WRITTEN TESTIMONY OF DAVID J. BOWMAN, DIRECTOR, RESEARCH AND SPECIAL PROJECTS
FOR THE
LOUISIANA RECOVERY AUTHORITY
BEFORE THE
U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
May 8, 2008

Chairwoman Waters, Ranking Member Capito, Members of the Subcommittee, thank you for inviting me to testify today on behalf of the State of Louisiana. My name is David Bowman of the Louisiana Recovery Authority; our executive director, Paul Rainwater, deeply regrets that he was unable to attend today due to a pre-scheduled surgery. I would also like to recognize one of our board members and the chairperson for our Long-Term Community Planning Task Force, Ms. Donna Fraiche, who is here today.

On behalf of the citizens of Louisiana, I thank this committee, the US Congress and each American taxpayer for the generous support to our state following the unprecedented devastation caused by Hurricanes Katrina and Rita. These hurricanes were two of the most costly storms to strike the US and they hit Louisiana just 26 days apart.

Our State has suffered immensely in terms of lost lives, livelihoods and personal assets, including the loss of over 200,000 housing units. The State of Louisiana is grateful for the $13.4 billion in Community Development Block Grant funds of which $11.6B, or over 86%, has been dedicated directly to repairing or replacing the massive losses to our housing stock. And, as you will see, we are making strides with these Federal funds, but even with these resources a number of practical challenges remain to the rebuilding efforts. These include increased costs of labor and materials, increased costs of utilities and insurance, and a decrease in available infrastructure and services. These challenges impact the single family housing market as well as the rental market and drive individual decisions every day regarding their ability to return home. In addition, the sheer magnitude and concentration of the losses dictate that this will be a long term rebuilding process.

The Louisiana Recovery Authority is dedicated to the recovery of our most devastated areas through the effective use of federal and state resources in a manner that provides accountability and transparency. As such, we welcome the opportunity to answer the questions below:

1. ***How many units were destroyed as a result of Hurricane Katrina in the state of Louisiana? What are the current unmet housing needs in the state of Louisiana? For each question, please provide figures for rental and owner-occupied units.***

The table below provides the overall number of major and severe damaged properties based on HUD analysis of FEMA inspection data. These figures include Katrina and Rita, but the vast majority of damages are from Katrina. This analysis was conducted in all five impacted states back in February of 2006 and is available through the HUD website at http://www.huduser.org/publications/pdf/GulfCoast_HsngDmgEst.pdf.

State of Louisiana Housing Damage Statistics:

	Owner Occupied	Rental Properties	Total
Major	59,023	39,063	**98,086**
Severe	63,569	43,082	**106,651**
Major & Severe	**122,592**	**82,145**	**204,737**

Assessing the true demand for housing in the wake of this unprecedented disaster is nearly impossible. We still have tens of thousands of citizens displaced throughout the country and gauging their intent or ability to return home is a guess at best. However, we can look at some population indicators as well as those still living in federally assisted housing to provide some context. Based on active residential postal addresses, Orleans parish is still down by about 129,000 individuals. In addition, we currently have approximately 34,000 individuals receiving federal assistance under HUD's DHAP program, which is due to expire in March of 2009. We currently have approximately 18,600 Louisiana households still living in FEMA trailers. The bulk of these are trailers on private sites with over 2/3 of these being current or former homeowners.

FEMA Active Trailer Leases in Louisiana

	Owners	Renters	Total
Commercial	694	1,461	2,155
Group	236	531	618
Private	11,845	3,948	15,793
TOTAL	**12,775**	**5,940**	**18,566**

As of April 21, 2008

The numbers above indicate an *immediate* demand, especially as trailer leases are set to end in the coming months, but these do not indicate total demand. In addition, the homeless population in New Orleans is estimated to have doubled to 12,000 indicated a further need for housing available to lower income groups. Job vacancy surveys for the New Orleans region from the Louisiana Department of Labor indicate an increased demand for employees even while the total number of employers has dropped. These employees need places to live in proximity to the workplace.

The Louisiana and New Orleans Metro Housing Needs Assessment published by the Louisiana Housing Finance Agency indicates the following needs for housing affordable to low, moderate and middle income families:

	New Orleans Metro	Louisiana
Additional Rental Need	29,000 - 50,000 units	60,000 – 80,000 units
Demand for Purchase of Affordable Homes	20,000 – 40,000 units	60,000 – 80,000 units

The complete housing needs assessment can be found at http://www.lhfa.louisiana.gov/downloads/aboutus/HousingNeedsAssessment_032808.pdf.

2. ***Please describe the State's plan for rebuilding or repairing lost or damaged housing units. How will this plan address all of the State's unmet housing needs?***

The State's plan for rebuilding and repairing lost or damaged housing units comes primarily through the use of the Community Development Block Grant appropriation. In addition, the LHFA is utilizing Gulf Opportunity Zone tax credits and traditional programs to create market incentives for additional development and home ownership.

The current breakdown of CDBG funding for housing is as follows:

Assistance to Owner Occupants (Road Home)	$9,974,900,000	86.2%
Workforce & Affordable Rental Housing	$1,520,238,250	13.1%
Developer Incentives & Code Enforcement	$33,800,000	0.3%
Homeless Supports & Housing	$25,900,000	0.2%
Housing Startup	$17,100,000	0.1%
Total Housing	**$11,571,938,250**	**100.0%**

The state's plan for rebuilding is written through the Action Plans required by HUD for the use of CDBG funds. These plans are approved by both the Louisiana Recovery Authority and Louisiana's Joint Legislative Committee on the Budget (JLCB) before going to HUD for approval. All action plans are available online at http://www.doa.louisiana.gov/cdbg/DRactionplans.htm.

The Road Home program for homeowners provides compensation for the homeowners' loss up to $150,000 dollars and includes a Compensation Grant component, an Elevation Grant and an Additional Compensation Grant (ACG) for low-income applicants that need additional rebuilding dollars. While the homeowner effort is a compensation program designed to arm owners with financial resources to help them rebuild if they choose to, the State's Rental Housing efforts provide direct subsidies to owners to spur construction and restoration of affordable housing units. With the dramatic loss of supply and the resultant shortage of housing units, "demand-side" efforts, such as rental assistance vouchers, are limited in what they can accomplish – especially in a market where banks are unwilling to "underwrite" long term loans to owners/developers based on the current high rents.

The State's Small Rental Program is also making significant progress. Approximately 6,800 owners have received incentive awards to restore about 12,800 units. Approximately 1,500 of these owners have now received firm commitments from the State and are proceeding to complete their units. In fact, the first 9 projects totaling 13 units have been completed, and many more units are now moving through the pipeline. But as most of you know, housing construction programs always take significant amounts of time to produce units and especially here in the post Katrina environment where skyrocketing insurance costs are coupled with the nation-wide housing credit crunch to make this process especially challenging.

Complete program descriptions and FAQs for the Road Home homeowner and rental programs are available at www.road2la.org.

With regards to how the plan will address all of the State's unmet housing needs, the short answer is, that while these programs will have a dramatic impact on the housing market, they will not address all of the needs. The combination of a supply shortage and increased cost of inputs have driven rent prices up considerably higher than pre-Katrina. Many workers, particularly those supporting the service sector, will continue having a difficult time finding affordable rents for the foreseeable future. The State's disaster recovery rental programs will help restore or create about 33,000 units in the areas that were hit by the hurricanes. In addition, the LHFA is working to produce about 7,500 units across the State through their tax exempt bond and HOME programs – many of these units will be located in the GO Zone. It is difficult to assess how many of the 82,000 units will be able to be restored or replaced by the private sector – without the State's programs – but it is evident that the Louisiana Gulf region will not be able to regain its full pre-storm housing inventory and its full population without additional governmental assistance to stimulate development.

What is clear is that the critical shortage of housing that resulted from hurricanes still exists today. The future picture is significantly brighter thanks in large measure to the State's ongoing efforts.
At present, there are about 2,200 completed units on line through the GO Zone Tax Credit initiative. This was the first rental housing program to get underway, because it was funded through the Low Income Housing Tax Program and was not dependant on the second appropriation of CDBG funds to get started. And we have now seen the first units to come on line through the CDBG funded rental programs. The first Piggyback project to be completed has just started to lease up on the Westbank. There are another 2,300 Piggyback units that are currently under construction of which 1,600 are scheduled to be complete by the end of this year. There are an additional 1003 non-Piggyback projects, closed and under construction, which are projected to be completed by 12/31/08.

*3. **In what ways has the State ensured that its housing plans affirmatively further fair housing?***

Louisiana prides itself on the design of its programs in terms of serving those most in need and considers this a strong point of the programs. The Affordable Compensation Grant portion of the homeowner program was specifically designed to provide additional resources where they are needed most. The rental program is a model of best practices including the creation of mixed income units and permanent supportive housing. These programs are specifically designed to help those most in need without concentrating poverty.

Louisiana is committed to working with the public, private and non-profit sectors to ensure fair housing choice for all Louisiana residents. The State has infused its housing programs and policies with the following objectives:

1. Analyze and eliminate housing discrimination in Louisiana;
2. Promote fair housing choice for all persons;
3. Provide opportunities for inclusive patterns of housing occupancy regardless of race, color, religion, sex, familial status, disability and national origin;
4. Promote housing that is structurally accessible to, and usable by, all persons, particularly persons with disabilities;
5. Fostering compliance with the nondiscrimination provisions of the Fair Housing Act.

The State is taking concrete steps, reviewed below, to achieve these objectives in all applicable programs and activities.

All of the State's housing programs require owners and managers to follow all of the Federal Fair Housing statutes and regulations. Discrimination is not tolerated in any of the programs we operate. In addition, the State's programs have gone well beyond what is required by the Federal statutes in order to expand opportunities for Louisiana citizens in need. The Piggyback program is specifically designed to relieve concentrations of poverty and to enable very low income households of all races and creeds the opportunity to live in mixed-income communities that previously have been beyond their reach. A number of the Piggyback projects now underway will provide low income units in some of the highest rental markets on the Gulf Coast, including the *Warehouse District* in New Orleans.

The State's rental housing programs also have required that a significant number of units be set aside as Permanent Supportive Housing for people with mental or physical disabilities – a group often targeted for discrimination. These units are required to be substantially similar to the other units and will be distributed throughout the development.

The State will soon launch a new, rigorous, statewide Analysis of Impediments to Fair Housing. This analysis will identify and propose solutions to policies or practices that discriminate or have the effect of discriminating against individuals based on their race, color, religion, sex, familial status, disability or national origin. The scope of work for this project has been designed to take into account the major demographic shifts and significant loss of housing stock resulting from the hurricanes. This project is currently out for bid and we anticipate a start date in mid-summer. We will address the most severely disaster impacted parishes first and look for preliminary results to be available in the late fall.

Fighting housing discrimination is a full time job and we applaud the work of advocates such as James Perry and his organization who are committed to this effort. We value their input and their watchfulness to ensure all of our citizens are provided the tools to rebuild and better their lives.

4. What difficulties has the State encountered in meeting the CDBG program's low- and moderate-income requirement?

The State of Louisiana is committed to and will meet the 50% low and moderate income benefit test. By far the largest program utilizing the CDBG disaster recovery funds is the Road Home homeowner program. With the 'Additional Compensation Grant' available to low income households to cover damages beyond their lost equity, the Road Home program is projected to have 53% - 55% of funding go toward the LMI requirement. The second largest program is the Workforce and Affordable Rental Program. Because these programs target funds to workforce households and low income families in need, we project that over 90% of these program dollars will serve the LMI population. This is not to say that challenges do not exist. Creating incentives for developers to serve low-income families and overcoming prejudices of local communities is always a challenge in moving projects forward. And it clearly requires greater pre unit subsidies to support low income households than middle or upper income families. However, we are working through these challenges and we fully expect to meet the required LMI targets. The figures for the first appropriation are currently 56% and we are currently at close to 60% for the second appropriation for an overall 57.8% benefit to LMI. We do not view the 50% LMI target as an onerous requirement; rather we see it as an appropriate and indeed essential element to full recovery for all of our citizens.

5. ***What problems or challenges has the State encountered as it has implemented its housing programs through the CDBG program? What legislative or regulatory reforms are necessary to address these problems or challenges?***

Louisiana has experienced many challenges in the implementation of its housing programs, which is somewhat to be expected when you consider the unprecedented magnitude of these disasters. First and foremost, the CDBG program was not designed to respond to a catastrophic event and trying to implement recovery under these guidelines has been like trying to fit a round peg into a square hole. In addition, much greater coordination and cooperation is needed across both federal and state agencies. Obviously, our first big obstacle was the requirement to go back to Congress to get full funding proportional to the damage. HUD approved our homeowner program in August of 2006 and then disapproved it in March of 2007. We struggled with designing programs that could incorporate FEMA hazard mitigation money with CDBG funds and it took almost two years for the administration to waive the 10% match on PA projects, which required us to design CDBG programs that would qualify for match. All of these struggles took time and staff resources away from implementation and getting recovery dollars into the hands of those who needed it. Rather than focus on the past, I prefer to lay out some key actions for future catastrophies:

- Allocations based on credible damage estimates
- Pre-set triggers to waive the federal match requirement
- Pre-set triggers to provide appropriate waivers
- Establish common requirements across federal programs
- Streamline approval processes
- Develop a cooperative, problem-solving approach with state and federal agencies to get recovery dollars on the ground quickly.

To expand on this last point, in the early days of the recovery, we needed a war room that involved HUD, FEMA, SBA, State agencies and national experts to quickly frame solutions and channel resources. Instead we had an approach where states were expected to come up with solutions and get them approved by oversight agencies to ensure they met all legal requirements. This resulted in continued delays of the actual disbursement of funds for critical rebuilding.

Below are two specific federal requirements that caused delays in rebuilding: those are environmental rules and duplication of benefit requirements.

Clearly, the Environmental rules have been the biggest Federal impediment to both the homeowner and rental programs funded by CDBG. On the homeowner side, environmental evaluations were the single biggest reason for the State opting for a 'compensation' program rather than a 'construction' program. There was no practical way to cost-effectively perform environmental evaluations on well over 100,000 homes and expect our homeowner program to get rebuilding money on the street in a timely manner. Had these been waived, the State and the taxpayers would have had greater assurance that every dollar went directly to rebuilding. Regarding rental programs, it is understandable that some of the larger Piggyback deals, several of which involve a change in use on the site, must undergo an environmental review. But the imposition of environmental review requirements has been especially difficult in the Small Rental Program where this review has cost millions of dollars and has slowed projects by months, even though this program is merely assisting property owners to restore buildings that were occupied before the storm. It is difficult to tell a small owner that he must go wait to get environmental clearance before we can issue a firm funding commitment even though he may only be replacing his roof or putting in new wiring and plumbing in a building that has been occupied for more than a hundred years (and would have continued to be occupied – without any Federal assistance – had the levees held). Environmental requirements do have their place, but not in a disaster of this magnitude involving the replacement or repair of thousands of buildings that were occupied before the disaster. It is somewhat frustrating and difficult to comprehend that the Department of Homeland Security was able to administratively waive environmental requirements for new construction on the wall between the U.S. and Mexico, but that these same laws could not be administratively waived to rebuild existing structures.

The Duplication of Benefits requirement is another rule that has proven difficult to administer in both the homeowner and rental programs. Duplication of benefit for the homeowner program has been problematic, but we think this is more a problem with administrative interpretation rather than legislative requirements. The most egregious example is counting the SBA loans as if they were grants. In the case of the Road Home program, moneys are paid directly to SBA to cover the loan amount before it goes to the homeowner. Unless you are low-income, the Road Home only brings you back to your pre-storm equity and does not cover all damages. Not enough funding was provided for this. We also have homeowners who have lost jobs or are paying both a mortgage and a rent payment. So this often puts homeowners in a position of repaying SBA without having the resources to rebuild. In the case of the Small Rental Program, one of the reasons the State developed an incentive structure where payments are tied to rent reductions rather than physical construction was to avoid having to perform the time-consuming and administratively difficult task of verifying additional payments for construction support. While the concept of limiting duplication is a valid one, the structure of how it is administered needs to be revised and the States who are actually developing and administering the disaster recovery programs should be given the flexibility to design their own systems - recognizing that not all payments to property owners are “grants” that must be deducted from any future payments.

Legislative/administrative reforms:

One specific recommendation regards federal funds interchangeability. In a time of crisis, and as a broad-spectrum means of streamlining HUD’s regulatory process, we recommend that Congress combine CDBG and HOME funds in the federal budget and condense the regulatory controls that govern their use. CDBG and HOME funds could then be used interchangeably, but within reasonable discretionary limits imposed by HUD. Under this approach, any state in crisis that is short of federal funds in one area could use funds from another to immediately accomplish an objective that would otherwise be postponed until sufficient funds in both areas are accumulated to initiate a recovery project. Aside from allowing projects to start sooner, this approach also serves as a hedge against capital market inflation as well as a hedge against incurring increased cost associated with project start delays. Condensing and combining the regulatory controls placed on the use of CDBG and HOME funds would also result in one set of manageable regulations rather than two sets working at odds with each other.

The devastation wrought by Hurricane Katrina and Hurricane Rita included the failure of levees built by the federal government that resulted in the flooding of one of our great American cities. The damages rose beyond the level of disaster; the damages were catastrophic. CDBG was not and is not up to the task. In terms of legislation, please consider setting up a *subpart* under CDBG that is designed specifically for Disaster Response and Recovery. We envision a ***Disaster Block Grant*** mechanism with built-in capacity to release and monitor funds with due diligence *and* deliberate speed.

The Disaster Block Grant mechanism could be triggered by existing protocols, such as Presidential Disaster Declarations. The mechanism could have multiple tiers such that the scale of the disaster activates *pre-determined waivers* for activities that protect public health and safety and restore critical infrastructure. This one regulatory accommodation, by itself, has the potential for sparing the people in future disasters the many months of negotiations that stalled our recovery efforts. Louisiana stands ready to work with our federal partners and legislative staffs on appropriate reforms for future disasters.

Thank you again for this opportunity to speak to you today, and for your continued support and interest in the recovery of the Gulf States.