

House Committee on Financial Services

Hearing on Federal Housing Response to Hurricane Katrina

February 6, 2007

Rep. Charles W. Boustany, Jr., MD
Written Statement

Mr. Chairman and Financial Services Committee members ---

Thank you for providing me the opportunity to testify before your committee.

The official title for this hearing “Federal Housing Response to Hurricane Katrina” suggests that there was only one storm that hit the Gulf Coast in 2005. In fact, a storm of similar magnitude and destruction made landfall approximately one month later.

My district was directly impacted by Hurricane Rita, which made landfall at the southwest corner of Louisiana before heading into Texas, on September 24, 2005. This storm brought high winds in excess of 115 mph and a significant storm surge.

The storm surge was as great as 20 feet in some areas causing buildings, homes, and infrastructure to be swept away or severely damaged. The flooding went miles inland and pushed thousands of tons of debris and potentially hazardous materials several miles into the marshes and land north of the coastline.

Total damage from this storm is estimated at approximately \$10 billion, making Rita the third-costliest natural disaster in U.S. history. In addition, Hurricane Rita, before making landfall, was measured as the most intense hurricane in the Gulf of Mexico and broke the record Hurricane Katrina set just a few weeks before.

It is a testament to the capabilities of local officials and Southwest Louisiana residents that there was only 1 death in Southwest Louisiana directly attributable to the storm. Unfortunately, however, because of the magnitude of devastation in the districts of my fellow panelists, Hurricane Rita is often referred to by my constituents as “The Forgotten Storm.”

Today, I want to take this opportunity to apprise the Committee of the unique housing and rebuilding issues facing the Louisiana parishes hit by Hurricane Rita.

The coastal parishes of Vermilion and Cameron are largely rural and do not have the same characteristics as New Orleans in terms of multi-family, public and rental properties. Calcasieu Parish is farther inland and has a larger population that requires multi-family and public housing options.

These parishes are critical components of our Nation's energy security. Vermilion Parish is home to the Henry Hub, the pricing point for natural gas futures contracts traded at NYMEX. There are 4 oil refineries and a number of petrochemical plants in Calcasieu Parish that produce critical feedstocks for our manufacturing companies. The West Hackberry Strategic Petroleum Reserve is in Cameron Parish which holds over 200 million barrels of our 750 million barrel reserve. This area will be more vital in the future once several LNG facilities under construction come on line and it is estimated that in 10 years, 25% of all natural gas in the United States will come through my district.

In Calcasieu Parish, there were 68,000 housing units – 49,000 owner occupied and 19,000 rental – and 75% of the roofs in the parish were damaged or destroyed. The Corps of Engineers and their contractors installed more than 17,000 tarps or “blue roofs” on house, apartments and structures that were deemed at least 50% structurally sound. The number of homes that were severely damaged was significantly less but the widespread damage didn't decrease the number of problems Calcasieu Parish encountered as they rebuilt.

5,600 homeowners and 1,800 rental units out of nearly 20,000 properties in Vermilion Parish were damaged by Hurricane Rita primarily from flooding and wind. About 13% of the homes sustained major or severe damage and the remainder incurred roof damage, flooding or both.

Prior to Hurricane Rita, there were about 3,600 homes in Cameron Parish – 3,000 owner occupied and 600 rental properties. 3,241 homes sustained damage – 90% of the total homes in the parish. In this number, 2,579 homes sustained major or severe damage – 72%. In addition to the homes that must be renovated 2,000 must be completely rebuilt. Further, Cameron faces the challenges of rebuilding basic infrastructure – roads, sewers, electricity, telecommunications – and community infrastructure including schools, public buildings, fire stations, police stations, libraries, public works offices and storage facilities.

Based upon percentage, the damage in Cameron Parish exceeds the damage in Hurricane Katrina hit areas and is about equal to the damage seen in the district of my colleague from Mississippi.

For example –

- Orleans Parish had 71% of its housing damaged with 56% of those homes receiving major or severe damage.
- Plaquemines Parish, had 80% of its housing damaged with 57.5% of those homes receiving major or severe damage.

- St. Bernard Parish, had 80.6% of its housing damaged with 78.4% of those homes receiving major or severe damage.
- Hancock County (MS) had 90% of its housing damaged with 70% of those homes receiving major or severe damage.
- Harrison County (MS) had 68% of its housing damaged with 34% of those homes receiving major or severe damage.

I have said from the beginning of the recovery and rebuilding effort that the federal government cannot micromanage this process. State and local governments must reach out to business and community leaders and use this crisis as an opportunity to revitalize their communities. The federal government must provide support for local decision makers to create the environment for vital partners including small business owners, homeowners, schools, and hospitals to return, rebuild and become success stories.

Despite the optimism and desire to rebuild, Southwest Louisiana faces problems and hurdles in the recovery. Three of the largest issues that the federal government can have an impact on are housing for workers, insurance for homeowners and businesses, and GO-Zone legislation.

FEMA did not begin moving trailers into Cameron or Calcasieu Parishes until the spring of 2006 – at least 6 months after Hurricane Rita. Many of the displaced were housed in motels until trailers became available. Part of the delay was to acquire land to place the trailers. Initially, FEMA brought 13,200 trailers and mobile homes to Southwest Louisiana. Some of these vehicles were used as temporary classrooms but the overwhelming majority was used as homes. Currently, in my district, there are 6,300 trailers and mobile homes in use.

Finding temporary housing allowed many local businesses to reopen and provide goods and services to residents. However, because of people moving away and the huge demand for workers – skilled or unskilled -- some stores could not reopen or operated on reduced schedules and all businesses were forced to increase wages. There is still a shortage of workers and not enough housing for people who consider moving to the area for a job. Currently, the unemployment rate is around 3%, and has been for the past 7 months, after reaching as high as 16% after the storm.

At the petrochemical plants around Lake Charles, wages increased by \$4 an hour and other bonuses or incentives were offered to retain and attract employees. A local McDonald's operator brought in workers from Romania to reopen his stores. Contractors have seen wages increase 25% for workers -- especially skilled labor such as carpenters, plumbers or electricians. Contractors must also regularly fight off attempts by other contractors to "steal" their employees. The labor shortage has been one of the chief factors local community and business leaders cite as prolonging the rebuilding.

As the Committee looks into the federal housing response to the 2005 hurricanes, I urge my colleagues to consider the impact of the housing shortage on the additional workers needed in the area to do the rebuilding.

A large frustration of homeowners and small business owners is insurance. I know my colleagues are aware of the difficulties policyholders are having with insurers to settle claims -- and I share their concern. However, I want to make sure that my colleagues are aware of the difficulties homeowners and small business owners are having in obtaining insurance or renewing policies after Hurricane Rita.

Premiums have increased 100% for homeowners in these areas -- if they can find a policy to purchase. Insurers are changing the policies to exclude hurricane damage and if a homeowner wants hurricane coverage they must turn to the fund the State of Louisiana has established. This fund is already stressed by the \$1 billion loss from the 2005 storms and the result was an assessment of \$150 to \$200 on each policyholder. Similarly, insurance for business owners has increased. Commercial insurance premiums have increased to the same degree as homeowner policies. One Calcasieu Parish contractor I spoke with saw his general liability insurance increase 75% in one year despite not having any significant claims.

The Louisiana state legislature will convene shortly and one agenda item is to review the state's role in regulating insurance. Further, state officials have been active in soliciting insurance companies to maintain their policies in Louisiana. In my view, the federal government can aid homeowners, families and small businesses by looking at ways to enhance the ability of insurance companies to obtain reinsurance and to allow insurance companies to set aside reserves to pay for future mega-catastrophes on a tax-deferred basis.

Another critical aspect to the recovery of the Gulf Coast has been the GO-Zone legislation.

The Gulf Opportunity Zone Act was enacted in December 2005 to provide certain tax benefits to Hurricane Rita and Wilma victims that were extended to Hurricane Katrina victims in the Katrina Emergency Tax Relief Act. Key provisions were set to expire at the end of 2006 and the 109th Congress took action to renew and modify some of the tax incentives to continue the economic recovery and rebuilding of the region.

The original GO-Zone provisions included bonus depreciation, special tax-exempt GO Zone bonds, five year carry-back for GO Zone net operating losses, an exception so that a business may expense the costs of certain property in the year it is placed in service, a credit equal to 10% of the qualifying expenditures to rehabilitate a qualified building or 20% of such expenditures for a certified historic structure, and a retention credit for hurricane-damaged businesses that continue to pay their employees' wages, regardless of whether they perform services. Many of these provisions expired after a few months or at the end of 2006.

In December 2006, Congress approved legislation to extend certain Go-Zone provisions to the most heavily impacted areas. I want to thank my colleagues for their support of the

legislation and hope they will continue to support other important tax measures that may come up in the future.

The GO-Zone legislation has enhanced the revitalization and economic development for these areas impacted by the hurricanes. The variety of provisions targeted at homeowners, families, large and small businesses and entrepreneurs bring optimism and hope as they look for new opportunities. This is the best kind of assistance the federal government can provide -- allowing Southwest Louisiana residents to have a controlling interest in the recovery of their communities.

I want to leave the Committee with one last thought.

Just a few days after Hurricane Rita, I was driving through some of the hardest hit areas in Vermillion Parish. I drove past one house that had debris all throughout the yard and had been flooded with several feet of water. In the yard, a man was clearing some of the debris and cleaning out the house. I stopped because I wanted to talk to the gentleman and hear his account.

He explained that the house was his daughter's and she was able to get back to work. He had come to her house to start the work to make it livable again. We walked around the yard which was covered with dead grass, tree limbs and mud and stepped into the house. The water line was 6 to 7 feet high in the house and you could see furniture strewn through the house as well as items like plates, books, and papers that were still damp and muddy.

However, what caught my eye was the picture of the family above the mantle still perfectly hung except for a bit of mud splatter. To me, that picture exemplified the spirit of the people of Southwest Louisiana – where families come together in hard times and will rebuild and recover because this is the community they and their ancestors have lived in and built.