

**TESTIMONY OF GRAY SWOOPE, EXECUTIVE DIRECTOR
OF THE MISSISSIPPI DEVELOPMENT AUTHORITY
TO THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
FEBRUARY 6, 2006**

Good morning, thank you very much Chairman Frank and Ranking Member Bachus and members of the committee for giving me the opportunity to speak with you today.

Hurricane Katrina made land fall in Mississippi on August 29, 2005, and was the worst natural disaster to ever strike the United States. Damage along Mississippi's Gulf Coast was widespread and damage estimates were over \$125 billion. The Federal Emergency Management Agency (FEMA) reported there were 65,380 homes in south Mississippi damaged or destroyed. It was estimated there were 44 million cubic yards of debris in south Mississippi, as compared to 23 million cubic yards as a result of Hurricane Andrew.

The Fiscal Year 2006 Department of Defense Appropriations Act (H.R. 2863) included \$29 billion for specific needs arising from Hurricane Katrina that was not covered by the Stafford Act. The U.S. Department of Housing and Urban Development (HUD) allocated \$5.058 billion to Mississippi for disaster relief and long-term recovery related to the consequences of Hurricane Katrina. The Mississippi Development Authority (MDA), which already administers the state's Community Development Block Grant (CDBG) program, administers Mississippi's share of these funds.

The 2006 Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, appropriated \$5.2 billion in CDBG funds for necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure directly related to the consequences of the covered disasters. HUD allocated \$423 million of these funds to Mississippi of which a minimum of \$81.78 million will be used for repair, rehabilitation and reconstruction of the affordable rental housing stock in the impacted areas.

Based on inspection data conducted by FEMA and the Small Business Administration (SBA) as of March 31, 2006, the estimated housing unit damage for owner-occupied housing units was 169,667. Of this number, 24,157 were severely damaged or destroyed and 38,166 received major damage. The number of owner-occupied housing units on the Mississippi Gulf Coast located outside the 100-year flood plain with flood damage was 19,787, of which 16,848 had maintained hazard insurance. The number of owner-occupied housing units located inside the 100-year flood plain with flood damage was 10,254, of which 1,768 were totally uninsured and 3,148 had maintained hazard insurance only.

As of October 15, 2006, the Mississippi Commissioner of Insurance reports 486,913 claims have been made statewide as a result of damage incurred by Hurricane Katrina, of which \$11.9 billion have been paid. 235,849 claims were reported for Hancock, Harrison and Jackson Counties, Mississippi, of which \$8.36 billion have been paid. In addition, SBA has reported loans to 31,100 Mississippi homeowners and renters totaling in excess of \$2 billion.

Working with our federal partners, local governments and the private sector, the State of Mississippi is pursuing a comprehensive approach to rebuilding homes in south Mississippi.

HUD approved the \$3.423 billion Mississippi's Homeowner Assistance Program Action Plan on April 1, 2006. The release of funds was approved on July 10, 2006. The purpose of this program was to provide a one-time grant payment, up to a maximum of \$150,000, to eligible homeowners who suffered flood surge damage to their primary residence on August 29, 2005, from Hurricane Katrina. Eligible homeowners are those who owned and occupied their home on August 29, 2005; maintained homeowners insurance on the property; received flood surge damage; and lived in homes located outside the 100 year flood plain and in Hancock, Harrison, Jackson, or Pearl River Counties, Mississippi. To secure the grant, the homeowner agreed to place a covenant on the property which provided that the rebuild and repair would be in accordance with applicable codes and local ordinances; that during rebuilding, the home would be elevated in accordance with FEMA advisory flood elevations and that the homeowner would obtain and maintain flood insurance.

MDA opened three service centers on the Mississippi Gulf Coast on April 17, 2006. Between April 17 and May 31, 2006, 15,850 applications were taken. To date, 17,654 Phase I applications have been received through these service centers. 84% of these applicants have indicated they would repair or rebuild.

Of the applications taken, 3,447 have been deemed ineligible, but will be considered in the second phase of the Homeowners Assistance Program. Currently, 13,538 applicants have been notified they are eligible to receive a grant and 12,142 of these have completed their grant closing.

As of February 2, 2007, 10,247 applicants have been paid a total of \$681,456,302. 72% of the potentially eligible applicants for the initial Homeowners Assistance Program have been issued checks. This also means that 10,247 properties located on the Mississippi Gulf Coast have covenants attached providing for rebuild and repair in accordance with applicable codes and local ordinances and that homeowners have agreed to obtain and maintain flood insurance.

Due to the significant amount of construction anticipated on the Mississippi Gulf Coast and the need to adequately plan and inspect construction activities, MDA provided \$5 million in grants to local governments in Hancock, Harrison, Jackson and Pearl River

Counties, Mississippi, for the costs incurred by the need for additional permitting and building officials.

To address fraud in the application process and contractor fraud related to rebuilding efforts, MDA provided a \$5 million grant to the Mississippi State Auditor to establish and operate a Katrina Fraud and Investigation Team. MDA has forwarded 117 applications to the Investigation Team of which 87 have been resolved and 30 are active cases.

On December 19, 2006, HUD approved a modification to the Homeowners Assistance Program to redirect \$700 million of the original \$3 billion initially allocated for Homeowner Assistance Grants to the Phase II Program. The purpose of Phase II is to provide compensation grants up to a maximum of \$100,000 to homeowners who suffered flood surge damage to their primary residence as of August 29, 2005, from Hurricane Katrina.

Phase II eligible homeowners are those who owned and occupied their home on August 29, 2005; received flood surge damage; have a household income at or below 120% of Area Median Income (AMI) and their home was located in Hancock, Harrison, Jackson, or Pearl River Counties, Mississippi. MDA began registration for Phase II homeowners in July 2006. There have been 7,011 registrations received as of February 2, 2007. In addition, the 3,447 applicants deemed ineligible for Phase I will be considered in Phase II, bringing the number of registered homeowners to 10,458. A significant component of this program will be financial counseling for these homeowners to assist with their recovery plans.

Based on inspection data conducted by FEMA and SBA dated March 31, 2006, 30,041 owner-occupied homes received flood damage as a result of Hurricane Katrina. As of February 2, 2007, MDA has notified 13,538 of these owners they are eligible for assistance in Phase I of the Program. Another 669 Phase I applications are currently being processed and 10,458 Phase II homeowners are being assessed for eligibility. These 24,665 homes represent 82% of the owner-occupied homes that received flood damage as a result of Hurricane Katrina.

Applicants in both phases of the Homeowners Assistance Program may be eligible for a separate grant of up to \$30,000 to defray the costs of elevating their homes out of potential danger areas.

To encourage home ownership, Governor Barbour has allocated \$157 million in tax-exempt private activity bond authority to the Mississippi Home Corporation to issue Mortgage Revenue Bonds. Through the sale of these bonds, the Mississippi Home Corporation is able to reduce home ownership costs by offering below-market rate interest rates and assistance with closing costs equal to 3% of the mortgage amount. With this authority, more than 2,700 families statewide have received assistance since Katrina (400 families of these on the coast). These bonds are not general obligations of the state; rather, they are repaid as homeowners pay their mortgages. Governor Barbour

will continue to allocate additional tax-exempt private activity bond authority to the Mortgage Revenue Bond program to help more families achieve their dream of homeownership.

Hurricane Katrina destroyed or severely damaged 8,600 rental units in Mississippi, 95% of which were located in Hancock, Harrison and Jackson Counties, Mississippi.

The Gulf Opportunity Zone (GO Zone) Act authorizes the Mississippi Home Corporation to allocate approximately \$35 million annually in Low Income Housing Tax Credits in 2006, 2007 and 2008. The Mississippi Home Corporation awards these federal tax credits based on a competitive scoring process conducted according to the "Qualified Allocation Plan" approved by the Governor. In August 2006, Mississippi Home Corporation awarded over \$10 million of housing tax credits that will facilitate the construction of 1,006 housing units in Hancock, Harrison, Jackson and Stone counties. The coastal units funded with this allocation, coupled with the 228 associated with the tax credits awarded in January 2006, will replace more than 20% of the coastal units damaged by the hurricane. These units are available only to families with incomes of less than 60% of the Area Median Income.

To ensure that more of the tax credits are directed to the areas that need them the most, the MS Home Corporation restructured the Qualified Allocation Plan at the Governor's urging. Not only will the new plan ensure that more credits are used in the lower six counties, the revised plan encourages innovative mixed income developments which will provide new rental housing for families between 60% and 80% of the Area Median Income and new market rate rental units.

Mississippi Home Corporation will award additional tax credits later this month. It is estimated that federal tax credits will spur the construction of more than 5,000 rental units in the lower six counties. The Governor's Office and MDA are actively considering proposals to use CDBG disaster recovery funds to spur additional rental property development.

HUD approved the action plan amendment to address the needs of the Public Housing Authorities on August 31, 2006. The purpose of this amendment was to provide funding, in an amount up to \$100 million, to the five Housing Authorities that suffered damages to their facilities on August 29, 2005, from Hurricane Katrina. Historically, Housing Authorities have developed, owned, operated and managed multifamily properties and looked primarily to HUD for development capital, maintenance funds, rental assistance and operating subsidies. There were 2,695 rental units pre-storm: 2,534 were damaged or destroyed and 906 are currently unoccupied. Grant allocations have been made based on the percentage of individual Housing Authority dollar damages to the total damages for all five Housing Authorities. Grants are pending final application and completion of environmental assessments.

On August 31, 2006, HUD approved an action plan amendment for the Ratepayer and Wind Pool Mitigation Programs. The objective of the Ratepayer Mitigation is to protect

business and residential customers from bearing the entire cost of the utility infrastructure restoration and rebuilding. \$360 million has been paid through this program to offset emergency response, restoration and rebuilding costs incurred by the utility companies that would otherwise be passed through to the ratepayers.

As a result of Hurricane Katrina, 16,000 policyholders in the Mississippi Windstorm Underwriting Association (MWUA) faced up to a 400% increase in their annual premiums for wind and hail insurance. This economically debilitating increase results from a spike in wind risk reinsurance rates for high-risk properties on the Mississippi Gulf Coast as a result of Hurricane Katrina. MDA made a \$50 million grant (payable over 2 years) to the MWUA to defray the additional cost to the consumer of wind insurance obtained from MWUA, resulting in an increase of 90% in annual residential premiums rather than the 400% increase initially anticipated. This grant serves as an interim subsidy while the insurance market recovers and stabilizes from its losses due to Hurricane Katrina and the State Legislature enacts structural reforms which ensure a statewide, stable and actuarially sound insurance market for future years.

MDA is currently working with HUD to use an additional \$30 million of the disaster recovery funds to reduce the increase of commercial premiums to 142%. Lowering commercial rates will assist in making rental units affordable. Rental property owners build the cost of their commercial insurance into the rental rates charged.

As a result of Hurricane Katrina, many Gulf Coast residents will move inland away from the risk of future storm surges and hurricane force winds. However, for housing to be built to accommodate any migration, water and sewer systems must be expanded to accommodate the growth in an environmentally responsible fashion. The Mississippi Department of Environmental Quality recently released a master plan for water and wastewater improvements in the lower six counties. This plan will be implemented utilizing the new Gulf Coast Regional Wastewater Authority authorized by the 2006 Legislature. \$630 million of CDBG funds are allocated for this program, which will help create new housing opportunities while facilitating future economic development in an environmentally sensitive way.

As you can see, the state of Mississippi is pursuing a comprehensive approach to address the critical housing needs of the Mississippi Gulf Coast with programs that have never been attempted anywhere in this magnitude. We look forward to addressing any questions you may have.