Recommendations for use of CDBG funds

Congressman Richard Baker
January 13, 2006

Introduction

As a senior member of the U.S. House Financial Services Committee, which has jurisdiction over HUD programs, including the Community Development Block Grant program, I appreciate the opportunity to offer some thoughts about the state's recent allocation of a potential $6.2 billion in CDBG funding. I do so, however, with an understanding that, in relation to the monumental housing needs of our citizens brought about by the destruction of Hurricanes Katrina and Rita, even the commitment of the entirety of the CDBG funds would be drastically insufficient to use effectively for direct assistance to every owner of a damaged or destroyed home. For example, providing an average of $150,000 in direct payments to cover "merely" the 77,000 homes destroyed outside the floodplain would cost more than $11.5 billion – and clearly, any payments to the owners of the other 140,000 destroyed homes inside the floodplain would bring the total cost substantially higher. Thus, to use its limited funds for this purpose, the state would find itself in the unenviable position of deciding between two options, both inadvisable: either providing direct payments to every homeowner, but at a level doubtfully enough to allow for total rebuilding, or selecting only certain homeowners, through some unknown fair criteria, to receive a sufficient level of direct payment.

It is in this context that I believe my proposed Louisiana Recovery Corporation (LRC) is essential for securing funding sufficient not only for a fair solution to the problem of destroyed property but for the purpose of a comprehensive rebuilding effort. However, with more work ahead to secure passage of the LRC bill, it is essential that the state craft policies irrespective of the outcome and timing of its enactment, which is why I suggest *utilizing the largest portion of the CDBG funds to begin addressing the housing crisis*. But the flexibility granted under the CDBG program means that we should also proceed with the *overriding intent of leveraging these limited resources to maximize investments* to address other critical needs, which is why my recommendations fall into the three categories of *economic development*, *housing*, and *infrastructure and essential services*. And we must recognize that to truly recover, if the impacted portions of the state are to bring back jobs, they must also offer homes for workers to live in as well as the safety and efficiency of ordered communities, and that a successful recovery strategy must tackle all three challenges simultaneously because none can be successful without the others.

Finally, I offer these recommendations as suggestions only, to share with the LRA's Board and with my fellow members of the Congressional delegation and members of the state legislature, with whom I trust the Board will consult closely to forge a sound, consensus plan to allow for full CDBG funding approval by HUD.

Economic Development

While I would devote a relatively smaller portion of resources to Economic Development compared to Housing, this area offers the greatest opportunity for leveraging funds and creating incentives to lure significant investment to the state. As one example, the recently enacted GO Zone tax bill allotted a new $1 billion in New Markets Tax Credits (NMTC) for Louisiana and three other states. Out of previous allotments nationwide, approximately $3.5 billion NMTC remain unused, and in coming months there will come the awarding of another $3.5 billion, for a total of $8 billion in NMTC in search of a place to invest. Louisiana's goal should be to become the top destination nationwide for the deployment of these investments. Administered through the state Department of Economic Development, the state could take advantage of this and other opportunities by using CDBG funds to:

1) Increase the NMTC provided by the state (La. R.S. 47:6016) from 11% to 39%, matching the federal credit level, applied to both equity investment, which typically assists small business, and debt investment, which typically applies to community development and increased supply of housing. Such action could provide nearly $4.00 in private sector investment to low-income communities in the state for each $1.00 of the CDBG grant directed to the program.
2) Increase the $100 million level of the state's bridge loan program toward the creation of a state guaranteed loan pool program, utilizing local banks to efficiently fulfill the loans according to standardized criteria and controls. Each bank would maintain originated loans on its own balance sheet, but the group could work together to consider off-balance sheet vehicles for long-term funding of loans issued under this program. Funded at a $400 million level with a potential to recover up to $200 million based on loan performance over time, the program could result in approximately $1 billion of new loans to small businesses in the affected communities.
3) To provide $100 million in small business grants. Grants could be targeted as incentive for financial institutions to further invest in Louisiana companies, by awarding the grants in the form of 10 cents for every private dollar invested, and/or provide incentives targeted to a variety of factors, such as location of proposed investment, commitment to rebuild in devastated areas, or preservation of long-established local businesses.
4) To make fully attractive and effective the SBA's GO Loan program by providing up to $250 million to cover the cost of the 1.7 percent customer fee and subsidization of rates. Such an investment would leverage at least $1 billion in federal funds for Louisiana businesses. Additional recommendation: Push for SBA to lift the loan limit from $150,000 to $2 million, eliminate required usage of redundant forms, and allow all Louisiana banks to participate.

<u>Total: $1 billion</u>

Housing

Working through the Louisiana Housing Finance Agency and its existing Mortgage Revenue Bond Program, CDBG resources could be deployed to:

1) Raise the existing down-payment assistance program from 4 percent to 10 percent, and make use of the GO Zone Act elimination of the restriction on eligibility only for first-time homebuyers but instead for all storm-displaced residents.
2) Capitalize on the GO Zone Act's emergency expanded allocation of Low-Income Housing Tax Credits to spur creation of more rental apartment projects.
3) Target direct assistance to homeowners based on need and ability to repair damaged homes, and offer gap-financing opportunities to assist rebuilding of destroyed homes.

<u>Total: $3 billion</u>

Infrastructure and Essential Services

Use CDBG funds as a match to maximize federal dollars toward restoration of infrastructure and essential services. Where possible, avoid duplication of funds to projects covered by the Hazard Mitigation Grant Program.

<u>Total: $2 billion</u>