CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 6, 2006

H.R. 4100
Louisiana Recovery Corporation Act

As ordered reported by the House Committee on Financial Services on December 15, 2005

SUMMARY

H.R. 4100 would establish the Louisiana Recovery Corporation. This new federal agency would redevelop areas in Louisiana distressed by either Hurricane Katrina or Hurricane Rita by acquiring real estate, improving the property, and selling it to developers. The Louisiana Recovery Corporation would be authorized to operate for 10 years. The corporation would be authorized to encourage people to return to areas of Louisiana that were devastated by those storms by providing grants of land and money as part of an urban homesteading program. For all of these activities, the legislation would allow the corporation to spend up to $30 billion. Any amounts received by the Louisiana Recovery Corporation from the sale of property it acquires would also be available to the corporation for redevelopment efforts.

CBO expects that the budgetary impact of this legislation would stem principally from spending by the Louisiana Recovery Corporation. Based on current information about the extent of uninsured damage caused by the recent Gulf Coast storms, we estimate that the corporation would spend about $11 billion over the 2007-2016 period. While it is possible that the corporation would earn some proceeds from sales of real estate, CBO does not anticipate that any significant earnings would be returned to the Treasury over the next 10 years. Rather, we expect any recoveries realized by the corporation would be reinvested in additional efforts to redevelop the region damaged by the hurricanes in 2005. Thus, CBO estimates that enacting H.R. 4100 would increase direct spending by about $11 billion over the next 10 years to acquire residential and commercial property in Louisiana and prepare it for redevelopment.

This legislation also would authorize the appropriation of about $18 billion in funding over the 2006-2007 period from previously appropriated funds for disaster relief associated with the hurricanes. This authorization would be directed at different types of relief efforts in the affected areas. CBO estimates that this authorization would have no significant impact on federal spending because it would simply reallocate funds already appropriated.

H.R. 4100 contains intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA), but CBO estimates that the costs to state, local, and tribal governments, if any, would not exceed the threshold established in UMRA ($64 million in 2006, adjusted annually for inflation). Other provisions of the bill would provide significant benefits to state, local, and tribal governments in the areas affected by Hurricanes Katrina and Rita.

The bill also would impose several private-sector mandates, as defined in UMRA, on any private entity subpoenaed to attend and provide testimony, evidence, or material related to any investigations the Louisiana Recovery Corporation may conduct. CBO anticipates that the corporation would use its subpoena authority rarely, and thus the direct costs associated with complying with the mandate would be minimal and well below the annual threshold established by UMRA ($128 million for private-sector mandates in 2006, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For this estimate, CBO assumes that H.R. 4100 will be enacted in 2006 and that the Louisiana Recovery Corporation would become fully operational in about 12 months. The bill's estimated budgetary impact 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 Billions of Dollars										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
CHANGES IN DIRECT SPENDING											
Louisiana Recovery Corporation											
Estimated Budget Authority	0	0.5	1.0	2.5	3.0	2.5	1.0	0.5	*	*	*
Estimated Outlays	0	0.5	1.0	2.5	3.0	2.5	1.0	0.5	*	*	*
Public Housing Agency Capital Needs											
Estimated Budget Authority	0	0	0	0	0	0	0	0	0	0	0
Estimated Outlays	0	*	*	*	*	*	*	0	0	0	0
Total Changes											
Estimated Budget Authority	0	0.5	1.0	2.5	3.0	2.5	1.0	0.5	*	*	*
Estimated Outlays	0	0.5	1.0	2.5	3.0	2.5	1.0	0.5	*	*	*

NOTE: * = Less than $50 million.

BASIS OF ESTIMATE

The budgetary impact of the bill would result mostly from estimated spending of $11 billion by the Louisiana Recovery Corporation over the next 10 years. Because CBO does not expect that the corporation would deposit any significant earnings to the Treasury over the 2007-2016 period, we estimate that spending by the corporation would not be offset by any net recoveries during that period.

Enacting this bill also would increase direct spending by $20 million over the 2007-2011 period and by $25 million over the 2007-2016 period from a provision that would permit the Office of Housing and Urban Development (HUD) to spend certain unobligated funds to assist public housing agencies.

This legislation also would authorize the reallocation of about $18 billion in funds that were previously appropriated. CBO estimates that change would not significantly affect the rate of federal spending and thus would not have any significant net impact on the budget.

Establishing the Louisiana Recovery Corporation

Under this legislation, the life of the Louisiana Recovery Corporation would be limited to 10 years, and its mission would be to develop areas in Louisiana that were distressed by either Hurricane Katrina or Hurricane Rita. To accomplish this goal, the corporation would acquire real estate that is unlikely to be developed without federal assistance, though it could not acquire property by eminent domain. Under the bill, the corporation could acquire properties by paying property owners a minimum of 60 percent of the homeowner's equity in the home (before the recent hurricanes and subsequent flooding), and mortgage lenders a maximum of 60 percent of the unpaid principal on the mortgage. The legislation also would allow the corporation to improve the property it acquires and related infrastructure by building roads, water or wastewater lines, or other physical structures and to sell the property for redevelopment according to state and local plans.

The corporation also could provide grants of land or money (such as downpayment assistance) to encourage people to live in the devastated areas of Louisiana as part of an urban homesteading program. In addition, H.R. 4100 would require the corporation to hold public hearings, consult with local and state officials, and to complete all of its work in compliance with any local development plans.

For all of these activities, the legislation would allow the corporation to borrow and spend up to $30 billion from the Treasury.

Damaged Caused by Hurricanes

While estimates of the economic losses and impacts resulting from the hurricanes continue to evolve as new data and analysis become available, it is widely accepted that Hurricanes Katrina and Rita resulted in unprecedented damage to residential properties and infrastructure. According to the Louisiana Recovery Authority (the entity established to plan and coordinate recovery efforts by the state of Louisiana), preliminary estimates of the value of damage to property and infrastructure is about $75 billion to $100 billion.

There are no contemporary examples of redevelopment efforts in the United States of the scale proposed in H.R. 4100. Recent federal redevelopment efforts have focused on urban brownfields (brownfields are properties where the presence of, or potential presence, of a hazardous substance complicates the expansion or redevelopment of the property) and on supporting economic redevelopment efforts through community and development block grants (CDBG). For example, the Lower Manhattan Development Corporation (LMDC), established in the aftermath of September 11, 2001, by state and local authorities is funded by the federal CDBG programs; to date, about $3 billion has been provided to the LMDC. Many state and local agencies also are involved in redevelopment projects, especially in California. However, many of those efforts are associated with projects that are much smaller in scope and scale than the effort proposed in H.R. 4100. (For example, the redevelopment of San Diego's downtown area cost $870 million over a 30-year period.)

The major mortgage lenders in the affected areas are currently in the process of assessing their portfolios of loans and could not provide CBO with any information on loans and losses for this estimate. Estimates from the Office of the Federal Coordinator for Gulf Coast Rebuilding at the Department of Homeland Security and other experts working on the recovery efforts indicate that about 330,000 homes in Louisiana suffered some type of damage stemming from the hurricanes. Of the 330,000 damaged homes, CBO estimates that about 80,000 properties could be potential candidates for a buyout under this legislation. Included in this estimate are about 60,000 homes that have neither hazard nor flood insurance and about 20,000 homes that have hazard insurance, but have suffered damage caused by flooding.

Based on information published in the American Housing Survey, CBO estimates that the median value of those properties in Louisiana is $122,000, that the median unpaid principal amount is about $65,000, with a median amount of equity in those homes of about $57,000. Because the legislation would provide the Louisiana Recovery Corporation with authority to spend $30 billion, CBO expects that the corporation might attempt to maximize payments to lenders and borrowers. For this estimate, CBO assumes that the Louisiana Recovery Corporation would provide lenders with the maximum 60 percent of their outstanding lien positions as permitted under the legislation. For borrowers, CBO assumes that the percentage of equity paid would exceed the minimum requirement of 60 percent and perhaps average about 80 percent. Actual payments to homeowners could be higher or lower. CBO estimates that buyouts by the corporation could amount to $85,000 per loan (60 percent of $65,000 plus 80 percent of $57,000). Furthermore, assuming that the corporation provides buyouts for 80,000 loans, CBO estimates that the total cost of the payments to lenders and borrowers could amount to about $7 billion (80,000 loans multiplied by $85,000 per loan).

Based on information from urban planners working with the state of Louisiana and the city of New Orleans, we estimate that an additional $4 billion could be spent by the corporation to cover buyouts associated with commercial and rental properties, to improve the infrastructure associated with these properties, and to support the urban homesteading program.

Given that damage assessments continue to evolve and be refined and that there is no precedent for an effort of the scope proposed for the Louisiana Recovery Corporation, CBO cannot be certain that $30 billion provided under the bill would be sufficient for the corporation to meet its mission. Our analysis at this time indicates that the corporation could spend about $11 billion over the next 10 years. The total cost could be significantly higher or lower than that estimate—depending on how many buyouts are made and on what percentage of prior property values is paid in such buyouts. Based on the data summarized above, however, it appears unlikely that the total cost would approach the bill's $30 billion limit.

Spending for Redevelopment of Louisiana

To estimate the speed of spending by the Louisiana Recovery Corporation for its recovery efforts and the potential for net recoveries over the next 10 years, CBO relied on information provided by experts from the field of economic development and urban planning, representatives for the mortgage banking industry, and the views of various federal and state government offices.

Speed of Recovery Efforts. Currently the redevelopment process in the affected areas is in its infancy, as the city of New Orleans and the state of Louisiana are preparing plans for rebuilding. Discussions with redevelopment experts suggest that the Louisiana Recovery Corporation's redevelopment process would be lengthy, and in some areas could take many years to complete.

Redevelopment of urban brownfields, for example, takes, on average, five years to complete. In addition, for certain projects in California involving the redevelopment of urban areas in economic decline, the planning phase alone has taken around five years to complete. Furthermore, without the authority to use eminent domain to acquire damaged properties, redevelopment by the Louisiana Recovery Corporation would be hindered. Another factor that could influence the speed and cost of buyouts by the Louisiana Recovery Corporation is the behavior of the mortgage lenders who hold portfolios of loans in the affected areas. To the extent homeowners feel the threat of foreclosure on their properties from mortgage lenders, those property owners may be more inclined to accept an early buyout at a reduced amount.

The amount of equity in many of the destroyed properties before the recent storm damage is questionable and the method for determining such amounts is not certain; in fact, the legislation provides various factors, such as pre-event appraisals, that may be considered by the Louisiana Recovery Corporation when determining equity. It is most likely that the equity value used to calculate payments by the Louisiana Recovery Corporation will be determined through negotiations among the corporation, lenders, and borrowers; CBO cannot assess how such negotiations would ultimately affect the timing and cost of the redevelopment process.

Given the uncertain pace of the recovery efforts for Louisiana, CBO cannot predict the exact timing of spending by the Louisiana Recovery Corporation. Under the bill, CBO expects that the corporation would receive funding on an as-needed basis that would most likely comport to the phases associated with the redevelopment process, such as property acquisition, redevelopment of infrastructure, and sale of land. We estimate that spending would occur in increments—smaller increments in the near term as planning would be underway and larger increments in later years as the corporation would be ready to acquire properties and improve them and associated infrastructure. Eventually, spending would wane as the life of the corporation neared termination in 2016. This rate of spending is similar to the spending pattern associated with federal grants from the CDBG programs.

Reinvestment of Proceeds. While this legislation would require the Louisiana Recovery Corporation to return any net revenue in excess of amounts required to meet ongoing expenses and investments to the Treasury, CBO expects, it is likely that the corporation would use any income to fund investments and fund its urban homestead effort. Many similar redevelopment agencies can earn returns on their investments, however, such earnings are often reinvested in redevelopment efforts. Because the Louisiana Recovery Corporation would be required to pursue properties not likely to be redeveloped without federal assistance, profit-making potential is probably minimal. If the proposed corporation did earn net proceeds from acquiring and selling property, CBO expects that it is unlikely that such proceeds would be deposited in the Treasury while efforts to redevelop the areas devastated by the hurricanes continue over the next 10 years. Many of the redevelopment agencies in California, for example, have been eventually able to retire their debt, but this often occurs 30 to 45 years after a project has begun.

HUD Spending on Grants to Public Housing Agencies

Currently, HUD has about $25 million in unobligated balances that can only be spent on activities associated with disasters that occurred in fiscal year 2003. Under this legislation, that money could be spent by public housing agencies for emergency capital needs resulting from unforeseen emergencies and disasters that occurred in fiscal year 2005. Based on information from HUD, CBO estimates that enacting this provision would increase direct spending by $20 million over the 2007-2011 period and by $25 million over the 2007-2016 period. Those funds would not be spent under current law.

Spending Subject to Appropriation

H.R. 4100 would authorize the appropriation of about $18 billion in funding already provided to the Federal Emergency Management Agency (FEMA) for disaster relief. This legislation would require that this authorization of funding for disaster relief be subject to subsequent appropriation action. Instead of funding FEMA's disaster relief programs, under H.R. 4100, these previously provided amounts would be spent on start-up costs associated with the corporation, community development block grants, section 8 vouchers through the emergency rental assistance program, grants to public housing agencies for capital needs, grants to public housing agencies through the Hope VI program, grants to low-income homebuyers, housing counseling for families displaced by the hurricanes, and for activities related to preventing discrimination in housing.

CBO estimates that by fiscal year 2012 most of $18 billion in new authorizations would be spent, assuming appropriation action that provides for the reallocation of existing funds. Because CBO estimates that spending for FEMA's disaster relief account would follow a similar pattern, CBO estimates that enacting this provision of the legislation would have no significant net impact on the budget.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

Section 108 contains intergovernmental mandates as defined in UMRA because it would grant the Louisiana Recovery Corporation new subpoena authority and would permit the corporation to preempt the jurisdiction of state courts. CBO anticipates that this authority would be used rarely, so it would not be likely to impose significant costs on state, local, or tribal entities.

Other provisions of the bill would provide significant benefits to state, local, and tribal governments in the affected area by directing over $18 billion in already-appropriated money for housing and community development in the affected areas as well as grants and vouchers for housing, which will assist local government in redeveloping the affected areas.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

If subpoenaed, entities in the private sector would be required to attend and provide testimony, evidence, or materials related to any investigations the Louisiana Recovery Corporation may conduct. Such a requirement would be a private-sector mandate as defined in UMRA. CBO anticipates that the corporation would likely exercise its subpoena authority rarely, and thus the direct costs associated with complying with the mandate would be minimal and well below the annual threshold established by UMRA ($128 million for private-sector mandates in 2006, adjusted annually for inflation).

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