



# The Road Home

BUILDING A SAFER,  
STRONGER, SMARTER LOUISIANA



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
	<u>3.1</u>
• Public infrastructure – built to meet new state building codes	2.3
• Administration and oversight	0.5
	<b>14.9</b>

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



## Summary of Road Home Budgets



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Initial State Request <sup>1</sup>	\$9.4B
OFC Response	\$7.5B

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Program Launch Budget <sup>2</sup>	\$7.5B
Current Projections <sup>3</sup>	\$9.8B

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<sup>1</sup>Source: LRA (with support from McKinsey & CO)

<sup>2</sup>Source: LRA, OCD, ICF

<sup>3</sup>Source: ICF, OCD, LRA

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## Program Constraints to Reduce Budget to \$7.5B



- 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 (waived for elderly and certain military)

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## 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.

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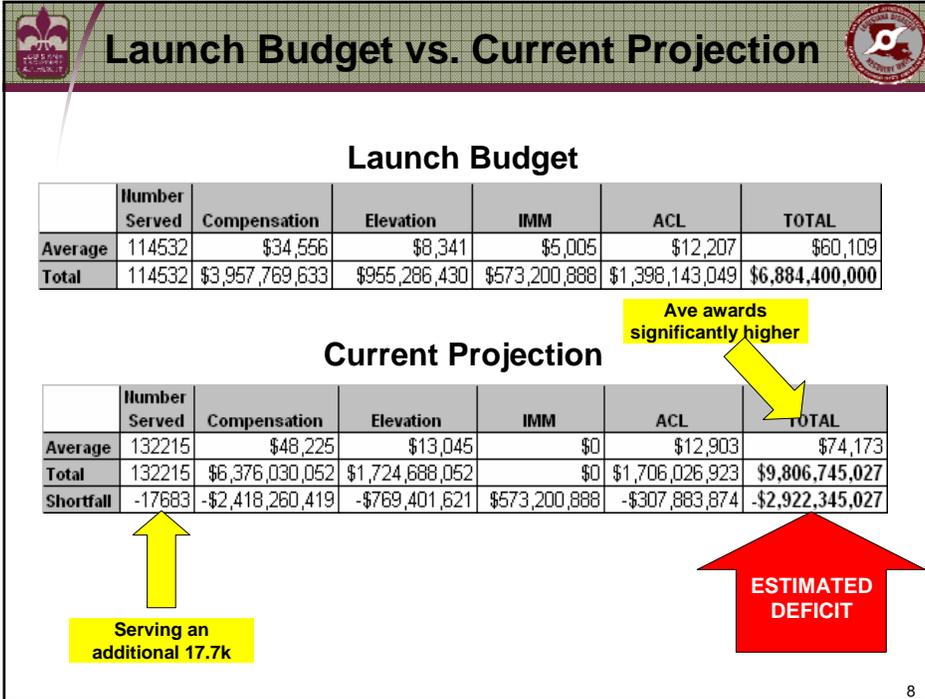
## Road Home Budget Based on \$7.5B



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
<b>TOTAL</b>	<b>114532</b>	<b>\$60,109</b>	<b>\$6,884,400,000</b>
Program Mgt			\$615,600,000
			<b>\$7,500,000,000</b>

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## Launch Budget vs. Current Projection

	Initial Assumption	Current Reality
Number Served	114,532 <sup>1</sup>	132,215 <sup>2</sup>
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 <sup>3</sup>	76%	61%

<sup>1</sup>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.  
<sup>2</sup>ICF, OCD and LRA mid-range projection; could be as high as 159k or as low as 105k  
<sup>3</sup>For those with insurance, the estimated percent of loss covered by their insurance where loss is measured as percent damage times pre-storm value.

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## 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**.

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## Current Road Home Stats – May 4, 2007



- 133,419 applications have been recorded
  - Not all applicants will be found eligible
  - On May 3<sup>rd</sup> 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 3<sup>rd</sup>
- 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.)

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## 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.