeting the Green Communities criteria would increase the cost of HOPE VI construction by between 5 percent and 10 percent. In 2010, \$200 million was appropriated for the HOPE VI program. Assuming that annual appropriations are increased accordingly, and adjusting for inflation, CBO estimates that implementing this provision would result in outlays of \$20 million over the 2011-2015 period.

Insurance for Loans for Financing of Renewable Energy Systems

Section 24 would authorize HUD to guarantee loans to third parties that finance the acquisition and installation of residential renewable energy systems and lease those systems to homeowners. The amount of such guarantees would be limited to the residual value of renewable energy systems as defined by the bill. Specifically, a system's residual value would reflect the estimated fair market value of electricity (based on price forecasts by the Energy Information Administration) that could be sold during a system's remaining useful life.

To cover the subsidy cost of the proposed loan guarantees, the bill would direct HUD to charge lenders an upfront premium of not more than 3 percent of the principal of the loan being insured. Consistent with the Federal Credit Reform Act, HUD's authority to issue loan guarantees would be subject to limits on loan levels specified in annual appropriation acts.

CBO estimates that allowing HUD to charge premiums of up to 3 percent would enable the agency to charge fees that, on average, would offset the program's subsidy costs, resulting in no significant net cost or savings to the federal government. That estimate is based on information from industry experts about the credit worthiness of homeowners and firms likely to participate in transactions that would be guaranteed by the federal government. For purposes of this estimate, CBO assumes that underlying contracts, warranties, and property insurance related to covered renewable energy systems would minimize technology risk faced by the federal government. CBO also assumes that each loan guaranteed would finance multiple residential installations, thereby spreading risk across a wide portfolio of properties.

PAY-AS-YOU-GO CONSIDERATIONS: None.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Under current law, public housing finance authorities can establish regulations, including underwriting policies, that apply to borrowers who receive state and federal resources. The bill would preempt state and local laws that limit the amount of funds that may be distributed to certain borrowers of federal housing funds. However, because the preemption would simply limit the application of state and local laws, CBO estimates that it would not impose significant costs and would fall well below the threshold established in UMRA for intergovernmental mandates (\$70 million in 2010, adjusted annually for inflation).

ESTIMATED IMPACT ON THE PRIVATE SECTOR

H.R. 2336 would impose a private-sector mandate as defined in UMRA, on mortgage lenders, particularly those lenders who support projects that increase the energy efficiency of housing units.

The bill would require all lenders subject to the Home Mortgage Disclosure Act to report both the number and dollar amount of loans, for single-family and multifamily housing, that are either energy-efficient mortgages or location-efficient mortgages. The initial direct cost of complying with this mandate, which would be higher than the continuing cost, would be to begin collecting, compiling, and reporting such information in addition to what is already reported.

CBO estimates that the direct cost of this mandate would be less than UMRA's threshold of \$141 million in 2010, adjusted annually for inflation.

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