WRITTEN TESTIMONY OF ANDREW D. KOPPLIN, EXECUTIVE DIRECTOR OF THE LOUISIANA RECOVERY AUTHORITY, BEFORE THE U.S. SENATE HOMELAND SECURITY & GOVERNMENTAL AFFAIRS SUBCOMMITEE ON DISASTER RECOVERY

MAY 24, 2007

Madame Chair, Members of the Subcommittee, thank you for inviting me to testify today. My name is Andy Kopplin and it has been my honor and privilege to serve as the Executive Director of the Louisiana Recovery Authority (LRA)—representing our Chairman Dr. Norman Francis, Vice Chairman Walter Isaacson, and the other volunteers on our bipartisan 33-member board of directors.

Since our appointment by Governor Blanco in October 2005, the LRA has focused on developing policies and strategies for recovery, securing public and private resources, leading long term regional and community planning initiatives, and providing transparency and oversight on the expenditure of recovery dollars.

We do not run the Road Home or any programs at the LRA. With regard to Community Development Block Grant and Hazard Mitigation Grant Program funds appropriated to Louisiana, our job is to recommend expenditure allocations to the Governor and the Louisiana Legislature and to set broad policy guidelines for the programs they approve.

Today's hearing focuses on Louisiana's largest state-led recovery program—the Road Home Homeowner Assistance Program—and the current financial and implementation challenges it faces.

As I address specifics about the Road Home, I would like to put them in the context of some major themes that illustrate the challenges we have faced with our recovery from Katrina and Rita in general and with the Road Home program in particular.

These themes are:

1) Federal investments in Louisiana's recovery have been generous and unprecedented—yet they unfortunately were late in coming, inequitably divided among states, and insufficient to address the true scale of our disaster;

2) Program implementation responsibilities have been delegated to state level agencies—largely because the Bush Administration opposed the Baker/Landrieu Louisiana Recovery Corporation proposal that would have

created a robust federal agency with the mandate and resources commensurate to the task of helping Louisiana recover from the first and third most expensive disasters in American history;

3) The sheer scope of Katrina and Rita overwhelmed all government agencies—federal, state, and local.

4) The red tape associated with FEMA- and HUD-funded programs is choking our ability to access the federal dollars that have been appropriated by Congress for Louisiana's recovery;

5) Finally, the constant haggling required by state and local officials to secure resources, eliminate red tape, and secure waivers and extensions has led to uncertainty that has slowed the recovery and undermined public confidence.

Let me take each and illustrate how it has impacted the recovery broadly and the Road Home in specific.

<u>1. Delayed, Inequitable and Insufficient Federal Investments</u>

Delayed and Inequitable Investments

After Katrina and Rita, the 109th Congress waited until Christmas to fund a recovery package to help the Gulf Coast rebuild. But when Congress acted, it wisely increased the President's recommended funding for Community Development Block Grants from $1.5 billion to $11.5 billion.

But the legislation unfairly capped Louisiana's allocation at 54% of the total CDBG appropriation. Congress essentially passed a law forbidding HUD from allocating resources equitably based on damages. That meant Louisiana was awarded $6.21 billion and Mississippi $5 billion when HUD announced the initial allocation of CDBG funds in February 2006.

The LRA spoke out about the inequities long before the bill passed, and we redoubled our efforts afterward. We had already documented that Louisiana suffered 77% of all housing damage from the 2005 storms—Katrina, Rita, and Wilma. Compared to Mississippi, Louisiana had more than three times the housing damage, seven times more citizens displaced, seven times more university students displaced, five times more damage to electric utilities, three times the number of K-12 schools destroyed, five times the number of hospitals destroyed, nearly ten times the number of businesses lost, and five times the decrease in employment. And the vast majority of our damage was caused by the catastrophic failure of federal levees that had been built and certified as being adequate to protect us by the Army Corps of Engineers.

With leadership from Governor Blanco and Louisiana's Congressional delegation, we fought for fair and equitable funding from Washington on behalf of our homeowners, renters, small business owners, parishes, towns and cities. LRA board members personally took the case to Capitol Hill and the White House. After vigorous negotiations with LRA board members representing Governor Blanco, Chairman Don Powell announced on February 15, 2006 the President's commitment to support an additional appropriation of $4.2 billion in CDBG funds to bring Louisiana's total for housing and infrastructure to $10.4 billion. This included $7.5 billion to assist homeowners based on our agreement with Chairman Powell to use FEMA's estimate that Louisiana had approximately 123,000 homeowners who had suffered major or severe damage from Katrina or Rita as the basis for our budget.

Our request during these negotiations had been for a total of $14.9 billion in CDBG funds, including $9.4 billion for single family homeowners (and excluding economic development which Chairman Powell asked to be considered at a later date). In arriving at the $10.4 billion level for CDBG funding, Chairman Powell also asked state negotiators to rely on the $1.7 billion FEMA was estimating at that time would be allocated to Louisiana in HMGP funds to pay for the elevations, buyouts, and smaller home safety investments (called "individual mitigation measures")that were contemplated in our homeowner assistance budget. Although state negotiators objected based on their knowledge that the HMGP program imposed considerable administrative burdens, they ultimately accepted the proposal given that HMGP funds are broadly intended to cover the elevations, buyouts, and safety measures we proposed and based on Chairman Powell's commitment to help state officials streamline the FEMA process.

The President's decision to support an additional $4.2 billion appropriation of CDBG funds for Louisiana came six weeks after Congress first passed a supplemental appropriations bill containing CDBG funding. Unfortunately, it was not until four months later, June 15, 2006, before President Bush signed into law the bill that secured Louisiana's additional $4.2 billion in CDBG funds. That was nearly six months after the initial supplemental appropriation of CDBG funds was approved by Congress in December, 2005, and nearly ten months after Katrina hit Louisiana. For homeowners frustrated by the pace of the Road Home program 21 months after the storms, it provides little solace for them to hear that half of their wait was on the 109th Congress to fully-fund our program. But any fair review of progress needs to consider June 15, 2006 as the effective start date for Louisiana's program. Unfortunately, from the perspective of a family who lost their house due to Katrina or Rita, federal assistance was already long overdue by June 2006.

Insufficient Federal Investments

Today, eleven months after being fully funded, the Road Home program has finally begun hitting its stride. By the end of this week, 20,000 homeowners will have closed on their grants—double the number who had closed just four weeks ago.

[Louisiana has now surpassed Mississippi in the number of awards that have been paid to homeowners. Mississippi has closed 13,678 awards and paid out grants to 12,846 homeowners in Phase One of their program. They have not closed any grants for Phase Two yet.]

Yet just as this news of improvement arrives, the program has been covered by a cloud of uncertainty again due to anticipated budgetary shortfalls (See Appendix A). ICF International, the Division of Administration Office of Community Development's (OCD) contractor for the Road Home program, has developed a budget projection based on rigorous analyses of application data and grant awards that estimates total program costs of approximately $10.4 billion—approximately $2.9 billion more than the $7.5 billion amount negotiated with Chairman Powell and budgeted by the state. If the $1.2 billion in HMGP funds that have been appropriated and are budgeted for this program are not approved by FEMA, this shortfall grows to $4.1 billion.

This estimated program cost of $10.4 billion is a mid-point range that the state calculated based on the current estimated number of eligible applications and based on the current estimates of benefit calculations. Still today, these factors are not fixed as applications and damage assessments continue to arrive and our estimates are just that—estimates based on the best analysis of current data.

When the state launched the Road Home program in August 2006, program guidelines were created to ensure that expenditures would remain within the $7.5 billion budget allotted during the funding negotiations, including assistance caps and penalties that were imposed on features of the program. These caps included an overall limit of $150,000 per homeowner, a limitation that grants cannot exceed the home's pre-storm value, capping elevation assistance at $30,000, limiting additional assistance to low income families to $50,000, limiting buyout compensation to the homeowner's uninsured gap, applying a 30% penalty to uninsured homeowners, and a 40% penalty for applicants choosing not to remain homeowners in Louisiana. Even with the programmatic caps and penalties, the overall award calculations are higher than expected for elevation costs and homeowner grants.

ICF's projection shows this deficit results largely from two factors.

1) First, it appears that the program will find nearly 20,000 more homeowners than FEMA estimated are eligible for grants based on a determination by ICF's inspectors that they suffered major or severe damage according to FEMA's definitions. The program assumed 114,532 applicants would ultimately be processed and awarded benefits; currently, the pool of eligible applicants with major and severe damages is expected to be around 132,215.

2) Second, average awards are higher than had been initially projected—because ICF's inspectors are finding that many homes which had been categorized by FEMA as suffering "major" damage should have been categorized as suffering "severe" damage warranting a complete demolition and rebuild. Because severe damage properties are more expensive to serve than major damage properties, the difference between the expected number of "severes" (52%) and the actual number (72%) has caused large, unanticipated cost increases.

While Louisiana's projected average grant of $74,173 is higher than the $60,109 originally projected, it is comparable to Mississippi's average grant of nearly $70,000 in their homeowner assistance program. Furthermore, based on FEMA's original estimates of major vs. severe damage, the fact that Mississippi was estimated to have more homes in the major damage category (84% major;16% severe) and Louisiana had nearly half (52 % major/48 percent severe) with severe damage, Louisiana's grants should be even higher if program criteria were identical in both states.

The consequences of the Road Home budget shortfall are extraordinary. Governor Blanco has asked the LRA to consider temporarily reallocating other CDBG funds from other programs to shore-up the Road Home budget. As the homeowner program has always been our highest priority, we will do what is necessary to close the funding gap. But even a temporary reallocation of other CDBG funds (which would cut rental housing and public infrastructure restoration programs) will *not* be sufficient to cover the projected shortfall.

Because the $1.2 billion of HMGP funds have not been approved by FEMA and made available to the Road Home program, the proposed elevations and individual mitigation measures (IMMs) must be paid for by CDBG funds or discontinued. Implementation of grants for individual mitigation measures is currently on hold for budget reasons. All of us believe it is necessary to invest in these prudent safety measures now in order to make our state less prone to damage from future storms and improve access to and availability of insurance. To implement the individual mitigation measures program would require an estimated $573 million which is not listed as part of our projected budget shortfall.

Our philosophy with the Road Home program from the beginning has been to ensure every homeowner who is eligible receives their full grant award as quickly as possible. But the commitment to provide the full grant award to every single eligible homeowner cannot be met without additional funding.

Given that this budget shortfall is due to our good faith reliance on FEMA data which has now been shown to underestimate both the number of eligible homeowners and their level of damage and given the fact that Louisiana's $10.4 billion in total CDBG allocations does not reflect an equitable distribution of CDBG resources based on damages, we believe additional federal CDBG funding to support Louisiana's Road Home program is clearly warranted and we ask for your thoughtful consideration and support of this request.

To put this request in context, please consider the overall consequences of Katrina and Rita to Louisiana's families, businesses, public infrastructure, and economy.

The LRA has documented that Louisiana suffered an estimated $100 billion in physical damages—to houses and apartments, to small businesses and large factories, to agricultural crops and timber, and to public infrastructure like roads, hospitals, schools, and fire and police stations.

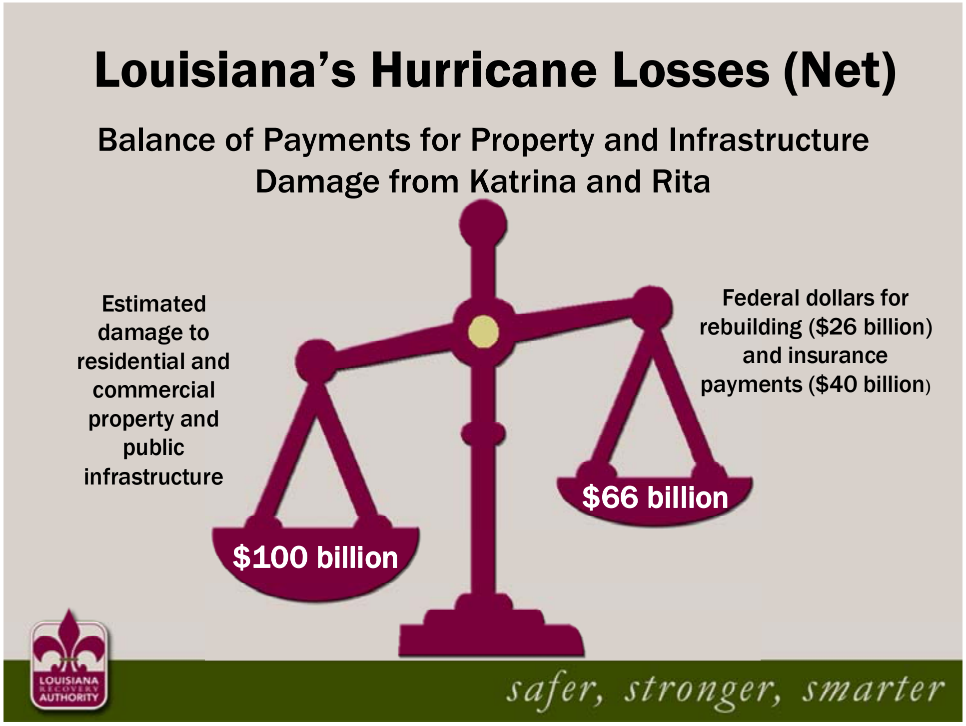
Louisiana's Hurricane Property Losses

Estimated Property Losses:

- Homes, Vehicles, Personal Property — $35 billion
- Commercial Structures, Property, Inventory — $34 billion
- Public Infrastructure *(utilities, roads, ports, rail, water)* — $17 billion
- Public Facilities: State, Educational, Health — $8 billion
- Levees — $6 billion

TOTAL EST. PROPERTY LOSSES: $100 billion

Federal appropriations for rebuilding hard infrastructure in Louisiana—including the CDBG funds—are estimated to total over $26 billion. Insurance payments to commercial and residential policyholders—including federal flood insurance—are estimated to be $40 billion. That leaves Louisiana with an estimated $34 billion deficit—a $34 billion gap of unrecovered physical assets—which translates to approximately $20,000 per Louisiana family.

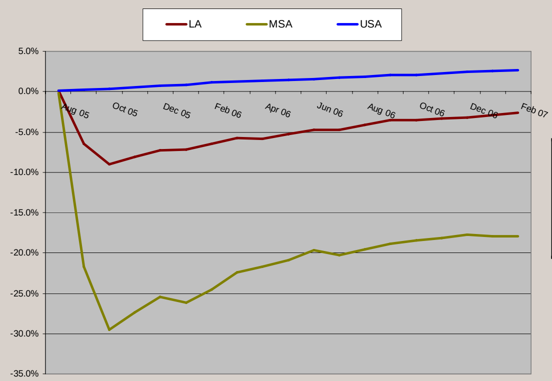


But that's not all—in the four quarters following Katrina and Rita—Louisiana's economy shrunk by $11.5 billion. That's $11.5 billion removed from our economy. That's $11.5 billion in lost wages our workers were counting on to feed their families and pay their bills, $11.5 billion in gross earnings our businesses were banking on—and I mean that literally—as most small business owners have mortgaged everything they own.

And despite job growth in Baton Rouge, Houma and North Louisiana—our state was down a net 127,000 jobs six months after the storm and remains 52,000 jobs below the employment level we had on August 29, 2005. Jobs created through the recovery and job growth elsewhere in Louisiana still have not offset the tremendous losses we suffered in the devastated areas in Southeast and Southwest Louisiana. The New Orleans Metropolitan Statistical Area (MSA) is currently 107,300 jobs below its pre-Katrina level.

Statewide Economic Losses

Unemployment Percent Changes



	LA	MSA*	US
September 05	-6.50%	-22%	0.20%
October 05	-9.00%	-30%	0.30%
February 07	-2.60%	-18%	2.60%

**MSA = Metro New Orleans*

Gross State Product	
LA GSP 4 quarters prior to Katrina (July 2004 thru Jun 2005)	$138.2B
LA GSP 4 quarters post Katrina (July 2005 thru June 2006)	$126.7B
Reduction in GSP	$ 11.5B

LOUISIANA RECOVERY AUTHORITY

safer, stronger, smarter

Besides workers, small business suffered the most. A study by the LRA showed that a ten months after the storm, 54% percent of businesses in St. Bernard Parish, 27% percent of businesses in New Orleans, and 21 percent of businesses in Cameron Parish still had not reopened, and those that had reopened had significantly fewer workers.

So, in President Bush's words, to do "what it takes" to rebuild Louisiana after such devastating losses will require short-term federal investments to shore-up the Road Home program and long-term federal investments as we rebuild critical infrastructure and build stronger and safer neighborhoods and communities. We have been grateful for the generous assistance that Congress has provided and particularly appreciate the work currently being done to secure a waiver of FEMA's state cost-share for Louisiana, and ask that you help us maintain our commitment to assist each and every homeowner who has been determined eligible for a Road Home grant.

Finally, members of the committee should note that Louisiana provided an unprecedented $4.6 billion in state money for recovery items, including critical areas like coastal, education, medical, insurance, business and transportation infrastructure destroyed by the storms. Governor Blanco outlined this commitment in a letter to our delegation last week.

Specifically, state funds obligated for recovery-related needs include:

- $188 Million - First responders and emergency preparation
- $1.9 Billion - Direct assistance to Louisiana citizens, including needs like the LA Citizens Insurance tax credit, repatriation for displaced citizens, the LA Swift bus service, and the state's FEMA match for assistance to individuals
- $813 Million - Accelerated tax credits for affected businesses and debt service assistance for local governments
- $1.2 Billion - Infrastructure construction and restoration
- $83 Million - Education emergency funding and faculty retention and recruitment
- $128 Million - Public assistance, hazard mitigation, and local match for FEMA assistance
- $265 Million - Other assistance

2. Program Implementation Delegated to the States

The LRA recognized that the scope of damages inflicted by Hurricanes Katrina and Rita called for a commensurate federal response. On November 17, 2005, LRA Vice Chair Walter Isaacson testified in support of Rep. Richard Baker's bill to create the Louisiana Recovery Corporation, which would have strong federal authority as well as access to resources from the United States Treasury as necessary to undertake a massive and coordinated effort to rebuild housing, commercial property, and public infrastructure. With the bipartisan endorsements of Governor Blanco and the entire Louisiana delegation and the introduction of companion legislation by Senator Mary Landrieu, the Louisiana Recovery Corporation represented the state's consensus on how to assist homeowners and rebuild communities.

Unfortunately, this legislation was vigorously opposed by the Bush Administration as an unnecessary and duplicative "layer of bureaucracy" and most recovery program implementation efforts devolved to state agencies who have struggled to build capacity overnight as they simultaneously fight the federal red tape that impedes their ability to design and execute effectively.

3. The Scope of Katrina and Rita has Overwhelmed All Agencies

Hurricane Katrina was the most expensive natural disaster in American history. What most Americans don't realize is that Hurricane Rita—which struck Louisiana three and a half weeks later—was the third most expensive natural disaster in our country's history. Katrina created the largest displacement of American citizens since the Dust Bowl of the 1930s.

To put in context the work required of state agencies implementing recovery programs, it is useful to consider the challenges federal agencies faced. Consider that FEMA was still delivering travel trailers to families until late last year — well over a year after displaced families had applied for assistance and the agency had been funded for this activity. Consider that in June 2006, the Small Business Administration (SBA) had a backlog of

150,000 SBA loans—ten months after SBA was funded to implement this "off-the-shelf" disaster assistance program that had been implemented by SBA in Presidentially-declared disasters for decades.

Implementing programs of the size and scope required by recovery from Katrina and Rita demands not only exceptional administrative skill and organizational capability, but also control of your own destiny. As you know from earlier testimony, implementation of the Road Home program has been a struggle from the start—from securing the money to designing a program and hiring a contractor to ramping up grant closings—and it has been a burden for storm victims.

There was no model for a program to rebuild more than 120,000 homes, no play book that the state of Louisiana could request. The federal agencies charged with overseeing these programs had never dealt with disasters of this scale and therefore could be of only limited assistance to the state. On top of that, a complex federal bureaucracy has compounded the problem. As you will hear later, the federal strings attached to CDBG and HMGP funds left state agencies obligated to follow past program precedents that defy common sense, forced to develop regulatory work-arounds that add complexity to what should be simple processes, and mired in red tape that impedes their progress.

The LRA designed the broad policies for the Road Home program, just as we did for the Small Rental Property program which has awarded $202 million in grants to create over 5,000 units of affordable housing, the "Piggyback" program that has awarded over $400 million to develop thousands of affordable housing units in mixed income developments, the small firm loan and grant program that has awarded over 4,000 grants averaging $18,000 each to small business owners, the $28.5 million Higher Education Research and Commercialization program, the $28.5 million Tourism Recovery program, the $38.5 million Workforce Recovery program. Overall, we have made recommendations and designed policies for nearly $11 billion worth of programs.

We took our responsibility for the Road Home program seriously, as we do today, and made the best policy recommendations we could.

The Division of Administration Office of Community Development (OCD) has done its best to implement the program and manage its contract with ICF.

Because of our role in the Road Home program, our board and staff recognize the need to revisit its provisions from time to time to ensure that they are working as intended. Whenever necessary, the board has made changes to benefit homeowners as well as maintain the integrity and intent of the funding - that of rebuilding neighborhoods and communities better than before.

Two examples include allowing mobile homes on leased land to participate and making sure seniors are not penalized if they choose not to move back into homeownership.

Policies dealing with disbursement accounts and the three-year occupancy covenant have also recently been changed. Although both went through a rigorous public input process and were part of the original program approved by our Board, the Governor, and the Legislature last May, they have now been eliminated from the program as a result of recent directives from HUD.

While the Road Home Action Plan was sound, we acknowledge the program has not gone as well as we had hoped and has served to compound the anxiety and frustration that our displaced residents have been going through since the storm. It has become a point of antagonism rather than healing and harmony, and we regret that. We are pleased that closings have now begun to move forward at a much faster pace and we trust they will continue.

As we saw issues with implementation of the program and the provisions of the ICF contract, we have attempted to work with the Division of Administration's Office of Community Development (OCD) and ICF to address those issues and to make it a much smoother and more expedited process on behalf of the homeowners who are anxious to return home.

We have worked closely with OCD and ICF to identify procedures that might be hindering the speed of the program, and OCD should be complimented for being vigilant in this regard. Recent changes that have our strong support include the elimination of the subordination requirement, the elimination of any step that requires us to identify which lending institution holds a mortgage on the property, and the use of affidavits from homeowners to verify such information as insurance proceeds that the federal government requires us to collect. These steps have sped up and will continue to speed up the process.

We understand and accept that when the recovery is not progressing as quickly as it should, people will find fault with the LRA. It is entirely appropriate for people to tell us of their concerns and we provide a public forum to do that at our monthly meetings. Governor Blanco asked us to be her problem solvers, and that is exactly what the LRA staff and board do regularly.

At the Governor's direction, our board has continued to serve as advocates for our homeowners. Walter Leger has led that charge for us as the Chairman of the LRA's Housing Task Force. Most of South Louisiana has heard him each and every Wednesday afternoon on Garland Robinette's radio show troubleshooting Road Home problems for folks that lost their homes in 2005. He has kept this up since February 2006 and we could never thank him enough. He has volunteered countless hours at community meetings, talking with homeowners, meeting with legislators, testifying before Congress – all as a volunteer.

But most importantly, he is a homeowner. Like so many others, he lost his home in St. Bernard Parish and understands what more than 130,000 families have gone through over the last 21 months. He has made it his personal mission to know this program, to monitor its progress and to push for better results.

In fact, at the LRA board meeting just two weeks ago, in addition to addressing the Road Home budget, at Mr. Leger's direction, the board asked the LRA's Chief Financial Officer to research typical penalties and performance incentives offered in contracts similar to ICF's so we can provide this information to OCD for its use in contract renegotiations in July. The board also voted for a Road Home Statement of Principles, developed in conjunction with the Citizens' Road Home Action Team (CHAT) and a faith-based advocacy coalition called The Jeremiah Group. These Principles describe basic goals for what homeowners should be able to expect as they progress through the program. The hope of these groups and our Board is that these Principles lay the groundwork to guide change and improvement.

More still can be done, and we are working with these citizens' and faith-based groups to develop recommendations for additional improvements that can speed up the program. We need help to find out why so many applications are lost, stuck, and not responded to, and improve the systemically troubled customer service that has caused suffering for so many homeowners who are in need of clear information.

One such recommendation from these groups calls for an independent team to conduct an immediate "in-flight" review of the program. The goal would be for a team with expertise in large systems and processes to review the Road Home program and determine if there are process improvements that can be made, that might save money on ICF's contract without increasing errors, and can speed up the program's services to homeowners. Efforts like this can bring the best minds to the table to advise on how to make the program work better and faster, and the LRA believes that's still needed.

We know that you want to see improvements in the Road Home program, and we are committed to that too and will remain vigilant in pushing for improvements until they are made.

Finally, let me address something we hear about quite often—the comparisons between Mississippi's progress and Louisiana's progress and between Mississippi's program and Louisiana's program. I want to be very clear on this. If we had designed an identical program to theirs, we would have chosen to exclude anyone living in a flood zone. That would have meant some of the most deserving homeowners–those who lost their houses due to the failures of federal levees—in Gentilly, Lakeview, the Lower Ninth Ward, St. Bernard Parish and Cameron Parish in Southwest Louisiana would have been excluded and left with nothing.

Nor could our low-income families—of which we have a substantial percentage—afford to wait until a second round of homeowner assistance was developed that provided extra assistance to those families with incomes below 80% of the median as has been done in Mississippi. Although it added another calculation and verification step to our process, additional compensation grants of up to $50,000 for low-income families have been part of our program since its inception.

Nor did we want to force homeowners to forego the opportunity to elevate their homes by forcing them to apply separately to FEMA for an elevation grant under the HMGP program. The Road Home program offers a one-stop shop where a homeowner can apply for compensation for the damage to their house as well as for compensation for meeting FEMA's Advisory Base Flood Elevations. This process adds another option for the homeowner to consider when making his or her decision, but makes it simpler for them to get the assistance they need to elevate and more likely that they will be able to do so since the program is housed under one roof.

But as I stated to earlier, the chief difference between our program and that of our neighbors to the East comes down to one thing. Mississippi's housing program received full funding in December of 2005, while Louisiana waited six more months before our program was fully funded. This being said, Louisiana has still been able to surpass Mississippi in the number of closings by almost 6,000, and Louisiana's program continues to accelerate each day.

4. Choking on Federal Red Tape

As I have noted, Louisiana did in fact receive full funding for the Road Home program in June of 2006. But those funds came down to us in Louisiana wrapped in red tape with strings leading back here to Washington. Mr. Leger presented this story of bureaucratic inertia before Senator Lieberman's field hearing in New Orleans in January of his Committee on Homeland Security and Governmental Affairs and received commitments from the Chairman to explore what options we have for eliminating some of these barriers to our recovery. Madame Chair, you have been leading much of this fight on our behalf for some time now.

One of the most difficult challenges we faced in designing the Road Home program—both the homeowner and small rental programs—has been dealing with certain federal regulations that can hamstring recovery programs. A repair program like the one we envisioned when we first went to Washington would have been subject to time-consuming, expensive, and cumbersome environmental reviews. These environmental reviews may be appropriate for highway construction and other major construction efforts and may even seem manageable when a state or city is doing a few dozen housing rehabs for low income families. However, they are cumbersome, time consuming, and expensive, and therefore inappropriate for repairing and rebuilding tens of thousands of houses which will occupy the same footprint they did before the storms. The state applied for a categorical exemption of the environmental review requirement but was denied. This categorical exemption really should have been granted by Congress when the CDBG grants were originally funded.

Not desiring to subject our citizens to the unnecessary and costly burdens of an environmental review, we reinvented the Road Home program as a "compensation" program, providing compensation grants for damage, additional compensation grants for low income families, and elevation grants for homeowners who will agree to meet FEMA's new advisory base flood elevations. This redesign of our program was unfortunately necessary so the program could be implemented as quickly as possible, but this program design still requires us follow many cumbersome CDBG regulations and has meant that we have had to be creative in order to run a program that meets our goals.

To ensure the highest probability that homeowners would use their compensation grants for rebuilding as Congress clearly intended, state officials signed a Memorandum of Understanding with lenders providing that grant proceeds would be deposited in disbursement accounts for the homeowner to draw down as compliance with the state's covenant with the homeowner was achieved. This policy was clearly reflected in the state's action plan that was approved by HUD, and the procedures being followed were well documented and publicized. Nine months into program implementation, however, HUD declared these disbursement accounts and the state's MOU incompatible with a compensation program and they were eliminated from the program. Although that change has been widely praised by applicants, it has significantly increased the probability that homeowners might accept their grant but leave their properties blighted and has caused local officials, civic association leaders, and neighboring homeowners concern. In fact, the choice should never have been between disbursement accounts or increased blight risk. A simple program that provides the full cash grant up front but requires the homeowner to accept a lien on the house until the repairs are completed would have satisfied most applicants—except for the fact that such a design wasn't possible as it would have added years to the program by requiring environmental reviews of every house.

One of the most significant delays in the Road Home program has come from federal requirements that a homeowner's insurance benefits and the Federal Emergency Management Agency's (FEMA) assistance for structural damage must be deducted from our calculation of a homeowner's grant assistance. The deduction of insurance and FEMA funds designed to prevent a "duplication of benefits" are two examples of deductions and corresponding verifications that we have no choice but to include in our program design, but that are taking significant resources and time in order to complete as the contractor attempts to move as quickly as possible to provide assistance to homeowners.

Another area that should be addressed immediately is the SBA's failure to distinguish the difference between a grant and a loan, and I want to thank the Chair for introducing legislation to fix this problem. Although SBA's loans were every bit as slow in coming to our homeowners in the months after the storms as the Road Home grants, many Louisiana families have now received them and are taking advantage of the SBA's lower interest rates on the capital they need to repair and rebuild. As with any loan, the borrower signs a binding contract to repay the government this money. However, under regulations of the SBA, if a homeowner receives a grant to rebuild, it must use those funds to repay the SBA, placing a homeowner in a situation again of limiting his or her resources to rebuild. Since our grant program provides only a portion of the funds, these SBA loans provide critical additional capital our families need to rebuild.

Even the SBA Administrator has admitted that a subsidized-interest-rate loan is not the same thing as a grant, and that a borrower—regardless of whether he or she receives a grant—has an obligation to repay the loan. Nonetheless, SBA has not adjusted its policy. Homeowners going to closing today are still having their grant amounts reduced to repay this money to the federal government immediately, even though they may need it to complete their repairs and even though they have an ongoing responsibility to the federal government (which has already budgeted for these loans) to repay the note with interest.

Another area where red tape has limited our efficiency and progress relates to our use of Hazard Mitigation Grant Program (HMGP) funds in support of the Road Home housing program as requested by Chairman Powell and described earlier. Although state negotiators objected based on their knowledge that the HMGP program imposed considerable administrative burdens, they ultimately accepted the proposal given that HMGP funds are broadly intended to cover the elevations and buyouts we proposed and based on Chairman Powell's commitment to help state officials streamline the FEMA process. As of today, despite the best efforts of Chairman Powell and his staff to facilitate a solution to this issue, FEMA has been unwilling or unable to approve nearly $1.2 billion of funding that is desperately needed for the Road Home program.

This issue is critical. Again, if it is not resolved immediately, the projected $2.9 billion shortfall becomes a $4.1 billion shortfall. The funds are available for their intended purpose, yet the Road Home program cannot access them.

We explained FEMA's objections to our application—a primary one of which is our decision to provide additional benefits to the elderly—to Chairman Frank at the Financial Services Committee hearing in February. While at the witness table, HUD Deputy Secretary Roy Bernardi and LRA board member Walter Leger agreed on the proposed use of funds while FEMA's representative, David Garrett did not. When Chairman Frank asked Mr. Garrett how we might resolve this matter, he answered that he did not think it could ever be resolved. This is unacceptable. Nothing has changed since February. We are undertaking a rebuilding effort of epic proportion and FEMA has refused to provide any flexibility on this issue despite Chairman Powell's request that the state budget for its elevations and buyouts with HMGP funds.

Much of this headache would be eliminated if Congress directed FEMA to approve our use of HMGP consistent with the HUD-approved Road Home program or if Congress moved the funds to HUD for administration. Considering HUD has already approved our program and our proposed use of funds, this route may avoid a time consuming attempt to amend the Stafford Act. We urge Congress to act quickly on this issue on our behalf, since FEMA has been unwilling to do so.

5. The Constant Haggling Slows the Recovery

It began with FEMA providing Louisiana with 100% coverage of debris removal and emergency services for only 30 days at a time after the storms when a full match waiver was justified and it continues today as state and local government officials fight to get

FEMA Project Worksheets (PW's) properly valued so they have the resources they need to begin construction. For example, the original Project Worksheet for Bootheville-Venice High School in Plaquemines Parish began at $547,000 in March 2006 and after constant attention by local and state officials is now $8 million. There are 20,000 PW's, and almost all of the largest PW's for construction projects have required significant haggling to get them valued appropriately.

The haggling over inequitable appropriations, match waivers, Project Worksheets, deadlines for rental, hotel and trailer assistance, etc. have been ever-present since Katrina and Rita struck. They have characterized the recovery in Louisiana, undermined confidence and slowed progress.

That is why it is so important for state and federal officials to work closely and quickly to resolve the budget cloud hanging over the Road Home program. It has the potential to deal Louisiana another enormous setback on the road to recovery.

Madame Chair and Members of the Committee, we are grateful for your support of Louisiana's request for a waiver of the state match for FEMA programs. If the emergency Supplemental Appropriations bill now before Congress becomes law, the inclusion of the match waiver in this bill could free up an estimated $775 million for Louisiana's recovery. While we had hoped to push the majority of this money to the parishes to help them fund the implementation of their long-term recovery plans, our first priority with these funds must be to address the shortfall in the Road Home program.

This match waiver is justified based on the level of damage we sustained in Louisiana and past precedent. FEMA estimates that their per capita costs in Louisiana from Katrina and Rita will be $6700 per resident—over 60 times the standard at which FEMA's own guidance recommends a 90% federal cost share and over 15 times higher than FEMA's prior record after 9-11. The federal government has waived the match 32 times since 1982—for New York after September 11th, for Florida after Hurricane Andrew, for South Carolina after Hurricane Hugo, and for Hawaii after Hurricane Iniki. If a full match waiver is not justified after a small state is hit with the first and third most expensive disasters in American history, when is it ever justified?

Federal Cost Share - Trends

Disaster		State (s)	FEMA spend per capita	100 % federal cost share?
	Sept. 11	New York	$390	☑
	Hurricane Andrew ('92)	Florida & Louisiana	$139	☑
	Hurricane Iniki ('92)	Hawaii	$234	☑
	Hurricanes Katrina & Rita ('05)	Louisiana	$6,700	

LOUISIANA RECOVERY AUTHORITY

safer, stronger, smarter

National Support

Local and national papers have editorialized in favor of waiving the mat

New Orleans CityBusiness

The New York Times

The Boston Globe

Los Angeles Times

USA Today

The Advocate

The Times-Picayune

The Washington Post

Help for Louisiana

Why a waiver on federal funding rules is needed

Saturday, April 7, 2007

"Progress is being tripped up by thick rolls of red tape. Mr. Bush can clear those obstacles and help turn his far-reaching vision into reality with a stroke of a pen by waiving the 10 percent FEMA match requirement. He should do it now."

LOUISIANA RECOVERY AUTHORITY

safer, stronger, smarter

Please also remember that Louisiana is investing heavily in its own recovery. Governor Blanco recently outlined $4.6 billion in direct recovery investments the State of Louisiana has made or has committed to make since the storms—including in housing, rental assistance, health care and mental health services, insurance, public infrastructure and disaster match payments.

By waiving our FEMA cost share, forgiving Community Disaster Loans, and making the other investments in our recovery that are contained in the Supplemental Appropriations bill, Congress will play a key role in pressing the accelerator on our recovery.

By working with us on a plan to address the Road Home shortfall such that all eligible applicants get their awards, Congress will have honored the sacrifice and perseverance of thousands of Louisiana families.

Thank you for the opportunity to appear before you today. I'd be happy to take any questions that you may have.

The Road Home

BUILDING A SAFER,
STRONGER, SMARTER LOUISIANA

LOUISIANA RECOVERY AUTHORITY

DIVISION OF ADMINISTRATION
LOUISIANA DISASTER RECOVERY UNIT
OFFICE OF COMMUNITY DEVELOPMENT

Addressing the Challenges of Recovery & Rebuilding from Hurricanes Katrina & Rita

Road Home Budget History and Comparisons

May 6, 2007

Overview of Homeowner Assistance Needs

- State made a request to Office of the Federal Coordinator for $14.9B including $9.4B for owner-occupied housing
- Office of the Federal Coordinator and state officials negotiate $7.5B for homeowner program
- State officials developed Road Home program design with program limits to fit available funds
- Recent data from closings has shown the program costs are projected to exceed the available budget

Initial Analysis of CDBG Needs

Objective	**Cost** $ Billions
• **Return people (safely) to their homes**	**9.0**
• **Foundation for economic recovery**	
– Affordable, mixed income rental housing	2.6
– Competitive utility costs	0.5
	3.1
• **Public infrastructure – built to meet new state building codes**	**2.3**
• **Administration and oversight**	**0.5**
	14.9

Note: This slide was presented to the Office of the Federal Coordinator (OFC) during negotiations in January 2006 as part of Louisiana's request for additional CDBG funding.

Initial Estimate for Negotiation of Supplemental Owner-Occupied Housing Program

	Homes	Cost/ Home	Cost Estimate
<u>Uninsured</u> with major/severe <u>flood</u> damage (Includes mitigation for approximately 8000 units)	39k	$131k	$5.1B
<u>Insured</u> with major/severe <u>flood</u> damage (Includes mitigation for approximately 16,000 units)	69k	$41k	$2.8B
<u>Uninsured</u> with major/severe <u>wind</u> damage (damages and mitigation not to exceed home value**)**	6k	$113k	$0.7B
<u>Insured</u> with major/severe <u>wind</u> damage (allowance for mitigation on top of insurance – capped at home value)	13k	$30k	$0.4B
Program Management			$0.4B
TOTAL OWNER-OCCUPIED HOUSING PGM	**128k**	**$70k**	**$9.4B**

Source: FEMA, SBA, NFIP

Summary of Road Home Budgets

Initial State Request[1]	$9.4B
OFC Response	$7.5B

Program Launch Budget[2]	$7.5B
Current Projections[3]	$10.4B

[1]Source: LRA (with support from McKinsey & CO)
[2]Source: LRA, OCD, ICF
[3]Source: ICF, OCD, LRA

Negotiating down to $7.5B

Key differences in negotiations

- No wind damaged properties covered ($-1.1B)
- Lowered the number of flooded homes from 107,000 to 102,000 ($-0.4B)
- Program management costs not included ($-0.4B)
- Elevations and buyouts to be funded with Hazard Mitigation Grant Program Funds

Total difference = $1.9B

Program Constraints to Reduce Budget to $7.5B

- Road Home would not discriminate against wind damaged homeowners that suffered a comparable loss
- Caps applied to manage costs as follows:
    - Total award may not exceed $150,000
    - Compensation grant cannot exceed pre-storm value or the cost to replace the home
    - Elevation grant cannot exceed $30,000; $7500 maximum for other mitigation activities (if funds available)
    - Additional Compensation Grant for Low and Moderate Income families cannot exceed $50,000
    - Buyouts capped at lower of repair costs, pre-storm value or $150,000
- 30% penalty applied to award of uninsured applicants
- 40% penalty applied to those moving out of state to encourage resources going to rebuild LA (does not apply to elderly or military with permanent Change of Assignment orders)

Road Home Program – Who is Eligible?

- **Homes that received “major” or “severe” damage due to the hurricanes. According to FEMA definitions:**
  - **“Major” is 1 ft flood, 601 sq ft of roof damage with associated floor and wall damage, or major structural damage**
  - **“Severe” is a home that requires a rebuild**
- **Homes must have been owner occupied at the time of the hurricanes**
- **Mobile home and condominium owners are included as owner occupants**
- **Louisiana assumed it would serve 95% of the 122,592 owner-occupied homes that FEMA inspections had determined to have “major” or “severe” damages**

  Note: based on analysis of the updated November FEMA inspections data, the number of “major” or “severe” damage was further revised down to 120,560 in Dec 2006.

Road Home Budget Based on $7.5B

The Launch Budget was designed around 4 programs to give homeowners realistic options:

Program	Number	Average	Total
Repair	55142	$42,839	$2,362,249,416
Rebuild	46886	$82,815	$3,882,904,303
Relocate	6252	$65,190	$407,536,629
Sell	6252	$37,064	$231,709,652
TOTAL	114532	$60,109	$6,884,400,000
Program Mgt			$615,600,000
			$7,500,000,000

Launch Budget vs. Current Projection

Launch Budget

	Number Served	Compensation	Elevation	IMM	ACL	TOTAL
Average	114532	$34,556	$8,341	$5,005	$12,207	$60,109
Total	114532	$3,957,769,633	$955,286,430	$573,200,888	$1,398,143,049	**$6,884,400,000**

Ave awards significantly higher

Current Projection

	Number Served	Compensation	Elevation	IMM	ACL	TOTAL
Average	132215	$48,225	$13,045	$0	$12,903	$74,173
Total	132215	$6,376,030,052	$1,724,688,052	$0	$1,706,026,923	**$9,806,745,027**
Shortfall	-17683	-$2,418,260,419	-$769,401,621	$573,200,888	-$307,883,874	**-$2,922,345,027**

Serving an additional 17.7k

ESTIMATED DEFICIT

Launch Budget vs. Current Projection

	Initial Assumption	Current Reality
Number Served	114,532[1]	132,215[2]
Average Award	$60,109	$74,173
Percent of homes with ‘severe’ damage	52%	72%
Cost to repair / pre-storm value	54%	54%
Cost to rebuild / pre-storm value	135%	170%
Current Ave Award for Repair Option	$42,839	$56,366
Current Ave Award for Rebuild Option	$82,815	$90,473
Insured Homeowner Coverage[3]	76%	61%

[1] 95% of the “major” & “severe” damaged homes. Based on ICF analysis of updated FEMA data from November of 2006 indicating 120,560 “major” and “severe” damaged homes.
[2] ICF, OCD and LRA mid-range projection; could be as high as 159k or as low as 105k
[3] For those with insurance, the estimated percent of loss covered by their insurance where loss is measured as percent damage times pre-storm value.

Major issues driving cost differences

- **MORE PEOPLE:** Projections indicate we will serve an additional 17,700 homeowners at an estimated cost of $1.3B (based on projected average award of $74k)
- **MORE DAMAGE:** Damage levels are higher than anticipated with more totaled properties than FEMA inspections indicated – estimated increased cost is $0.8B without considering the additional 17,700.
- **HIGHER COSTS:** Repair and rebuild costs are higher than anticipated – estimated cost increase is $1.1B even using the original FEMA numbers for “major” and “severe” damage.
- **LESS INSURANCE:** Insurance payments are providing less assistance per homeowner than anticipated – estimated additional cost to the program is $1.1B.

Current Road Home Stats – May 4, 2007

- 133,419 applications have been recorded
  - Not all applicants will be found eligible
  - On May 3rd alone, program received 739 applications
- 60,843 award letters have been mailed
- 15,043 homeowners have closed on their grants
  - 398 homeowners closed on May 3rd
- Average for current awards is $73,997. (Based on 31,488 award letters that have been returned. Grant amounts are dependent on a homeowner's choice.)
- Estimated overall average of $74,173. (Based on regression analysis comparing applicants who have accepted offers to date to overall applicant universe.)

Conclusions

- Predicting the number of eligible applicants, their behavior, and the eventual rebuilding costs without valid damage estimates and home valuations in advance is virtually impossible, but reasonable estimates were made with the information at hand.
- Based on the current reality, even optimistic projections indicate that there will be a budget shortfall.
- Any solution that does not involve an increase in the overall budget will hurt Louisianans and the rebuilding effort.