

TESTIMONY OF
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BEFORE THE U.S. HOUSE SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY
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Thank you for this opportunity to address this committee about our progress and remaining challenges in administering the Road Home program in Louisiana, which is the largest housing program in American history.

This subject matter is particularly relevant as we approach the fourth anniversary of Hurricane Katrina, which is also the third anniversary of the official launch of the Road Home program in Louisiana. This time each year, we pause to assess hurricane recovery on the Gulf Coast, noting the progress made and the challenges that remain.

The situation we face in Louisiana is unique – I know of no other state that suffered such destruction in three years or that faces as many complex rebuilding issues. In context, the combined impact of hurricanes Katrina and Rita is the largest disaster in U.S. history. Measured only in terms of Stafford Act funds, it is larger than the next largest disaster -- the Attack on America on September 11, 2001 -- by four times and it is larger than the remaining top 10 disasters combined. Coupled with the affects of Hurricane Gustav and Hurricane Ike last year, the vast majority of our state has suffered the effects of one or more hurricanes since 2005. In total for these storms, the state has more than \$14.4 billion in Community Development Block Grant funding.

No discussion of the unprecedented level of CDBG aid would be complete without considering the catastrophic damage our state suffered in the span of three weeks after Hurricane Katrina, the failure of the federal levees and Hurricane Rita. Coupled with the damage inflicted last fall by hurricanes Gustav and Ike, Louisiana faces a major recovery made even more complex by the national economic downturn. Our state will require continued special considerations from the federal government when it comes to federal regulations governing recovery-related funding streams.

Catastrophic Damage to Louisiana

Impact of Hurricanes Katrina and Rita

In 2005, the state of Louisiana bore the brunt of the biggest natural disaster in American history – Hurricane Katrina. Three weeks later Louisiana was hit by Hurricane Rita– now the third most expensive natural disaster in American history.

Hurricanes Katrina (landfall Aug. 29, 2005) and Rita (landfall Sept. 24, 2005) devastated south Louisiana, claiming 1,464 lives and displacing 900,000 residents. In the New Orleans metropolitan area, storm surge from Hurricane Katrina breached the city's levee protection system at several points. Eighty percent of the city was left underwater and thousands were stranded on rooftops and in shelters-of-last-resort. All 26,000 homes in St. Bernard Parish were damaged or destroyed. Hurricane Katrina also left behind major wind, rain and storm surge damage in Plaquemines, Jefferson, and St. Tammany parishes.

Three weeks later, storm surge from Hurricane Rita reflooded parts of New Orleans before the storm made landfall in far eastern Texas, devastating much of Cameron Parish and leaving behind intense flood and wind damage in Calcasieu and Vermilion parishes. Hurricane Rita destroyed every building in Cameron Parish with the exception of the Parish Court House. Many other Louisiana parishes also suffered major damage from the storms.

These damage statistics are well known, but it is important to review the scale and scope of two of the largest natural disasters in the nation's history, which left Louisiana with more than 200,000 housing units with major or severe damage, including 82,000 rental units. Orleans Parish alone had 50 percent of the damage statewide and lost more than 51 percent of the parish's rental units. This past fall the state experienced two devastating

storms, Gustav and Ike. While not at the same scale of the 2005 events, these storms caused significant housing damage and economic interruption along the Gulf Coast. Additionally, these storms caused much greater damage statewide than in 2005. Another 9,400 homes received major damage and 800 families have been placed in FEMA-assisted housing.

Impact of Hurricanes Gustav and Ike

Hurricanes Gustav and Ike struck Louisiana on September 1, 2008 and September 12, 2008, respectively. The storms flooded approximately 12,000 homes and damaged approximately 200,000 more, caused as much as \$750 million in agricultural damages, damaged more than \$1 billion in infrastructure and caused \$2.5 to \$5 billion in business losses. Education facilities across the state suffered between \$100 and \$150 million in damages. The state evacuated more than one million citizens from south Louisiana, and more than 1.5 million homes and business were without power for up to three weeks. The Louisiana Economic Development Department estimates that hurricanes Gustav and Ike left behind \$8 billion to \$20 billion in insured and uninsured physical damage.

In Louisiana, 46 people died in Hurricane Gustav and five died in Hurricane Ike. The state spent \$500 million on the initial response to Gustav and Ike. Following the storms, estimates indicate that FEMA Public Assistance claims in Louisiana will likely exceed \$800 million in damages.

Timeline of Federal Aid

In the aftermath of Katrina and Rita, Louisiana received \$13.4 billion in Community Development Block Grant funds for disaster recovery, which the state divided among three priorities – housing, infrastructure and economic development. This allocation represents the vast majority of “discretionary” funds the state received. Many other funding sources, including FEMA Public Assistance funds and Hazard Mitigation Grant Program dollars have narrow uses or are tied to specific projects. CDBG funds are one of the few funding streams where the state has some flexibility to set priorities for its recovery, and even then, all of its plans face a public vetting and then final federal approval to ensure they conform to sometimes strict regulations.

Congress allocated \$11.5 billion in CDBG funds for Gulf Coast recovery at the very end of 2005, but capped Louisiana’s share of funds at 54 percent, even though the state received the lion’s share of housing and infrastructure damage during the 2005 hurricane season. When HUD allocated funds to the states in February 2006, Louisiana received only \$6.2 billion.

In the summer of 2006, Congress allocated Louisiana an additional \$4.2 billion in CDBG funds, bringing the total of funds to \$10.4 billion. To access this funding, Louisiana has presented two Action Plans outlining potential uses of funds. In keeping with the state’s internal approval process and federal regulations, the Louisiana Recovery Authority’s board approves all Action Plans and amendments to these plans, they have a public comment period and plans totaling more than \$10 million receive a vote of the full Legislature. Following this, the Governor forwards the plans to HUD for approval. This process typically takes between 60 and 90 days from start to finish. In addition to the two overarching Action Plans, Louisiana has presented 33 amendments to the first plan and 12 amendments to the second plan to clarify programmatic rules and outline additional uses of funds.

Following months of administering the Road Home program, which is the largest single home rebuilding program in American history, Louisiana faced a deficit in 2007 because of higher than expected need and

lower than expected insurance payouts. In November 2007, Senator Landrieu ensured that the state get a third allocation of \$3 billion in CDBG funds.

This final allocation included strict language that forbids Louisiana from using these funds for anything other than approved Road Home activities in the state's original action plan. This language was attached to ensure that Louisiana would not open the program to new applicants or further expand funding to current program participants.

In the aftermath of Gustav and Ike, last fall Congress set aside a \$6.1 billion pool of CDBG funds for states affected by disasters in 2008. Louisiana received more than \$1 billion of this funding. The state has set aside 25 percent of its total allocation for projects dealing with rental housing, agriculture and fisheries recovery and hurricane protection. The bulk of the funds were allocated to the parishes based on their level of damage. Parishes will select from a menu of options and decide how they will spend the funds. Louisiana adopted this decentralized funding model for Gustav and Ike parishes after our experience using the Katrina and Rita funds and because of the smaller scale of devastation in the state. HUD has approved our first action plan for using these funds and the second is being prepared for public comment.

Overview of Louisiana's CDBG programs for Hurricane Katrina and Hurricane Rita Recovery

In total the state's property losses after Hurricane Katrina, the failure of the federal levees and Hurricane Rita are estimated to be in excess of \$100 billion, when factoring public and private losses. Louisiana identified three priorities for its CDBG funds after the 2005 hurricane season – housing, infrastructure and economic development.

Housing was the top priority for CDBG funds because of the large unmet housing needs in the state, which saw the destruction of more than 200,000 homes. Following housing, the state dedicated funds to infrastructure needs, though the majority of public infrastructure rebuilding is funded with billions in FEMA Public Assistance funds. To address long-term rebuilding needs that cannot be met using FEMA funds, Louisiana created the Long Term Community Recovery program, which set aside \$700 million in CDBG for projects in plans that parishes formulated and presented to the LRA's board for approval. Additional infrastructure investments included a program to rebuild fisheries infrastructure needed to support this critical industry in Louisiana, pools of funds for local governments and school systems and \$200 million for ratepayer mitigation to help repair heavily damaged electrical systems and stave off huge increases in energy bills.

The final priority was economic development. Despite the fact that more than 16,000 businesses flooded and 30 percent of all businesses in New Orleans failed after the storms, the federal government in 2005 and 2006 refused to give the Gulf Coast discretionary economic development funds. So our state carved out a small pool of several hundred million in CDBG for a grant and loan program, technical assistance and workforce development. Business need dwarfed the funding we could afford to allocate to this purpose because our other needs were so great.

The Road Home

The cornerstone of Louisiana's recovery program is the Road Home housing program, which is divided into two components – Homeowner aid and the Small Rental Property Program. Though the Road Home has faced many trials and initially struggled to award grants, we now have paid almost \$8 billion to 124,538 Louisiana homeowners, including more than \$836 million for homeowners to elevate their homes.

Since the beginning of 2008 when Governor Jindal took office, we have disbursed more than \$2.2 billion to homeowners, re-launched the stalled elevation program, paid almost \$18 million to Road Home applicants who sold their homes at a loss prior to the program's launch, revamped the appeals process so that it is more customer friendly and closed more than 31,500 of the most difficult applicant cases. The majority of the applicants we've closed since January 2008 had complicated cases and had been pushed to the back of the line while the contractor picked easier to close cases. In 2008, we had more than 20 successful mobile outreach sessions where we took Road Home and state of Louisiana staff into the community to meet with applicants one-on-one to discuss their issues.

Additionally, in 2008 we decided not to extend the state's controversial contract with ICF International, necessitating that we transition the program to new contractors. In general, the state and the public were not satisfied with ICF's performance, its treatment of applicants and the contract the previous administration signed with the company. We recently hired new contractors to take ICF's place, dividing the work of the company among three firms. In the spring, we signed a contract that included strict performance measures with Hammerman and Gainer, Inc., a Louisiana-based business that now runs the homeowner portion of the Road Home.

By breaking up the remaining work, we have ensured a more case management driven program for the remaining applicants. We anticipate that between 1,500 and 2,000 applicants could still close on their grants this year, though the new homeowner contractor is reviewing ICF's systems to determine if groups of applicants marked as unable to close actually could be closed.

Many of the remaining applicants have difficult title, power of attorney and other legal issues that stand between them and closing on their Road Home grants. The state has provided and will attempt to continue to provide legal services for lower income Road Home applicants. Additionally, we do not have current deadlines for applicants to close. That said, we anticipate that the majority of closings for compensation and elevation grants will be complete by the end of 2009.

There has been some talk of potential unspent funds in the third CDBG allocation of \$3 billion. It is entirely too early to know what funds, if any, will remain at the end of the Road Home program. Clearly there is much interest in these funds, should they remain, and it is Louisiana's hope that the state would be able to access the funds to provide additional aid to homeowners and address unmet recovery needs.

Because of strict language governing the use of these funds, we must work with HUD and Congress to ensure they are used properly and may require some flexibility in the interpretation of federal regulations in order to achieve this.

While the Small Rental Property Program, the second aspect of the Road Home, has been slower going than we had hoped, we have made great strides in the past year. When we took this program over from the previous administration, it had created only five rental units. We have now created 1,876 rental units using these funds and made payments of more than \$85.8 million to landlords. Additionally, we soon will begin offering advance payments to landlords, which was not something done under the original program implementation. This will speed up production of units significantly, as many landlords have been left unable to get financing for their reconstruction efforts due to the economic downturn.

Additionally, we have made great strides in our Low Income Housing Tax Credit "Piggyback" program, which pairs CDBG funds with GO Zone tax credits to help build large rental developments. Eleven of these complexes have been completed thus far, creating 1,525 total rental units, 738 of which offer affordable rents. Others are

under construction, including several HUD complexes that will replace the “Big Four” public housing projects in New Orleans. CDBG funding has been critical gap financing that has kept many of these developments afloat during this tough economic time.

In total, when looking at this Piggyback program and other tax credit initiatives by the Louisiana Housing Finance Agency, in Louisiana we have created more than 7,500 rental units statewide, including more than 2,300 in Orleans parish. We have thousands of units under construction across the state and we expect many all of these to come online by the end of the year. When coupled with our investments in the Road Home Small Rental program, this will provide much more affordable housing for residents and help stabilize the very uncertain rental market in New Orleans and the surrounding areas.

New Housing Programs / Changes to the Road Home

Recent analysis of the Road Home program showed that the Road Home has been instrumental in restoring homes in areas impacted by Katrina and that the city of New Orleans would not have recovered 75 percent of its population without the aid of the program. That said, the same analysis pointed to 30 percent of Road Home “Option 1” grant recipients who have yet to rebuild.

In addition, the analysis showed a gap in homeowner rebuilding resources available in the city of New Orleans of between \$1.6 billion and \$2.3 billion. This represented a shortfall between the amount of assistance available from the Road Home, flood and homeowner insurance and FEMA assistance, but it does not account for private funds being invested into rebuilding by individual homeowners. Many low-to-moderate income homeowners may not have the resources to rebuild their homes with the funds available. The rising cost of construction, increased insurance rates, the unstable credit markets and the national economic downturn make rebuilding difficult for many families.

Based on this analysis and our own experience running the Road Home program, it is absolutely crucial that the state have access to the remaining CDBG funds from the final allocation meant for the Road Home. This will take Congressional action, but it will allow us to extend further assistance to help fill this gap. This fall, we are legislatively required to present a full account of all unspent recovery CDBG to the Louisiana Legislature, and we anticipate the conversation about how to program these funds so that they meet the needs of the state will again intensify.

Additionally, for the first time in the program’s history, homeowners who accepted Road Home grants are facing a deadline to rebuild. When homeowners accept their grants, they signed a covenant that said they would do so within three years. The first group of homeowners affected by the covenant will meet their deadlines this fall.

Based on data analysis on the Road Home and the very difficult climate we find ourselves in, the state of Louisiana will offer applicants an extension of this timeline if they can show good cause as to why they cannot complete their construction, including experiencing an unexpected financial hardship, coping with health issues, falling prey to an unscrupulous contractor or exhausting their Road Home funds because the cost of construction was too high.

While we hope Road Home grantees rebuild within three years of receiving their grant awards, we are convinced that some homeowners simply will not make this deadline. Grantees will be allowed to request up to two extensions of one year each, giving them a maximum total of five years from the time they received their Road Home grants.

In addition to this change, to address the ever-changing needs of the recovery and to help fight the housing crisis Louisiana faces, the state is working on four new housing programs, funded with unallocated dollars from our rental programs. These include:

- **Nonprofit Rebuilding Pilot Program**, which will award competitive grants to nonprofits and other organizations that have a proven track record in assisting homeowners to meet gaps in their rebuilding resources. The will put forth \$20 million for this purpose;
- **Plaquemines Parish Pilot Program**, which will allow Plaquemines Parish to use \$4 million of its \$13 million in Small Rental Program funds for a Homeowner Rehabilitation Program. Plaquemines had a very small number of landlords participate in the Small Rental program and will use the money to address the parish's urgent housing need.
- **Emergency Rental Assistance**, which will move \$5 million in unallocated funds from the Small Rental Property Program to the state's Rapid Re-Housing program, which is run by nonprofit agencies under a contract with the state Department of Social Services. The additional funds will bring the program's total available funding to \$12.7 million. The LRA is working with FEMA, HUD, DSS and other state and nonprofit partners to assist those residents who are moving out of their FEMA trailers and off of the Disaster Housing Assistance Program (DHAP), which ends this fall. The Rapid Re-Housing program is a key element of the state's strategy for ensuring that those affected by hurricanes Katrina and Rita do not become homeless when temporary disaster assistance ends. Rapid Re-Housing funds are used to offer temporary rental assistance, pay utility connection fees and other costs necessary to assist families threatened by homelessness.
- **Chinese Drywall Program**, which the state is developing at the request of the Louisiana Legislature to assist Road Home applicants who are affected by Chinese drywall that must be replaced in their homes. The \$5 million program has not yet been designed, and it will need formal approval from the LRA, the Legislature and HUD before funds can flow to homeowners.