

To: Interested Parties October 6, 2009
From: Center on Budget and Policy Priorities
Re: Strengthening the Kerry-Boxer Set-Aside for Improving Energy Efficiency in
Subsidized Housing

The climate legislation that Senators Kerry and Boxer introduced on September 30, 2009 requires proceeds from some emission allowances to be used for energy efficiency improvements in subsidized housing. It also allows states the option to use some additional climate funding for this purpose.

These provisions are an important recognition of the need for such improvements. But the provisions need strengthening. As currently drafted, the amount of funding directed for this purpose would likely turn out to be miniscule.

Investments in subsidized housing energy efficiency would be a highly cost-effective use of allowance proceeds. Such investments not only would reduce emissions (and benefit the vulnerable families, elderly people, and people with disabilities who live in subsidized housing), but also would generate *offsetting federal savings* by lowering long-run federal expenditures for utility costs in federally subsidized housing units. HUD spends *more than \$3 billion each year* on utility costs in public housing and project-based Section 8 (the largest HUD program that provides subsidies tied to particular privately owned buildings), and USDA also pays substantial utility costs in the rural subsidized housing it administers. Improvements in the energy efficiency of this housing thus would lower federal housing outlays on an ongoing basis.

Efficiency Investments in Subsidized Housing Under Kerry-Boxer

The Kerry-Boxer bill contains two provisions under which allowance proceeds could be invested in subsidized housing energy efficiency. Both provisions are sound and helpful. But as currently drafted, they are unlikely to provide adequate funds for this purpose.

- **Required “REEP” set-aside is likely to be very small.** The bill provides allowances to states for a “Retrofit for Energy and Environmental Performance (REEP)” energy efficiency program. The bill specifies that 10 percent of the allowances provided for the program must be used for efficiency improvements in subsidized housing. The current Kerry-Boxer draft does not specify the overall amount of allowances to be allocated for REEP (or most other purposes), so the exact value of this set-aside is not known.

The House-passed climate bill (H.R. 2454), however, provides *less than 0.6 percent* of the allowances for REEP; it also sets aside 10 percent of REEP funds for efficiency investments in subsidized housing. As a result, fewer than 0.06 percent (or six-one-hundredths of one percent) of all allowances would be used for energy efficiency improvements in subsidized housing. This would support energy efficiency improvements in as few as 50,000 subsidized housing units over eight years, or less than 2 percent of the nation’s subsidized units over that period.

It may be that once specific allocations are added, the Senate bill will provide more allowances for REEP than the House bill, increasing the value of the subsidized housing set-aside. But such an increase would have to be very large to provide substantial added funds for energy

efficiency in subsidized housing, since states would only be required to use one dollar out of every ten added to REEP for this purpose.

- **States are unlikely to allocate significant amounts of flexible energy efficiency funds to subsidized housing.** A second provision in the Senate bill would allow states to use allowances they receive for “State and Local Investment in Energy Efficiency and Renewable Energy” to improve energy efficiency in subsidized housing as well as for many other purposes. The total amount of allowances given to states for this program may be substantial; the House bill allocated 9.5 percent of allowances to state energy efficiency programs in the first years after implementation. But it is unlikely that states would allocate a significant segment of these flexible funds for efficiency improvements in federally subsidized housing. Many states view federally subsidized housing as a *federal* responsibility.

States may also encounter considerable political pressure to direct limited funds to improve efficiency in owner-occupied homes and in businesses. Even the Weatherization Assistance Program, which can be used only for improvements in the homes of low-income families, mainly targets owner-occupied single-family homes. In the majority of states, fewer than five percent of the units weatherized in 2007 (the latest year for which state-level data are available) were in multi-family buildings.

Substantial Set-Aside Is Needed to Bring About Major Efficiency Improvements in Subsidized Housing

The Senate could strengthen the subsidized housing provisions in the Kerry-Boxer bill through some combination of the following measures:

- Expanding the REEP subsidized housing set-aside (for example to cover 20 percent or 25 percent of REEP allowances, rather than 10 percent);
- Requiring — rather than simply allowing — states to use at least some modest specified percentage of the flexible Energy Efficiency and Renewable Energy funds for subsidized housing; and/or
- Establishing a separate, direct allocation of allowances that HUD and USDA could distribute as loans and grants to housing authorities and private subsidized housing owners to support energy efficiency improvements. (This approach would be the most efficient, since HUD and USDA would be better positioned than the states to coordinate energy efficiency funding with other federal subsidies that they provide to the same housing developments.)

For example, if the climate legislation set-aside \$750 million in allowance proceeds per year, that would be sufficient to fund significant energy efficiency improvements in at least 5 percent of subsidized housing units each year. Under the parameters of H.R. 2454, such a funding level would require the proceeds from roughly one percent of the emission allowances created in the early years, although in the Kerry-Boxer bill a modestly smaller percentage might be needed because the emission caps would be tighter and the price and value of the allowances could be greater. Under both bills, the percentage required would decline over time as the emissions cap tightened and the value of allowances increased.

Providing this amount of resources — or even a sizeable fraction of this amount — would bring about a major improvement in the energy efficiency of the subsidized housing stock, reducing emissions and producing ongoing budgetary savings.