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Investing Climate Revenues in Subsidized Housing Energy Efficiency Would Cut Emissions and Lower Federal Costs

by Will Fischer

The federal government spends more than \$3 billion per year on utility costs in public housing and privately owned subsidized housing. Investments that increase energy efficiency in subsidized developments can lower those expenditures and generate long-term federal savings that would offset much of the up-front cost. Those same investments would also cut greenhouse gas emissions significantly and benefit the vulnerable families, senior citizens, and people with disabilities who live in subsidized housing. For these reasons, subsidized developments should receive a high priority in the allocation of federal energy efficiency resources.

The climate change legislation that the House of Representatives passed on June 26 (H.R. 2454) requires states to use revenues from auctioning some emission allowances to improve energy efficiency in subsidized housing. This requirement, which was added on the House floor, is an important positive step. It would meet just a fraction of the need for efficiency investments in subsidized housing, however, because it sets aside only a very small share of emission allowances: 0.05 percent (five one-hundredths of 1 percent) in the first four years the bill is in effect and even lower percentages in subsequent years.

- **The Senate could bring about a major reduction in subsidized housing energy use by significantly increasing the amount of climate revenues allocated for that purpose.** The Senate should consider increasing the amount to 1 percent of the emissions allowances, which (if emissions are capped at approximately the levels in the House bill) would fund about \$750 million per year in loans and grants for energy efficiency improvements in subsidized housing. At a minimum, the Senate should raise the amount from 0.05 percent of the allowances to a substantially larger fraction of 1 percent.
- **The Senate also could simplify administration of the funds** by providing them through the HUD offices that administer other federal subsidies for the same housing developments, rather than as a set-aside of funds provided through the states.

Investments Would Cut Emissions, Protect Vulnerable Families, and Generate Offsetting Federal Savings

Improving energy efficiency in subsidized housing would have three important benefits:

- **Subsidized housing offers substantial opportunities to reduce energy use and lower greenhouse gas emissions.** The bulk of the public and privately owned subsidized housing stock is *more than 25 years old*, and like other older buildings, many of these developments use energy inefficiently. Improvements could produce reductions in energy use.
- **Lower energy use in subsidized housing also would generate federal savings,** which might then be directed toward other energy efficiency and housing priorities or toward deficit reduction. HUD spends more than \$3 billion each year on utility costs in the project-based Section 8 program (the largest HUD program that provides subsidies tied to particular privately owned buildings) and in public housing. The Department of Agriculture covers substantial additional costs in the rural subsidized housing it administers. (Some efficiency investments also would meet repair and replacement needs for which the federal government eventually will be responsible in any case.)
- **Energy efficiency investments would benefit the needy families and individuals who live in subsidized housing** by helping to preserve developments, improving the safety and reliability of heating and other systems, and reducing the expenses of needy residents, many of whom pay a portion of their utility costs. Most households in subsidized housing have incomes below the poverty line. Most also have at least one member who is elderly or has a disability.

Set-Aside in House Bill Would Meet Only a Fraction of Need

H.R. 2454 allocates 9.5 percent of emission allowances in the first four years after the bill goes into effect (and smaller amounts in later years) to be auctioned by states, with the proceeds used for energy efficiency investments. The set-aside added on the House floor would require states to use 0.55 percent of this amount — which amounts to the proceeds from just over 0.05 percent of all emissions allowances — for energy efficiency improvements in public and other subsidized housing.¹

This would provide a maximum annual funding level of about \$65 million. (The dollar amount would fluctuate because the share of allowances states receive would decline after the first four years, while the value of allowances would rise as the emissions cap tightened.) Even over eight years — the period covered by the Congressional Budget Office’s estimates of allowance values — the funds would be enough to make significant energy efficiency improvements in only about 50,000 units, fewer than 2 percent of the nation’s subsidized units.

To be sure, states could opt to invest more funds in subsidized housing than the bill requires. But few states are likely to provide adequate resources for this purpose. Many states may view

¹ The set-aside directs states to make proceeds from 10 percent of the allowances the bill dedicates for a new “Retrofit for Energy and Environmental Performance” (REEP) program available for improvements to subsidized housing developments. The allowances dedicated for REEP amount, in turn, to 5.5 percent of all allowances allocated to the states for energy efficiency. Hence, the subsidized housing funds represent 0.55 percent (that is, 10 percent of 5.5 percent) of the states’ energy efficiency allowances.

investments in federally subsidized housing as a federal responsibility.

In addition, states may face considerable political pressure to direct limited funds to improve efficiency in owner-occupied homes or in businesses. Even the Weatherization Assistance Program, which (unlike the energy-efficiency funding in H.R. 2454) can be used only for improvements in the homes of *low-income* families, primarily targets owner-occupied single-family homes. In the majority of states, fewer than 5 percent of the units weatherized in 2007 (the latest year for which state-level data are available) were in multi-family buildings.

To bring about a major reduction in subsidized-housing energy use, climate change legislation will need to set aside more resources for that purpose. For example, it could provide \$500 million per year (adjusted over time for inflation) in energy efficiency funding for public housing, and \$250 million annually for energy efficiency in privately owned subsidized housing. These levels would be sufficient to fund energy efficiency improvements at approximately 7 percent of public housing units and 3 percent of the privately owned subsidized stock each year.

That total amount — \$750 million per year — likely would require the proceeds from close to 1 percent of the emission allowances created in H.R. 2454 in the early years but a declining percentage over time as the value of allowances increased. After a period of time (perhaps ten years) the dollar amount provided also could be reduced, since by then much of the backlog of energy efficiency needs would have been addressed.

Direct Federal Funding Would Be More Efficient Than a Set-Aside of State Allocations

Under the House bill, funds to improve subsidized housing energy efficiency would be provided through the states under a program administered at the federal level by the Environment Protection Agency in consultation with the Department of Energy and HUD. The Senate could improve on this structure by establishing a separate HUD-administered program that would provide loans and grants to private owners of subsidized housing and competitive grants to housing authorities that operate public housing developments. (If climate change legislation provides funds for rural housing developments, the Department of Agriculture could administer those funds.)

HUD now administers similar energy efficiency programs funded on a one-time basis through the economic recovery legislation enacted in February 2009, so ongoing funding with climate change revenues would allow HUD to build on that experience. Since HUD administers other federal subsidies to the same housing developments, it would be better positioned than another entity to coordinate energy efficiency allocations with other efforts to preserve affordable housing. HUD would also be better able to ensure that developments do not receive more funding than they need and to provide owners and housing agencies with strong incentives to reduce energy use as much as possible.