

**PRELIMINARY PLAN FOR THE UTILIZATION OF CDBG FUNDS IN RESPONSE TO HURRICANES
GUSTAV AND IKE
Presented to the LRA BOARD OF DIRECTORS
October 15, 2008**

The *Fiscal Year 2009 Continuing Resolution, HR2638, 2008*, allocated \$6.5 billion to States for disaster recovery for disasters that occurred within 2008. The U. S. Department of Housing and Urban Development (HUD) was designated by Congress as the administering agency. The HUD administers the federal Community Development Block Grant (CDBG) program and has until November 30, 2008 to announce how it will allocate at least one-third of the \$6.5 billion pool in CDBG funds approved by the Congress in September for recovery in states affected by Gustav and Ike. Despite not having its allocation yet, the state is moving forward to develop its plans, vet these plans publicly and seek necessary approvals.

Impact of Hurricanes Gustav and Ike on the State of Louisiana

Hurricane Gustav caused major wind and flood damage throughout the state, from the southern coastal parishes through central and north Louisiana. Two weeks later Hurricane Ike hit sending tidal surges across the state's southern coastal communities. Ike exceeded storm surge caused by hurricanes Rita and Katrina. Even homes built to the Federal Emergency Management Agencies Advisory Base Flood Elevations flooded as a result of this storm. Approximately 150,000 to 300,000 homes experienced some level of damage in the storm; more than 12,000 homes were flooded. Preliminary estimates show that approximately \$2 to 7 billion in residential property loss was incurred. The state also estimates more than \$1 billion in public infrastructure damage. The state has spent more than \$400 million in emergency response and immediate recovery activities.

Forty-three of the state's 64 parishes were heavily impacted by Gustav and included in the President's disaster declaration. Fourteen of these parishes were impacted again by Ike just two weeks later causing further damage. The storms caused tremendous damage, which, in turn, left communities without electricity and many houses with moderate to severe damage. Nearly one million Louisiana workers were forced to evacuate for hurricanes Gustav and Ike. Many of these residents were unable to return to their homes and jobs for a number of days and a large number of residents whose homes remain unlivable continue to need short-term shelter and longer-term transitional housing.

According to preliminary estimates from Louisiana Economic Development, businesses experienced approximately \$2.5 to 5 billion in economic losses from Gustav. Approximately 97,000 businesses experienced at least some business interruption. The oil & gas industry could lose up to \$5 billion alone, while it is estimated that agricultural losses could reach up to \$750 million. The state must have resources to provide low-cost financing and technical assistance to businesses in order to jumpstart its economic recovery. Additionally, employers need their workforce back in their communities. The state was already experiencing a workforce crisis following the impacts of the 2005 storms. A provision of temporary affordable housing is critical for the state's employers to get back to commerce and speed the recovery.

A large percentage of the state's educational facilities received damage from the storm. Preliminary estimates indicate that there was at least \$100 to 150 million in damages to the primary (including pre-K and secondary education facilities). While most of these repairs will be covered through FEMA's public assistance program, certain repairs or necessary rebuilds may be deemed ineligible through FEMA's program.

The Louisiana Recovery Authority, working closely with the Office of Community Development Disaster Recovery Unit, has developed the following preliminary action plan to lay out the intended programs to assist parishes to rebuild damaged housing and public infrastructure with respect to pending federal resources. The LRA is currently in the process of determining final damage estimates by category,. While this is being developed we have developed a slate of programs to assist parishes to recover from these two storms . These programs are outlined below.

Overview of Proposed Programs

These funds will be used for eligible disaster related activities supporting housing rehabilitation, mitigation, economic revitalization, hurricane protection and infrastructure repair and improvements at the requests of the local governments to assist the State of Louisiana. Following the guidance of the Disaster Supplemental, ten percent of the state's total allocation will be used to repair, rehabilitate and construct multi-family units meeting certain eligibility criteria.

Project Area

Based on the presidential declaration for the disaster, 43 of the state's 64 parishes were heavily impacted by Gustav and Ike and eligible for the FEMA Individual Assistance program. These parishes may be eligible to receive funds under the state's recovery programs.

Method of Allocation

The state intends to allocate CDBG funds directly to the impacted parishes based on housing and infrastructure damages. Parishes will be allowed to select from a defined menu of options to be used for housing rehabilitation, public infrastructure repairs, economic revitalization activities and mitigation activities. The state will work in partnership with the parishes to provide technical assistance and capacity building in the deployment of resources to the parishes to ensure successful rebuilding occurs in these communities.

While exact allocations are not yet available, funds received from HUD will be allocated by the LRA to parishes based on a formula that includes housing and infrastructure damages by each parish. The 'Parish Need Ratio' weights residential damage twice as much as public infrastructure damage and divides this figure by the estimated population. This method has been used with success in the state's previous disaster CDBG allocations, as it ranks parishes and allocates funds based on actual damage. The state will amend its Action Plan with these allocations when HUD makes its funding announcement.

Programs

Housing

Initial damage models based on flood and wind damage vary widely, but have a midpoint between \$3 and 4 billion dollars. Half of this damage may be uninsured losses due to uninsured and underinsured properties. With losses of housing stock concentrated in certain communities, Louisiana could have up to \$1.5 billion in uncompensated housing losses. Of this, the state will need to design programs in concert with local communities to rebuild and make up this loss. The state will develop the following Housing Recovery Programs to assist homeowners, renters and communities to recover. According to the 2008 disaster supplemental bill, 10 percent of the state's overall allocation must be used on rental programs.

Homeowners Program

This program is designed to provide additional incentive and resources for individual homeowners to repair or rebuild their damaged property for the purposes of retaining community value and avoiding blight. These programs will include elevation and mitigation incentive to assist homeowners in building back safer, smarter, stronger. Programs can include incentives for green building and energy efficiency.

Housing Relocation Program

Parishes have the option of establishing a buy-out fund for homeowners and rental properties located in dangerous areas prone to flooding for the purposes of allowing residents to relocate to safer areas. This fund will be used to purchase damaged or destroyed homes from homeowners. Buyouts must be voluntary and compensation will be determined by the parish based on a formula that accounts for insurance proceeds and FEMA payments for real property. The parish fund can also be utilized by the parish for clearance of properties and maintenance and liability costs until the alternate use is established.

Additional Compensation

This program will provide resources for homeowners who are not eligible for SBA, make less than 80% of the median family income and have damages that exceed their incentive program award, parishes may establish grant or loan pools (at the discretion of the parish, these may be no or low interest loans or forgivable loans provided program requirements are met).

Workforce Rental Housing

Approximately 31.5% of Louisiana's housing stock is rental properties. Since Katrina and Rita, the state has suffered a severe shortage of housing, especially affordable housing. There is a need for both a rehabilitation program as a gap for uninsured losses for damaged rental property and a true incentive program as payment for landlords to provide mid- to long- term affordability for renters. The state will develop a 'piggyback' program to some other type of assistance similar to a USDA program. It will also be possible to attach funds to the next round of per capita credits to take care of longer-term needs in the impacted communities. The state seeks to build two programs to support affordable rental development.

Homelessness Prevention

Many households, especially rental households, that evacuated or whose homes were damaged by the storms were near the edge of sustainability prior to the storms. The state will put resources towards these households most at risk of homelessness for rent/utility payments, deposits and arrears, moving and storage expenses, and emergency hotel housing, as necessary towards households most at risk of homelessness.

Community Economic Revitalization and Blight Reduction

The state will set aside resources to assist parishes to prevent properties in recovering areas from becoming blighted and assist in community economic revitalization projects to prevent overall blight in neighborhoods and increase economic opportunity.

Infrastructure

Much of the state's public infrastructure and facilities were severely damaged in the storms. Damage estimates reach more than \$1 billion for both storms. While still preliminary, estimates show that a large percentage of the state's K-12 schools received damage from the storm. Preliminary estimates indicate that there was at least \$100-150 million in damages to these facilities from both storms. The state's higher education facilities estimate at least \$33 million in damages to the physical facilities of the State's higher education system. While these estimates are preliminary, they are comprehensive for all campuses in higher education, inclusive of the community and technical college campuses, the University of Louisiana campuses, Southern University's campuses and all of Louisiana State University's campuses. The state's other public facilities are estimated to have damage in excess of \$100 million.

While the majority of public infrastructure repairs will be covered by FEMA programs, it is known from experience with the 2005 storms that there certain costs of repair including improvements or rebuilding will be deemed ineligible for FEMA funding.

The state will develop a fund to cover the full repair of key infrastructure and public facilities, excluding the match of FEMA Public Assistance funding, which state and local governments are prohibited from paying using CDBG dollars by language included in the Supplemental Act. A similar fund was developed for the 2005 storms which made possible full rebuilding of schools and other facilities rather than replacement to pre-storm conditions. This program provides additional funding for infrastructure projects that either:

- Repair or rebuild damages from hurricanes Gustav or Ike; or
- Harden existing structures or infrastructure to prevent damage from future disasters, including but not limited to projects related to drainage, coastal restoration or protective barriers.

This program will operate under the same rules as the existing infrastructure programs developed in response to hurricanes Katrina and Rita, particularly the Long Term Community Recovery Program. Steps will be taken to ensure that no CDBG funds are used to provide the match for FEMA Public Assistance, as required in the appropriations language.

Hurricane Protection

Emergency repair and flood protection efforts include air-dropped sand bags by U.S. Army Chinook helicopters in Plaquemines, Lafourche, Terrebonne parishes and other areas of the state. Up to one million gallons per minute pumping capacity was required to remove water from coastal communities following the hurricanes. The National Guard, U.S. Army Corps of Engineers, state agencies, parishes, levee districts and others were involved in emergency efforts and dewatering of communities in more than ten parishes. While the hurricane protection system in the greater New Orleans area did not fail, numerous vulnerabilities were exposed. An investment in a consistent protection standard for other areas of coastal Louisiana and the restoration of the coastal lands and wetlands eroding as a result of Mississippi River and Atchafalaya River levee construction would have prevented all flooding in these communities and improve this nation's energy security.

Recognition of the strong relationship between coastal land loss and hurricane vulnerability must be acknowledged. Louisiana lost 217 square miles of land as a result of Hurricanes Katrina and Rita and countless more from damages associated with hurricanes Gustav and Ike. Storm surge levels in many of our coastal communities during Hurricane Ike – a Category 2 storm – were the highest ever recorded. The loss of Louisiana's coastal lands and wetlands as a result of the federal governments' construction of levees requires mitigation. Congress has approved the construction of more than a dozen restoration projects. Congress and the Administration recognized the importance of providing updated protection for the greater New Orleans area. However, disparate protection standards remain in coastal Louisiana and little has been done to mitigate from the land loss associated with river levees.

The state may set aside funds for the development of programs to create non-federal hurricane protection and coastal restoration activities.

Economic Recovery and Revitalization

Widespread physical damage, power outages, and/or short-term population displacement across the vast majority of parishes in Louisiana during Hurricane Gustav severely impacted Louisiana's overall economy and many individual businesses. Based on preliminary estimates, Gustav's economic impact totals \$7 to 15 billion, including \$4.5 to 10 billion in total property damage and \$2.5 to 5 billion in lost economic activity. Hurricane Gustav caused at least some temporary revenue losses for roughly 97,000 employers in Louisiana (~80 percent of total), with particularly acute impacts on many small businesses that are still struggling to recover from hurricanes Katrina and Rita.

For the state to recover from these hurricanes and the events of 2005, new opportunities must be developed to provide for the losses in hurricanes Gustav and Ike and increase economic activity around key economic sectors.

The state will develop programs aimed at rapidly providing funds for operating expenses and commercial rehabilitation to small businesses with time-critical cash flow issues resulting from Hurricane Gustav and Ike as well as provide catalytic resources to small and medium sized businesses to support economic recovery. Funds may be used for economic revitalization activities within communities to grow local economies. Additionally, the state will develop an employee retention tax credit, similar to the credit provided after hurricanes Katrina and Rita, which would provide employers that were significantly impacted by hurricane Gustav & Ike with a tax credit based on their payroll expenses while their businesses were inoperable. The program would allow impacted employers to claim a credit of forty percent of qualified wages during the period of significant business operations disruption.

These programs together will ensure that these small businesses, the backbone of the state's economy, can recover quickly and continue to generate economic wealth and new jobs for residents of the state.

Agriculture

It is estimated that Louisiana experienced more than \$630 million in revenue loss in the aftermath of the 2008 storms. Additionally another \$10 million in infrastructure received significant damage in the storms.

To address the impacts of Gustav and Ike on the state's agricultural communities, it is imperative that funds be made available for an agriculture and forestry business recovery program to would operate statewide. This program would assist agricultural and forestry producers, including the support businesses critical to the operations of the industries and rebuild critical infrastructure such as the warehouses and grain elevators which provide liquidity and stability to primary producers while crops are growing and were severely damaged by the storms. Additionally, there is a need to support the export side of the industries through investment in facilities that are key to moving products throughout the nation and overseas.

Funds for agriculture recovery could be administered by the state's Agriculture Commissioner.

Fisheries

Based on the 2007 Summary of Agriculture and Natural Resources by the LSU AgCenter and NMFS Revenue Data, the seafood industries experienced nearly \$250 million in revenue loss as a result of the two storms. Previous estimates of infrastructure losses due solely to Hurricane Gustav were placed from \$63 to \$ 89 million with an average of \$76 million. While information is insufficient at this time to estimate the additional impact to infrastructure from Hurricane Ike, total infrastructure damage will undoubtedly increase.

In response, the state will establish programs to assist these businesses to recover. Programs will include business supports for fishers, suppliers, producers and other support businesses critical to the operations of the industry as well as resources to rebuild critical infrastructure.

Funds for agriculture recovery could be administered by the state's Department of Wildlife and Fisheries.

Technical Assistance and Planning Capacity

Parishes will require technical assistance and planning capacity in order to successfully execute the programs above. Parishes can apply for grants to provide additional capacity in the following areas:

- construction management services to grant recipients
- additional planning capacity including resource mapping, environmental engineering assessments, relocation planning, professional development, GIS resources and/or zoning planning and expertise
- additional building code and compliance inspectors