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THE PRESIDENT HAS SEEN *de.g.*

THE WHITE HOUSE

WASHINGTON

INFORMATION

JAN 3 1975

MEMORANDUM FOR: THE PRESIDENT *Onein*

FROM: PAUL H. O'NEILL *PHO*

SUBJECT: LONG-TERM COMMITMENTS UNDER THE  
SUBSIDIZED HOUSING PROGRAMS

Here is the information you requested on the long-term cost of federally subsidized housing.

Long-Term Cost of Units Already Approved

As a result of commitments made through fiscal year 1974, HUD faces a maximum contractual liability for direct subsidized housing payments of \$82 billion (excluding public housing operating subsidies). Of this amount, \$12 billion has been obligated under the Section 235 Homeownership Assistance program.

Contractual direct subsidy payments, however, tell only part of the story. Indirect costs such as mortgage insurance losses, Tandem Plan losses, administrative expenses, and tax revenue foregone due to special tax loopholes, will add over \$3 billion to the tab for these programs.

The combination of rising incomes and early mortgage terminations under the Section 235, Section 236 (Rental Housing Assistance), and Rent Supplement programs can be expected to hold actual costs below the maximum. Using HUD's current projections, the estimated long-term cost of commitments made through fiscal year 1974 comes to \$61 billion. (We expect this estimate to increase over time, as it has in the past.)

In contrast, the need for operating subsidies will cause lifetime costs under the public housing program to far exceed the contractual "maximum." We are unable to project operating subsidies for units approved between 1937 and 1973, but HUD estimates that as much as \$54,800 could be required for each unit placed under contract in 1974.



Attachment A shows the maximum and estimated costs of commitments under each of the four subsidy programs.

Long-Term Cost of Units Scheduled for Approval in Fiscal Years 1975 and 1976

Your 1976 Budget anticipates that an additional 591,000 units of subsidized housing will be approved by June 30, 1976. Most of these will be approved under the new Section 8 Lower Income Housing Assistance program: 200,000 (of the 300,000 authorized) in 1975 and 300,000 in 1976. The long-term cost of these units is estimated as follows:

Maximum contractual liability:	\$53 billion
Estimated lifetime costs:	\$49 billion

Attachment B breaks down these costs by program.

Long-Term Cost of Approving an Additional 100,000 Units of Section 235 Housing (Mr. Stiles' Proposal)

At the present time, HUD has sufficient unused contract authority to support 275,000 units of Section 235 housing. The contract authority is scheduled to expire on August 22, 1975, although the authorization for the program extends through June 30, 1976.

We estimate that the long-term direct subsidy cost for Section 235 units approved today would average \$9,500 per unit, or \$950 million for 100,000 units. Indirect costs would increase the total to \$1.2 billion.

We believe budget outlays for an additional 100,000 Section 235 units would be somewhat less than the estimates accompanying Mr. Stiles' memorandum: nothing in 1975, \$40 million in 1976, and \$109 million in 1977.

Studies of the subsidized housing program suggest that the employment effect produced by an additional 100,000 Section 235 units would be well under the 250,000 man-years cited in the attachment to Mr. Stiles' memorandum. The most thorough study (conducted for the Federal Home Loan Bank Board) suggests that only 14 percent of federally subsidized housing starts represent net additions to total starts; the remaining 86 percent come at the expense of unsubsidized starts. Using this estimate and the Department of Labor's estimate of 2 man-years



per unit of housing constructed, the 100,000 units would result in only 14,000 additional starts and 28,000 additional man-years of construction employment. This would reduce the current construction unemployment rate from 13.9 percent to 13.3 percent.

Attachments



Attachment A

Lifetime Costs Under the Subsidized Housing Programs:  
Units Approved Through FY 1974

	<u>Section 235</u>	<u>Section 236</u>	<u>Rent Supple- ments</u>	<u>Public Housing<sup>1/</sup></u>	<u>All Programs</u>
Units approved through 6/30/74	478,292	535,736	202,000	1,293,598	2,413,743
Lifetime Program Cost:	(in millions of dollars)				
Direct payments:					
Maximum	12,026	20,745	9,942	39,412	82,125
Estimated	3,222	9,586	8,958	39,412	61,178
Indirect Costs:					
Administrative	395	187	38	N/A	620
Foregone taxes	438	775	145	N/A	1,358
Tandem plan	172	174	27	---	373
Default losses	N/A	543	301	---	844
Subtotal, indirect costs	1,005	1,679	511	N/A	3,195
Lifetime costs:					
Maximum	13,031	22,424	10,453	39,412	85,320
Estimated	4,227	11,265	9,469	39,412	64,373
Cost per unit:	(in dollars)				
Direct payments:					
Maximum	25,100	38,700	49,200	30,500	
Estimated	6,700	17,900	44,300	30,500	
Indirect costs:					
Administrative	825	349	349	N/A	
Foregone taxes	915	1,446	1,344	N/A	
Tandem plan	360	325	253	---	
Default losses	N/A	1,015	2,800	---	
Subtotal, indirect costs	2,100	3,135	4,746	N/A	
Lifetime cost per unit:					
Maximum	27,200	41,900	51,700	30,500	
Estimated	8,800	21,000	46,900	30,500	

<sup>1/</sup> Does not include public housing operating subsidies. For public housing units placed under contract in FY 1974, HUD estimated that lifetime operating subsidies could total \$54,800 per unit.

Lifetime Costs Under the Subsidized Housing Programs:  
Units Expected to be Approved in FY 1975  
and FY 1976

<u>Program</u>	<u>Number of Units</u>	<u>Lifetime Costs<sup>3/</sup></u>		<u>Lifetime Cost Per Unit</u>	
		<u>Maximum</u>	<u>Estimated</u>	<u>Maximum</u>	<u>Estimated</u>
Section 235	---	108	28	---	---
Section 236 <sup>1/</sup>	45,000	6,593	2,848	69,579	35,000
Rent Supplements	2,000	249	249	124,700	124,700
Public Housing:					
Old Program <sup>2/</sup>	44,000	7,986	7,986	152,900	152,900
Section 8	<u>500,000</u>	<u>38,128</u>	<u>38,128</u>	76,300	76,300
Total	591,000	53,064	49,239		

1/ Includes Section 236 units receiving rent supplements.

2/ Includes operating subsidies.

3/ Includes authority for cost overruns on previously-approved units.

