EMERGENCY CDBG FUNDS IN THE GULF COAST: USES, CHALLENGES, AND LESSONS FOR THE FUTURE

HEARING

BEFORE THE

SUBCOMMITTEE ON
HOUSING AND COMMUNITY OPPORTUNITY

OF THE

COMMITTEE ON FINANCIAL SERVICES

U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

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EMERGENCY CDBG FUNDS IN THE GULF COAST: USES, CHALLENGES, AND LESSONS FOR THE FUTURE

Thursday, May 08, 2008

U.S. House of Representatives,
Subcommittee on Housing and
Community Opportunity,
Committee on Financial Services,
Washington, D.C.

The subcommittee met, pursuant to notice, at 12:30 p.m., in room 2128, Rayburn House Office Building, Hon. Maxine Waters [chairwoman of the subcommittee] presiding.

Members present: Representatives Waters, Cleaver, Green; Capito and Bachus.

Chairwoman Waters. This hearing of the Subcommittee on Housing and Community Opportunity will come to order.

Before we go any further, I would like to thank you all for the long wait. Unfortunately, we were on the Floor finishing up legislation from last night—very important legislation—that will send about $15 billion to our cities and our counties to stabilize neighborhoods, to be used to buy up foreclosed property causing so much devastation in so many parts of our country; housing that has been vandalized, copper being stripped out, the weeds growing up and causing the value of other homes where people are trying to remain in those neighborhoods to go down. So we have been struggling with trying to come up with a package of legislation, and this is kind of the first of the direct aid to the cities and the counties and the States.

We will have some more on the Floor today, but we had to finish it and we had to wrestle with friends from the opposite side of the aisle on a few of the issues. So, I know you have waited for a long time. I appreciate it and we will get started, even though the other members have not arrived. We won't wait for them. I want to get started so that we can allow you to be released and go about your business.

As a national advocate for the Gulf Coast, I was quick to push for emergency appropriations to help the States affected by Hurricanes Katrina, Rita, and Wilma to recover from the devastation caused by those storms. The 2005 hurricanes were the deadliest and most expensive storms on record. Over one million housing units were damaged along the Gulf Coast as a result of the hurricanes in 2005. But half of the damaged units in Louisiana, which bore the brunt of Hurricane Katrina—total catastrophic losses from

Hurricane Katrina were estimated at $40.6 billion with uninsured losses much higher.

Although the Federal Government has provided $123 billion for hurricane relief, $19.7 billion of this amount was provided through the Community Development Block Grant, or CDBG, program. Congress has historically appropriated supplemental CDBG funds to respond to natural disasters such as hurricanes, earthquakes, and tornados.

In addition, CDBG funds supported recovery efforts in New York City following the terrorist attacks of September 11, 2001, in Oklahoma City following the bombing of the Alfred Murrah Building in 1995, and in the City and County of Los Angeles following the riots of 1992. However, the severity of the damage inflicted by the 2005 hurricanes and the slow responses of some of the States to get these funds out of the door has put the program into question.

I have several concerns about how the CDBG programs have been administered and implemented. First, I'm concerned about how States in the Gulf Coast has used CDBG funds to replace or repair damaged rental properties. Many of the programs implemented to-date focus heavily on assistance to homeowners. While I agree that homeowners who have felt the impact of these storms should receive compensation, I do not agree that these funds should be used to help homeowners solely, at the expense of renters.

Furthermore, in areas where States have tried to rebuild rental housing, I am alarmed by the reaction of some communities to having this much-needed housing resource in their communities. I am eager to hear from our witnesses about the extent to which the "Not in my Backyard" (NIMBY) effect is hampering their ability to provide affordable rental housing through the CDBG funds.

Second, adherence to fair housing laws and the requirement that States affirmatively further fair housing is of vital importance. We will hear a lot about CDBG waivers today and there may be some discussion about what Congress's intent was in allowing HUD to grant waivers of some CDBG program requirements; however, there can be no doubt that Congress never intended for HUD to waive fair housing laws. Although no State has requested such a waiver, and HUD is prohibited from issuing such a waiver, I remain concerned about how some of the programs being implemented are affirmatively furthering fair housing.

Given the focus of these programs on owner-occupied housing, and the fact that most rental housing is occupied by people of color, I have questions about whether or not these programs do affirmatively further fair housing.

Third, I am concerned about complaints that States have been slow in getting the money out and in constructing or repairing housing. I am interested to know what is causing these delays, such as the environmental review process or NIMBYism, and what we can do to make sure that almost 3 years after Katrina, we are giving the States the tools that they need to make sure they are getting funds out the door quickly and efficiently.

Fourth, as I mentioned earlier, I am concerned about HUD's process for providing waivers, including waivers as a requirement that at least 50 percent of grant funds benefit low- and moderate-income households. So far, HUD has granted four such waivers.

Although I must commend the Department for repeatedly denying Mississippi's request to receive a blanket waiver of the low- to moderate-income requirement in its entirety, I am concerned that as a result of these waivers, some of the State CDBG programs are not as targeted to low-income families as they should be. After all, the CDBG program is at its root a program designed to help alleviate poverty.

Finally, I am concerned about the diversion of CDBG housing funds for other purposes. The State of Mississippi has made headlines for its plans to divert $600 million from its Phase I Homeowner Grant Assistance Program to the restoration and expansion of the Port of Gulfport. Frankly, I am not convinced that the State has met all of its unmet housing needs. I am very interested in hearing from my witnesses from Mississippi on this issue.

On another note, I am also interested in hearing the views of these witnesses on the difficulty of Mississippi homeowners who have received Phase I assistance and are encountering problems in obtaining flood assistance.

I am looking forward to hearing from our two panels of witnesses on the uses and challenges of CDBG funds in the Gulf Coast, and I would now like to recognize my ranking member, but my ranking member has not come in yet, so we are going to proceed with Mr. Green, who is here for his opening statement.

Mr. Green?

Mr. GREEN. Thank you, Madam Chairwoman. And thank you for your leadership. Having gone to Louisiana with you 2 times, I am well aware of what you have done in the Gulf Coast area, and I know that you have been there on occasions when I did not have the privilege of being with you. I am also very much aware that when you were there, you took the time to listen to many of the residents and acquire intelligence as to what their concerns are, and I see this as a continuation of the leadership that you have shown. Again, I thank you very much for what you have done to help the people of Louisiana.

I have several reasons for saying this. One is that as a Member of Congress representing the 9th Congressional District in Houston, Texas, many of the persons who were survivors of Katrina have moved into my District into Houston, Texas, and they still have needs that have to be met. Aside from that, I was born in New Orleans, Louisiana, in Cherokee Hospital, which does not exist currently.

Hopefully, that circumstance won't always be the case. So I have many reasons for being concerned and I am honored to be apart of this hearing. I do have another hearing that is taking place as I am speaking to you now. I try not to miss any hearings, so I have a whole security hearing and I will be moving back and forth between the two. But before I make an exit, I do want to talk about what the chairwoman has mentioned—this notion of taking the funds to be used for people who were victims of the hurricane and using these funds with the Port.

That does cause me a great deal of consternation, especially when we have persons who are still in need. And I am looking for empirical evidence of what I say, but I am told there are persons who are still in need, and it would cause me even greater consternation to know that when people needed this money, it went to the Port. I believe ports ought to be supported, and I would work to help the Port, but I would not want to divert money from needy people to the Port when the Port has its own means by which it can receive the proper attention that it merits.

I think that they can both merit a certain amount of attention, the people, as well as the Port, but I don't want to put the Port above the people. I want the people to have what is due to them, and I want to assist with the Port, so I am anxious to hear from witnesses who will hopefully give us some additional intelligence on what actually occurred. Madam Chairwoman, I thank you for the time, and I yield back.

Chairwoman WATERS. Thank you, Mr. Green. I know that you and other members are between committees, so I appreciate your giving us some time here.

I am going to move right into introducing our witnesses: Mr. Stanley Gimont, Acting Director, Block Grant Programs, U.S. Department of Housing and Urban Development; Mr. Bill Johnson, director of the Alabama Department of Economic and Community Affairs; Ms. Gail Stafford, administrator of Community Development Block Grant Funds, Florida Department of Community Affairs; Mr. David Bowman, director of research and special projects at the Louisiana Recovery Authority; Mr. Jack Norris, director, Governor's Office of Recovery and Renewal, State of Mississippi; and Mr. William Dally, deputy executive director, Texas Department of Housing and Community Affairs.

I thank all of you for appearing before the subcommittee today, and without objection, your written statements will be made a part of the record.

You will now be recognized for a 5-minute summary in the order that I have introduced you.

Thank you very much. We will start with you, Mr. Gimont.

STATEMENT OF STANLEY GIMONT, ACTING DIRECTOR, OFFICE OF BLOCK GRANT ASSISTANCE, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. GIMONT. Thank you.

On behalf of Deputy Secretary Roy Bernardi, thank you, Chairwoman Waters, for the invitation to appear before the subcommittee today.

I am Stanley Gimont, Acting Director of the Office of Block Grant Assistance at HUD, and I appreciate the opportunity to discuss disaster recovery through the Community Development Block Grant Program.

Three supplemental appropriations providing $19.7 billion in CDBG funding for the Gulf Coast disaster recovery purposes have been enacted since Hurricane Katrina made landfall on August 29, 2005. These funds have been granted to the States of Alabama, Florida, Louisiana, Mississippi, and Texas. The first supplemental provided $11.5 billion in CDBG disaster recovery funding and was signed into law on December 30, 2005. The Department promptly allocated these funds based on the areas of highest need, and with the greatest concentration of destruction.

In June 2006, the second supplemental provided an additional $5.2 billion, while the third supplemental was signed in November of 2007 and appropriated $3 billion to close the funding gap. The States have proposed to dedicate $13.8 million to various housing programs; this allocation represents 70 percent of the amounts appropriated.

In the 28 months since the first supplemental appropriation, the States have expended over $9.2 billion in CDBG funds for recovery activities with $8.2 billion of this amount disbursed for housing assistance activities. Thus, approximately 90 percent of all funds expended to-date have been for housing activities. The first two supplemental appropriations were clear in their intent and extraordinary in the flexibility they conferred on the States.

Traditionally, such supplemental funding requires substantial oversight by the Department on program issues, but Congress clearly intended that HUD should not dictate uses of funds or the amounts to be set aside for each activity unless otherwise specified by Congress. The first supplemental stated that HUD must waive all regulations or statutes which could hinder implementation of the States' plans. Only four areas were exempt from this mandate: fair housing; environmental review; civil rights; and labor standards.

The second supplemental bill modified the direction on waivers to state that HUD may approve waivers. As Congress intended, the eligible States have had substantial flexibility in designing their programs, establishing funding levels, and carrying out activities to achieve their goals within the overall purposes of the legislation. This approach has allowed each State to tailor its recovery programs to best address the needs of its citizens. HUD's primary role has been to provide technical assistance on Federal program requirements and to monitor the State's use of funds.

HUD has implemented the grants with waivers and alternative requirements that balance flexibility, accountability, and performance. Quarterly performance reports are submitted not only to HUD but also to Congress, and they must post them on the Internet. The largest activities in CDBG history, the Louisiana and Mississippi Homeowner Compensation Programs, have had collectively more than 45 compliance or financial monitoring reviews from HUD, its Office of Inspector General, State auditors, internal auditors, independent auditors, and multiple anti-fraud investigators. So far, the news is encouraging as documented non-compliance appears to total less than one percent of funds expended to date, while fraud and abuse has been minimized thanks to the collective effort of Federal, State, and local officials.

The mutual goal of HUD and the States has been to assist victims of the storms and to act efficiently to get funding into the hands of those who deserve it as quickly as possible. A continuous improvement process regularly evaluates obstacles and seeks both long- and short-term solutions. The States have the authority and the ability to revise funding levels in response to changes in need and opportunity. While not everyone agrees with every program choice, HUD has found overall compliance with program and financial rules to be very good.

Again, I appreciate the opportunity to appear before the subcommittee today, and I look forward to your questions.

Thank you.

[The prepared statement of Mr. Gimont can be found on page 83 of the appendix.]

Chairwoman WATERS. Thank you very much, Mr. Gimont.

Now, we will hear from Mr. Johnson.

STATEMENT OF BILL JOHNSON, DIRECTOR, ALABAMA DEPARTMENT OF ECONOMIC AND COMMUNITY AFFAIRS

Mr. JOHNSON. Thank you, Chairwoman Waters, and members of the committee.

I appreciate the opportunity to come before you today. I am Bill Johnson, the director for the Alabama Department of Economic and Community Affairs. We are a main State grant-making managing agency in the State of Alabama and oversee the supplemental Katrina CDBG funds, plus the regular block grant programs not going to entitlement communities.

Before I get into what I am going to say, I would like to give you a little background on me that is not in my brief bio. Actually, unfortunately or fortunately, I have a lot of experience with hurricanes. My family was living in New Orleans on Laurel Street when Hurricane Betsy hit in 1965. I was 6 years old; and, as you can imagine, that is something that has a big impression on a young child.

My dad, who was in the military at the time, was in Vietnam. When he came back, we were then stationed at Kiessler Air Force Base in Biloxi, and we were living there when Hurricane Camille hit. Then I was a student at Spring Hill College in Mobile, Alabama, in 1979 when Hurricane Frederick hit. So, I was trying to do my part for awhile by committing never to live on the Gulf Coast again and I moved my family to Prattville, Alabama, where we just had a tornado within a quarter mile of our house.

So, I say that because I want the folks here and I want the folks in Alabama to know that I really do have compassion for the suffering and the devastation that these kinds of natural disasters can bring. And I have done everything with my office to try to accelerate the distribution of aid or to try to be creative where we could with the strings that the Federal Government has attached with the funding that we have to help folks.

A little bit of a background on what we did after Katrina in anticipation of some help from the Federal Government with the disaster assistance; we partnered early on with FEMA who has a long-term recovery program. I thought it was such a great program that we actually housed their personnel at our agency and we set up a series of long-term recovery planning meetings with all the communities in Mobile County, which is our primary affected county.

Over a series of about 4 months, we had planning meetings. We had meetings with engineers and each community formulated a long-term recovery plan and a lot of what we were trying to do with that planning was basically lower expectations, really drilled down to what is it that was damaged, what do you hope to do, what can you build better? But keep it where it was within a reason for what they could expect help-wise.

That process culminated in nine public hearings in the Mobile County area. Each entity that participated had their public hearing. We invited public input. At the end of that, within a week of the end of that, we had the announcement that help was going to be available. This planning, this prior planning, even without knowing funds for sure were coming, helped us accelerate our program to the point that when we knew funds were available, we had an application workshop, and an application deadline 6 weeks after that.

We basically awarded all our funds for Katrina, the Katrina supplemental funds in the first round, by mid-June of 2006. Now I know that there are other States testifying here, and we had some challenges. I mean, we had a little bit of a different scenario in that our main city and county were entitlement areas who had been managing their own CBDG programs for decades and so we weren't going to step in and say, "Oh, the State knows better." So we distributed the funds out to the local areas, and they have been the primary ones on housing.

I see I have about a minute left, and I would like to leave you all with this: In every disaster that I have experienced, I have seen the tremendous outpouring of support from the faith- and community-based organizations. They have been the primary redevelopment team in our area and I would say that as a recommendation for what we could do with block grant funds, if we could somehow support what the faith-based organizations are doing and rebuilding efforts, then that would go a long way towards applying a lot more resources that we have and also more efficiently use some limited resources from the Federal Government.

[The prepared statement of Mr. Johnson can be found on page 138 of the appendix.]

Chairwoman WATERS. Thank you. Thank you very much.

Ms. Stafford?

STATEMENT OF GAIL D. STAFFORD, ADMINISTRATOR, COMMUNITY DEVELOPMENT BLOCK GRANT FUNDS, FLORIDA DEPARTMENT OF COMMUNITY AFFAIRS

Ms. STAFFORD. Good afternoon. Thank you, Madam Chairwoman, for allowing the State of Florida to be represented.

My name is Gail Stafford and I am administrator of the Florida Small Cities CDBG Disaster Recovery Programs. Although our Agency head, Secretary Thomas Pelham, could not be here this morning, Florida CDBG's Disaster Program's success is due largely to the support of State government and local government input. The Secretary's office and the Director of the Division of Housing Community Development, which oversees the CDBG State program, have been directly involved in all the disaster recovery efforts.

Likewise, local governments are at the table when CDBG recovery plans are developed. Local governments, as well as 16 public housing authorities, were the recipients of Florida's CDBG Supplemental Disaster Recovery funding. In 2004, the State of Florida was battered by Tropical Storm Bonnie, as well as Hurricanes Charley, Frances, Jeanne, and Ivan. All 67 counties were impacted within a 2-month period, including the Gulf counties.

Homes and infrastructure were damaged. Mobile home owners, especially those living in homes manufactured before 1994, suffered the most devastation; 55,670 pieces of plastic sheeting, along with 481,513 tarps were immediately necessary, and thousands lost their homes completely. Governor Jeb Bush immediately appointed a hurricane housing work group. The housing data provided by the work group indicated that 708,361 housing units were actually destroyed and at least 10 hospitals sustained damage.

Schools, nursing homes, and government buildings across the State were damaged. Other infrastructure damage was also very significant. A portion of the U.S. Interstate Highway 10 bridge collapsed, and numerous streets and roadways were damaged and destroyed. Our water and sewer systems failed and utility systems, both publicly and privately owned, were also damaged.

At that time, the State targeted about $250 million in general revenue funds to address housing needs. However, those funds alone were not sufficient. Thankfully, Congress allocated just over $100 million in supplemental CDBG funds for disaster recovery efforts. Those funds were used for both housing and infrastructure recovery. Since infrastructure damage does directly affect people, we also made sure that infrastructure was a part of that process. Local governments determined the priority needs to be addressed in their community and then during 2005, we were hit by four more hurricanes in the State.

In July, Hurricane Dennis struck the Panhandle, which was still recovering from the devastation that was caused by Ivan less than a year before. In August, Katrina hit just north of Miami, causing tornados and wind damage in Southeast Florida. In September, Rita passed just south of the Florida Keys, causing flooding damage and storm surge on that chain of islands.

In October, Wilma struck the Southern peninsula of Florida, causing major damage in southwest Florida, the Florida Keys, and heavily populated counties in Southeast Florida. Hurricane Wilma caused the largest disruption in electrical service ever experienced in Florida, with as much as 98 percent of South Florida without power after landfall. By the end of the 2005 hurricane season, 39 of the 67 counties had been declared a Federal disaster area. Housing-related damages from Hurricanes Katrina and Wilma were estimated at $1.5 billion, with more than 4,710 units impacted.

More than 40,000 roofs were temporarily repaired during the storm by the Army Corps of Engineers from their Blue Roof Program, and more than 625,000 Floridians registered for FEMA assistance. Due to the quick action by Congress, Florida received $82.9 million in CDBG disaster recovery funds. Our State required that grant recipients utilize 70 percent of the funding for restoration of affordable housing. The remaining 30 percent would be used to address damage, infrastructure, or provide assistance for displaced, economically-impacted businesses.

The State's allocation methodology was based on FEMA housing damage estimates and targeted funding to the hardest hit areas. The scoring mechanism took four indicators. The first was the percentage of housing units damaged in each county that was based on FEMA inspections. The second was a percentage of the State's total of destroyed units in each county, also again taken from FEMA data, a percentage of counties' damaged units attributed to households with incomes up to $30,000 to measure the level of low-income need, and we also used the percentage of the State's total of temporary units that were placed in each county.

A supplemental CDBG disaster recovery allocation of $100 million to address Katrina and Wilma damage was received in 2006. Because Wilma damage was not sufficiently addressed with these funds, we targeted Wilma recovery with this money. The Wilma alone impacted about $275,437 units, HUD-subsidized rental units that were hit by the disaster. Of the 17,804 HUD-subsidized units in Wilma counties: 2 development units reported damage with relocations; 67 households were temporarily relocated; and 134 developments reported damage. Of the public housing units in the area, 4,974 units were damaged and remain uninhabitable.

Chairwoman WATERS. I'm sorry. Your 5 minutes have passed. I am going to have to move on.

[The prepared statement of Ms. Stafford can be found on page 250 of the appendix.]

Chairwoman WATERS. Next, Mr. David Bowman, director of research and special projects, Louisiana Recovery Authority.

STATEMENT OF DAVID J. BOWMAN, DIRECTOR, RESEARCH AND SPECIAL PROJECTS, LOUISIANA RECOVERY AUTHORITY

Mr. BOWMAN. Chairwoman Waters, Ranking Member Capito, and members of the subcommittee, thank you for inviting me to testify today on behalf of the State of Louisiana.

My name is David Bowman of the Louisiana Recovery Authority. Our executive director, Paul Rainwater, deeply regrets that he was unable to attend today. On behalf of the citizens of Louisiana, I thank this committee, the U.S. Congress, and each American taxpayer for the generous support to our State following the unprecedented disasters caused by Hurricanes Katrina and Rita.

These hurricanes were two of the most costly storms in U.S. history and they hit Louisiana just 26 days apart. Our State has suffered immensely in terms of lost lives, livelihoods, and personal assets. The State of Louisiana is grateful for the $13.4 billion in Community Development Block Grant funds in which $11.6 billion, over 87 percent, has been dedicated directly to repairing and replacing the massive loss to our housing stock.

We are making strides with these Federal funds, but even with these resources, a number of practical challenges remain to the rebuilding efforts. These include increased cost of labor materials, increased cost of utilities and insurance, and a decrease in available infrastructure and services. These challenges impact the single family housing market as well as the rental market and drive individual decisions every day regarding their ability to return home.

In addition, the sheer magnitude and concentrate of losses dictates that this will be a long-term rebuilding process. The Louisiana Recovery Authority is dedicated to the recovery of our most devastated areas through the effective use of Federal and State resources in a manner that provides accountability and transparency. As such, we welcome the opportunity to answer your questions.

Your first question on how many units were destroyed as a result of Hurricane Katrina: The State of Louisiana had over 204,000 housing units with major, severe damage, and over 106,000 of these were classified as severe or destroyed. Approximately 60 percent of those were owner-occupied; 204,000 homes amounts to approximately 1 in every 8 homes in the State. I ask you to contemplate the scale of that number for a moment.

Due to the levee failures, New Orleans Parish alone had more damage than the four Gulf States combined. In neighboring St. Bernard Parish, three out of every four houses had major or severe damage.

Current unmet housing needs: Assessing the true demand for housing in the wake of this unprecedented disaster is nearly impossible. We still have tens of thousands of citizens displaced throughout the country, engaging their intent or ability to return home as a guest at best. The LHFA recently commissioned a housing needs assessment, which is currently available on their Web site. The study indicates the need for 120,000 to 160,000 affordable rental and purchase properties throughout the State.

When you consider the estimated number still displaced—there were 20,000 still residing in FEMA trailers and receiving rental assistance—the 34,000 in HUD's DHAP program, an estimated 12,000 homeless residing in New Orleans, these seem like conservative numbers.

Number two is to describe the State's plan for rebuilding and repair of lost or damaged housing units. The State's plan for rebuilding and repairing lost or damaged units comes primarily through the use of CDBG and the utilization of Gulf Opportunity Tax Zone credits in addition to traditional programs to create market incentives. These are spelled out in our action plans to HUD.

How will this plan address all the State's unmet housing needs? The short answer is that while these programs will have a dramatic on the housing market, they will not address all of the needs. The combination of a supply shortage and increased cost of inputs have driven rent prices up considerably higher than pre-Katrina.

Many workers, particularly those supporting the service sector, will continue having a difficult time finding affordable rent for the foreseeable future. With the State's recovery programs, we expect to construct approximately 33,000 units, in addition to an additional 7,500 units across the State through GO Zone and HOME programs. Compare this to the 82,000 rental units that were destroyed by the storms.

In what ways does the State ensure that its housing plans affirmatively further fair housing? Louisiana prides itself on the design of its programs in these terms. The Affordable Compensation Grant portion of the homeowner program provides additional funding for low- and moderate-income persons to meet the cost due to damage. The rental program is a model of best practices, including the creation of mixed income units and permanent supportive housing. On this note, we critically need your support for a current request of 3,000 permanent supportive housing vouchers. Without these supports, we will have invested in these units, but we will be unable to connect our most vulnerable population to these resources.

What difficulties has the State encountered in meeting the CDBG program's low- and moderate-income requirements?

Mr. GREEN. [presiding] You may take an additional 30 seconds to wrap up, please.

Mr. BOWMAN. Louisiana will meet its requirements for low- and moderate-income; we do not consider these an owner's requirement. We consider them necessary to rebuilding our State. Within my written comments, you also have some additional challenges we faced including meeting environmental requirements, implication of benefit, and complications with the process of actually getting the CDBG money on the street. Specific recommendations are within the written testimony.

[The prepared statement of Mr. Bowman can be found on page 64 of the appendix.]

Mr. GREEN. Thank you.

We will now hear from Mr. Norris, the director of the Governor's Office of Recovery and Renewal for the State of Mississippi.

STATEMENT OF JACK NORRIS, EXECUTIVE DIRECTOR, GOVERNOR'S OFFICE OF RECOVERY AND RENEWAL, STATE OF MISSISSIPPI

Mr. NORRIS. Thank you. Madam Chairwoman, Congressman Green, and other members of the subcommittee, thank you for the opportunity to testify before you today.

We have a recovery story in Mississippi that we are very proud of, but we still face a number of challenges and we have a long road ahead of us. And there are some issues that we would like to request your assistance on to remove some barriers to help us deploy some affordable housing.

Our State and our citizens bore the brunt of a hurricane more devastating than anything this Nation has ever seen before. The hurricane completely devastated our entire coastline. On November 1, 2005, Governor Barbour submitted a comprehensive recovery plan to Congress. This request included items to facilitate housing, community, and economic recovery. Congress graciously provided Mississippi with the necessary resources to fulfill all three objectives.

The State of Mississippi is pursuing a balanced, long-term recovery. This is evident in the distribution of the $5.4 billion in CDBG funds: $3.8 billion, over 70 percent, will directly and indirectly go towards housing recovery. Another $1.45 billion will go towards the community and economic recovery. Using CDBG moneys, Mississippi created the first of their kind of programs to rebuild the lost housing stock. We are proud to say that through Governor Barbour's housing program, more affordable housing will be developed and rehabilitated than existed pre-Katrina in coastal Mississippi.

For example, 61,386 housing units suffered major damage or were destroyed. The State will facilitate the rebuilding of over 58,000 affordable housing units. This is in addition to the thousands of units that will be rebuilt using private insurance proceeds.

Private insurance payments in the lower six counties alone totaled more than $8.7 billion.

To give you an example, using CDBG moneys, the State will rebuild more than double the number of public housing units that existed pre-Katrina; 2,361 public housing units existed pre-Katrina, and we will build-back 4,781. To date, approximately $1.5 billion in direct compensation has been paid to over 20,000 homeowners through the Homeowners Assistance Program.

The State projects that by program close-out, roughly $2 billion in grants will be disbursed to about 25,000 homeowners. To ensure we are meeting our full, housing recovery mission, Mississippi has commissioned an independent, third-party housing assessment study, which will analyze any unmet needs that our housing programs are not meeting.

We have the resources available to us, so that if any unmet needs are identified, we can tailor those policies to meet that unmet need. We are not just assuming that our projects are correct; we are going to confirm them through a third-party independent study. We were disappointed with the pace of affordable housing deployment, however, this is primarily due to the environmental requirements in disbursing CDBG dollars. With this hurdle removed or streamlined, housing would come on-line at a rapid pace.

The environmental review required for each applicant's site entails the coordination of more than eight Federal agencies approving nine different categories, making this process extremely time- and labor-intensive. Depending on the site, reviews take up to 3 months to complete. Multiply this process by thousands of units and the time and expense multiply exponentially.

For example, in our Round I Rental Assistance Grant Program, 3,372 units are ready to go pending completion of site and environmental reviews. We expect that these environmental reviews which began in January of 2008 could take up to 11 months from beginning to end to complete. There were currently 4,667 coastal Mississippians living in FEMA travel trailers who could move into these units.

Mississippi is requesting relief from these cumbersome regulations for housing specific projects, while HUD has been a great partner, providing technical expertise to expedite funding. The Agency lacks the administrative authority to waive or streamline the environmental process. Mississippi respectfully suggests that Congress take steps to streamline or waive certain environmental requirements for this disaster and future CDBG emergency appropriations.

Environmental regulations are the number one impediment to the deployment of affordable housing in Mississippi. We are extremely grateful for the continued support of our friends and neighbors and for the resources that Congress has entrusted to us. We humbly ask for your continued assistance and support as we move forward.

Thank you.

[The prepared statement of Mr. Norris can be found on page 218 of the appendix.]

Mr. GREEN. Thank you, sir.

And we will now hear from Mr. William Dally; I trust that I am pronouncing that correctly?

Mr. DALLY. That is quite correct.

Mr. GREEN. Thank you, sir. You are the deputy executive director for the Texas Department of Housing and Community Affairs?

Mr. DALLY. That is correct.

Mr. GREEN. Thank you.

STATEMENT OF WILLIAM C. DALLY, DEPUTY EXECUTIVE DIRECTOR, TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS (TDHCA)

Mr. DALLY. Thank you for inviting us today.

TDHCA is the lead agency in Texas responsible for Hurricane Rita recovery. Thank you for inviting us to update you on our progress to-date.

On September 25, 2005, Hurricane Rita devastated Southeast Texas: 113 people lost their lives; 40,000 uninsured or underinsured homes were damaged or destroyed; and the region's electrical grid was down for weeks. Infrastructure throughout the region was left in ruin.

Texas has received today a total of $503 million in Community Development Block Grant funds, far less than was needed for a full recovery, which has meant that we have had to make some very tough choices.

Texas was able to draw down on its first allocation of CDBG funds from HUD in June 2006, 9 months after the storm. Given the very limited funds and the uncertainty that we would receive additional dollars, we worked closely with elected local officials, community leaders, and advocates for low-income Texas faith-based organizations.

Texas has endeavored to use every dollar to actually rebuild or restore the region's housing infrastructure and tax base. To rebuild and repair housing, TDHCA has partnered with three Council's of Government known as COGs. These local organizations are responsible for the distribution of $40.3 million in housing funds on the first round of funding. The balance is going to infrastructure in that same region.

To date, the COGs have built, repaired, and replaced more than 150 homes in Southeast Texas. The process to rebuild and repair another 350 homes is well underway. All homes using the first round of CDBG funds should be completed by the end of this year. In all instances, the intended beneficiaries of these funds are the lowest-income Texans, those well below 80 percent area median family income.

We have also given priority to seniors, persons with disabilities, and other vulnerable populations. This process has taken time to get up and running because of the complexities of the CDBG program. There are extensive environmental requirements, historic preservation clearances, duplication of benefit requirements, and other issues, all of which slow the process down.

There is also the reality that many of the poor lack critical eligibility documentation and often require intensive casework. And that is where our faith-based community has really stepped up, and in the interim, been the ones who have gone out and done outreach and brought people in for applications and made them aware of our benefits long before the State had our program set up.

Again, our overriding desire in Texas is to rebuild homes and communities for those most vulnerable citizens. In April 2007, just a little over a year ago, Texas received permission to draw from HUD the second allocation of $428 million. After much public discussion again with local officials, community groups, and faith-based organizations, Texas chose to continue on a path of assisting individuals and communities by focusing on actual housing and infrastructure construction and assigning priorities to our most vulnerable, low-income citizens.

The largest amount of the $428 million is reserved for housing; $222 million for owner-occupied assistance. There is another $81 million that is being used for the rehabilitation and reconstruction of more than 800 multi-family rental units that were destroyed by Hurricane Rita.

TDHCA has contracted with a team of professionals to assist with the rebuilding of single family homes in Southeast Texas. This team is qualifying eligible homeowners but the hard work of building and repairing homes or replacing a manufactured home is being left to qualified home builders and contractors. TDHCA and our contractors, however, will take the lead and ensuring that Texans receiving benefits from these programs get a safe and decent quality home.

So owner-occupied construction from the second round of funds will commence early this fall. It is important to note that with the $222 million we expect to help only 3,500 homeowners, out of again 40,000 low-income Texans who had significant repair and building needs. On a final note, we also know that starting over in a new community is difficult. That is why the State of Texas dedicated $60 million of the $428 million in Round 2 to the City of Houston in Harris County to assist and provide services for evacuees from Hurricane Katrina.

We believe that we have turned the corner from the planning stage and are now fully into the building and reconstruction in the region. We welcome the committee exploring the role and capacity of the CDBG program when a major disaster strikes. In Texas, we believe that we have done some things very well. You will find strong accountability and controls intended to prevent fraud, waste, and abuse, and you will also find that our program is actually building homes and repairing infrastructure for whom the program was intended. We are doing all of this in compliance with the Nation's Fair Housing laws.

Still, Texas believes that the process could have been significantly streamlined. If the award of CDBG funds had come in one lump sum rather than two, we would have enjoyed more efficiencies and saved a tremendous amount of money and time. If the funds had been available to the State sooner, we would have had less costly rehabs. Instead, after all this time, and with the rain that has occurred, we are now in the process of doing full rebuilds.

Finally, had HUD and the State had more flexibility to account for duplication of benefits and some environmental factors, we would be spending far more time building homes than going through the qualification and eligibility process.

[The prepared statement of Mr. Dally can be found on page 72 of the appendix.]

Mr. GREEN. I would like to thank the witnesses for their testimony, and I would like to begin with Mr. Johnson with some questions, if I may.

Mr. Johnson, sir, you have indicated that you have lived in a number of places that were impacted by hurricanes. Is that correct?

Mr. JOHNSON. That is true.

Mr. GREEN. You are not moving to the Washington, D.C., area, are you?

Mr. JOHNSON. No, sir. I am really trying to avoid that.

Mr. GREEN. All right, sir, thank you.

Let's move now to Mr. Norris with the Governor's Recovery Office, State of Mississippi.

Mr. Norris, sir, the economic development plans that you have with reference to CDBG, you are supposed to, and my assumption is that you have, received input from the public. Is this true?

Mr. NORRIS. Yes, we have.

Mr. GREEN. More specifically, as it relates to the $600 million that we have been discussing from Phase I, did you have input from the public on that $600 million and how it was to be used?

Mr. NORRIS. Through the CDBG program, there is a statutory public comment period, and we did receive comments and public input through that process. Yes, sir.

Mr. GREEN. What process was that? How did you receive the public comments, please?

Mr. NORRIS. We followed HUD's regulatory requirements for public comment periods.

Mr. GREEN. Well, did you hold hearings? Did you solicit comments by way of e-mail? How did you actually receive the comments?

Mr. NORRIS. Congressman Green, I will have to get back with you on those details. But we did follow HUD's normal CDBG public comment period process.

Mr. GREEN. My belief is that you are saying this because you understand that the process is to be followed, but that you did not have a hands-on experience with it. Is this correct?

Mr. NORRIS. I personally did not have a hands-on experience with it.

Mr. GREEN. So your knowledge of it would be based upon hearsay from some source, but because you know that the people you work with are capable, competent, and qualified, your assumption is that they have followed the rules.

Mr. NORRIS. Yes, sir. That is correct.

Mr. GREEN. Let's move on. I am interested in knowing more about this. And if you can provide the information, I would greatly appreciate it, because the public comments are exceedingly important in the CDBG process. Let's talk for just a moment about if we made now the three national objectives, one of which must be met for CDBG funds to be used. Would this request with the Port, will this principally benefit low-income people?

Mr. NORRIS. Congressman, we expect to meet the low- to moderate-income requirement on the Port redevelopment project. We did not specifically ask for a waiver of that requirement on the

Port. The jobs that would be created as a result and returned to the Port of Gulfport through its rebuilding efforts will be presented to low- and moderate-income individuals.

Mr. GREEN. My intelligence indicates that, well, I'll go through the entirety of the three: principally benefit low- and moderate-income persons—principally benefit low- and moderate-income persons is the first; and, while my suspicion is that some low- and moderate-income persons may benefit, I am not entirely convinced right now that they will be the principal beneficiaries.

Is it your contention that they will be the principal beneficiaries?

Mr. NORRIS. Congressman, it's an issue of overall recovery of the Mississippi Gulf Coast. We have, basically, I'll borrow an analogy from my predecessor. The philosophy that we approach this recovery from is a balanced, comprehensive recovery. It is basically three legs of a stool that we have to completely and fully address: housing needs; economic recovery needs; and community recovery needs. And, through our programs, we expect the Port redevelopment is a crucial part of the economic recovery of the Mississippi Gulf Coast.

Mr. GREEN. And I want to make sure that we help Mississippi recover, but if you have need for port money, and if we can get that money to you through some other means and let the CDBG money go to people who need CDBG money, that might be an equally beneficial way for us to approach this. I am concerned about the requirement that it principally benefit low- and moderate-income persons. I believe some will benefit, but I have not heard enough evidence from you to give me reason to believe that low- and moderate-income persons will principally benefit. That is my concern.

Let's move to the next requirement: that it will aid in eliminating or preventing slums or blight. Is this going to eliminate or prevent slums or blight?

Mr. NORRIS. Congressman, it is my understanding that the project would have to meet one of the national objectives of the city.

Mr. GREEN. Exactly, and I am trying to give you the benefit of all three. So this one would not be one of the three, then.

Mr. NORRIS. I would say of the overall philosophy of our recovery, we actually borrow a philosophy from President Kennedy: "A rising tide lifts all boats." If we fully recover the Port, it will help for the overall recovery of the economy of the Mississippi Gulf Coast, therefore providing good, quality paying jobs to all individuals on the coast, including low- to moderate-income individuals.

Mr. GREEN. I understand. Let me just suggest this to you; and, I completely agree that a rising tide does lift all boats if you have a boat. Unfortunately, we have many persons who are boatless. But let's move to the third now. The third requirement is that you meet an urgent community development need because existing conditions pose a serious and immediate threat to the public.

Was there a serious and immediate threat to the public?

Mr. NORRIS. I would say that the immediate need was that our Port employment numbers are down 30 percent. Those are AFL–CIO longshoreman who are currently unemployed, that we have an opportunity through the investment of these funds to provide jobs back to those individuals, sir.

Mr. GREEN. Well, under this theory, all CDBG moneys should go to some entity that will provide jobs, because my suspicion is in just about every State, there is a need to create job opportunities. But CDBG, generally speaking, is supposed to help with the revitalization, housing rehabilitation, and economic development activities.

But, it seems that the intent was to help in areas where you have people who will immediately benefit as opposed to indirectly benefit. Because, indirectly, I benefit from what is happening at the port, but I am many times removed. And the question becomes, will this $600 million benefit the people whom it was intended to benefit? Low- and moderate-income persons?

Will it prevent slums or blight or will it deal with an immediate, serious threat to the public?

$600 million of CDBG, you see. You have your friend from Texas seated right next to you, and he is asking for more CDBG money as well. Let me just move to him quickly. Sir, are you building a port with this money in Texas?

Mr. DALLY. No; we are not. We did not receive enough in funds to even consider a port project.

Mr. GREEN. I see.

Mr. NORRIS. Congressman?

Mr. GREEN. Yes, sir?

Mr. NORRIS. I would say that there is a clear misconception that Mississippi is taking money and investing it into the Port at the expense of housing. That is simply not the case.

Mr. GREEN. Well, before you go on, I am going to give you a chance to respond. But, in your response, do this, if you would. Move to another level and take it from just within the purview of Mississippi to Texas, to Louisiana, to other States that need CDBG dollars and ask yourself, am I preventing other States that may need this money from getting it as opposed to just Mississippi? You see, we here are perched such that we see all 50 States as opposed to just one State. If you would?

Mr. NORRIS. Yes, sir. I would again reiterate that this is an amount of money that the Governor submitted a plan to Congress on November 1st of 2005 for a comprehensive recovery plan to the appropriations, House and Senate leadership, and this is the amount of money that Congress basically looked at the recovery plan that was needed for Mississippi holistic recovery; and Congress provided us the necessary resources.

We were building back more affordable housing units than existed pre-Katrina. We were directly giving homeowner's grants for $1.5 billion to over $25,000 individuals and we are overcompensating for housing recovery if you look at the pure numbers of damaged units and the numbers that we are subsidizing to be rebuilt. We were fully meeting our housing recovery.

Mr. GREEN. I understand. And for purposes of this discussion, let's assume that everything that you have indicated about what you are doing in terms of reconstruction is correct for our purposes. Then the question becomes, do you really need the $600 million for Mississippi for the port or can we take that money and send it over to maybe Texas or Louisiana to help with some other housing projects as opposed to port projects?

Mr. NORRIS. Congressman, I would respectfully say to you that we cannot address the overall economic and overall Katrina recovery efforts of the Mississippi Gulf Coast without addressing one of its crucial economic engines. So I would say it is direly necessary that Mississippi had these resources to invest in the rebuilding of the port.

Mr. GREEN. All right. Let's go again to Mr. Dally. Is that correct, sir?

Mr. DALLY. That's correct.

Mr. GREEN. Mr. Dally, you indicated that Texas is in need of some CDBG funds. Would you tell me quickly please, before I yield to another member who has arrived, about the Texas need, if you can summarize that need, and in doing so, tell me about the economic development activities in the Texas need, if there are such needs.

Mr. DALLY. We do not have any in the way of economic development in our particular program, because as we went out to the local officials in Southeast Texas, it was clear that with the amount of money that we had that what we needed to do was to rebuild housing and get those people back up where they could remain in their communities and be part of that tax base and part of that community.

Mr. GREEN. Let me move on. Let's go now to Florida, the representative from Florida.

Do you have economic development dollars in your program?

Ms. STAFFORD. Yes, we do. We just have a very small portion. The majority of our funds are going for infrastructure and housing-related activities.

Mr. GREEN. When you say a small portion, quickly, what percentage would you say?

Ms. STAFFORD. This is a rough guesstimate. I would say less than 20 percent.

Mr. GREEN. And will you be constructing or rehabilitating a port?

Ms. STAFFORD. No. No, our economic development funds actually go to assist businesses that have been impacted and to create jobs. So we are not rebuilding any ports or anything like that.

Mr. GREEN. And are these businesses near areas where we have low-income persons residing?

Ms. STAFFORD. Yes, they are. Yes, and actually one of the requirements under our economic development funds is that they actually, 50 percent of the jobs that they create, are for low- to moderate-income persons in the community.

Mr. GREEN. Let's move to Louisiana, please.

Do you have within your plan an economic development component?

Mr. BOWMAN. Yes, sir. We have about 2 percent.

Mr. GREEN. Two percent?

Mr. BOWMAN. Two percent.

Mr. GREEN. And what type of businesses will you impact, please?

Mr. BOWMAN. Primarily small businesses in the impact area. We have a small business grant and loan program.

Mr. GREEN. And in the impact area, do you have low-income persons?

Mr. BOWMAN. Yes, sir.

Mr. GREEN. In that immediate area?

Mr. BOWMAN. Yes, sir.

Mr. GREEN. All right, Mr. Norris, just one more word or question. In the area immediately around the port, what we will call the impact area, do we have low-income persons living in that area?

Mr. NORRIS. Sir, I would say that the broad income that the port has on the entire Gulf Coast clearly, we had roughly pre-Katrina, about 47 percent low to moderate income.

Mr. GREEN. I see, so by helping with the port, we will help the entire Gulf Coast?

Mr. NORRIS. Absolutely. Sir, I would want to point out that I notice other States get percentages of their CDBG funds that are being used for economic development purposes.

Mr. GREEN. Yes, sir.

Mr. NORRIS. Well, say, of our $5.4 billion allocation, over 70 percent is going directly to support housing development; only 30 percent, or $1.4 billion of the $5.4 billion, is going toward job recovery. We cannot have full recovery without economic recovery. We are rebuilding communities, not just houses.

Mr. GREEN. Now, before I close, and I will be yielding to Mr. Cleaver in just a moment, but let me ask this: In 2007, did you have $81,756,822 as unencumbered funds for your port? Or, maybe my dollars are a little bit off; I would say about $81 million.

Mr. NORRIS. I am not sure I understand the question.

Who would have had those resources available to them?

Mr. GREEN. Your port; the port that we are talking about that you are asking to get the $600 million?

Mr. NORRIS. I am not familiar with that number.

Mr. GREEN. I have information indicating that at the beginning of 2008, you had $82,353,592 as unencumbered.

Mr. NORRIS. I can't comment on that number, because I am not sure what the source of it is. Congressman, it may be that the port does qualify for some sort of public assistance funding and obviously had some insured losses.

Mr. GREEN. Is your port in the red or in the black?

Mr. NORRIS. Congressman, they are in the process of settling with FEMA for public assistance funding and with their insurance for insured losses that they fall far short of the necessary resources to fully build back.

Mr. GREEN. Can you provide the committee with an audit statement in terms of where the port is with its actual funds of financing. I would like to know whether it is in the red. If it is in the red, to what extent. If it is in the black, to what extent. It may be the actual dollar amount, so I can see if it coincides with the numbers that I have. That would be for 2008 and for 2007.

Mr. NORRIS. Yes, sir, we would be happy to follow up with you.

Mr. GREEN. And how long would you contemplate that this action would take you to consummate?

Mr. NORRIS. We will follow-up immediately after this hearing and get that information to you as quickly as possible.

Mr. GREEN. May I define "immediately" for you, since you have said "immediately?"

Mr. NORRIS. Sure.

Mr. GREEN. Can it be done within a week?

Mr. NORRIS. Yes, I'm not sure what all it entails as far as going back, but, yes, sir. We will make the commitment to you that if that $81 million, I will find the source of that number for you within a week and provide that in writing to the committee.

Mr. GREEN. If that is too soon for you, would you like 10 days?

Mr. NORRIS. Yes, we will take as much time as you are willing to give us, because I am not sure what all is entailed in identifying it.

Mr. GREEN. With the advice and consent of the Chair, Madam Chairwoman?

Chairwoman WATERS. Will you continue with this panel?

Mr. GREEN. I am about to yield, especially to you Madam Chairwoman, but I was asking this witness to submit some information. I have information indicating this port had $81,756,822 of unencumbered funds in 2007; and $882,353,592 in 2008, and I have asked him to give me some information on these numbers.

Is that acceptable to you, Madam Chairwoman?

Chairwoman WATERS. Yes, that is fine, without objection.

Mr. GREEN. Without objection, thank you.

I will now yield to the Chair and relocate from the chair.

Chairwoman WATERS. Thank you. Thank you very much.

I would like to thank Mr. Green for filling in for me while I had to go out for a moment. As I understand it, we are in the questioning period at this point, and I do have a number of questions that I would like to ask.

First, let me just say to our representative here from Alabama, Mr. Bill Johnson, that I am pleased that my staff made sure that you were here today, because we have not given a lot of attention to Alabama. Most of our attention has been focused on Louisiana and Mississippi and Florida, and even Texas and Alabama have not gotten a lot of attention.

But for you, in your testimony, you said that you had been able to manage your CDBG funds despite some of the requirements of the Federal Government. Were you implying that there were so many strings attached that you felt that you had to work a little bit harder in order to get the money out? Or, because as I heard from our first witness today, Mr. Gimont, that it had been designed and we supposedly passed the legislation so there would be enough flexibility in it so that each area could tailor the money to its needs.

So, would you let me know, Mr. Johnson, whether you were able to do that in Alabama?

Mr. JOHNSON. Well, yes, ma'am. We fortunately were, and I have to say that HUD was great at granting the waivers. We asked for every waiver that we could get and we were granted every waiver.

Still, I think everybody here appreciates the other strings that are attached, the environmental regulations and reviews that are sort of necessary with the Block Grant program. So those are still the challenges that we have to oversee. But we have just really appreciated the cooperation that HUD has given us in this program.

Chairwoman WATERS. Now, we know a little bit more about the Road Home program in Louisiana and how it works. How did you design the expenditure of your CDBG funds?

Mr. JOHNSON. Well, as I mentioned at the beginning, the area that was primarily affected, Mobile County and Mobile City, both of those entities are entitlement communities, and, as such, they had been managing their programs for decades. And, so, the State elected to basically make Block Grants for different categories of activities to these local entities who were eligible entitlement community to basically craft and design their own programs.

Now, we did work hand-in-glove with them. As I said, we had our long-term recovery planning committees that met jointly with them. I have a person stationed on the ground down there. We have been, as I say, it is a joint partnership between the State and the local entities, but they take the lead, because they are the entitlement.

Chairwoman WATERS. So we made you talk directly to those entitlement communities about how they spent the money both for homeowners and for renters.

Mr. JOHNSON. Yes, ma'am. I can only relate to you what they have related to me.

Chairwoman WATERS. All right. Let me quickly go to Mississippi, because one of the concerns that we have that triggered this hearing today has to do with the port. All right. I am sure you have heard a lot about it from the other members.

As I recall, when we were in Mississippi, we learned that your first allocation of assistance was to those who already had insurance, your homeowners and your kind of road home program, or whatever it was called. It went to those who already had insurance and that you allocated 'X' number of dollars. They were eligible for 'X' number of dollars, and you had money left over. And then you went to a second level of funding in some way to those who maybe did not have insurance.

Will you explain to us how you did that?

Mr. NORRIS. Congresswoman, the State of Mississippi's housing assistance grant program was designed and funded for Congress. The argument that was made that Congress should provide direct grant assistance to individuals was on the basis that individuals living outside the federally-drawn flood maps, who were told by the Federal Government that they did not need flood insurance, and the Federal Government was simply wrong, their homes were destroyed by flood damage.

So it was the argument in the State of Mississippi, since those individuals were allowed on the Federal Government to their detriment that they did not need flood insurance that the Federal Government should compensate those individuals. And that is the basis for Round I of the Homeowner Assistance Grant Program.

We then expanded it to be directed specifically to low- to moderate-income individuals, uninsured individuals in and outside the flood plane, but still, specifically, to address the unprecedented event. In Mississippi, the unprecedented event of Katrina was a 30-foot wind-driven storm surge, and our housing assistance grant programs as funded by Congress were intended to help those individuals and to compensate them for their losses due to the wind-driven storm surge. And then that was the basis for the Mississippi Homeowners Assistance Grant Program.

Chairwoman WATERS. What was the average amount of the grant that you gave in the first round to those who had insurance?

Mr. NORRIS. The first round was specifically designed to cover those individuals who had homeowner's insurance but did not have flood insurance.

Chairwoman WATERS. Yes, I understand that. How much average and total amount was spent in that category?

Mr. NORRIS. The total amount spent to date? Hold on. I want to give you an accurate number, ma'am, so if you would give me a second.

Chairwoman WATERS. Okay, all right.

Mr. NORRIS. For Round I of the Homeowners Assistance Grant Program, to-date, $1.2 billion in grants have been distributed.

Chairwoman WATERS. Okay, now. Describe who received money in the second round.

Mr. NORRIS. The second round was expanded to cover those individuals at 120 percent of the average median income and below who were either insured or uninsured inside the flood plain or outside the flood plain.

Chairwoman WATERS. Now, give me the average amount of the grant in Round I to those homeowners. What was the average amount of the individual grant?

Mr. NORRIS. Madam Chairwoman, we budgeted overall for the program that we would receive, Round I and II, 30,000 qualified applications and an average grant of $120,000.

Chairwoman WATERS. $120,000 is the average amount that was given to the homeowners who qualified?

Mr. NORRIS. I would say our original budget estimate is that they could qualify for up to $150,000. We budgeted for grants to come in around that level. The average grant that we have received and that we have awarded is about a $70,000 grant; and that is driven by the individual applications and what they qualify for.

Chairwoman WATERS. Okay, about $70,000 is the average, but it could go up to $150,000?

Mr. NORRIS. It could go up to $150,000 for Round I, and up to $100,000 for Round II.

Chairwoman WATERS. Okay, for Round II, what was the average grant that was given in Round II?

Mr. NORRIS. The average grant for both, the number that I have, Madam Chairwoman, is that the average grant for both homeowners programs was $70,000.

Chairwoman WATERS. No. No. No, I want the average just like you just gave me the $70,000 average in Round I. In Round II, that was a different group of qualifiers as you have described. They did not have the insurance and they came in Round II.

What was the average amount of that grant?

Mr. NORRIS. Madam Chairwoman, respectfully, I don't have that number with me. I am happy to follow up in writing, specifically, to that point. But, overall, if you take it holistically, the average grant for Round I and II was $70,000.

Chairwoman WATERS. No, that's not what I want. What I want is I want to know how much was given in Round I to those homeowners who had insurance; and, then, in the second category, I would like to know the average grant and the total amount of money spent in the second round. How much was spent on the second round?

Mr. NORRIS. Well, we're still processing applications, so the number changes daily.

Chairwoman WATERS. Just as of today.

Mr. NORRIS. Well, as of May 2nd, $278 million.

Chairwoman WATERS. $278 million in the second Round?

Mr. NORRIS. Yes, ma'am. And it's important to note that this grant program is driven by demand.

Chairwoman WATERS. $278 million in the second Round. What was the total bottom line in the first round?

Mr. NORRIS. To-date, it is roughly $1.2 billion. That exact number is $1.71 billion.

Chairwoman WATERS. $1.2 billion, and how many homeowners were the beneficiaries of the $1.2 billion?

Mr. NORRIS. Well, to date, the number of grant awards paid is roughly 16,000. But, to date, we have awarded program-wide Round I and II, just about 25,000 grants.

Chairwoman WATERS. So, about 16,000 of those were in Round I where you spent about $1.2 billion at an average of about $70,000, which could go up to $150,000. And in Round II, how many were covered? How many homeowners were covered in Round II, the ones who didn't have any insurance?

Mr. NORRIS. Congresswoman, it's a moving target daily. But at the end of the day—

Chairwoman WATERS. Just as of today, as of last month.

Mr. NORRIS. Well, Congresswoman, we will follow-up with you in writing to the specific numbers of Round II of the percentage.

Chairwoman WATERS. You don't have that today? You don't have those numbers today?

Mr. NORRIS. I have overall program forecasts for Round 2, what we expect.

Chairwoman WATERS. No. I don't want the forecast. I want the actual.

Okay. How would you describe your unmet needs at this point?

Mr. NORRIS. Madam Chairwoman, I would describe our unmet needs at this point as clearly, we have 4,667 coastal Mississippians living in FEMA travel trailers. That is our immediate unmet need that keeps us up at night, frankly, because we have deployed the necessary resources for full housing recovery on the Mississippi Gulf Coast to build more units than were damaged and existed pre-Katrina.

And, specifically, in our small rental assistance grant program, we have just over 3,300 homes that are ready for construction tomorrow, but they are mired in the environmental requirements that are placed on CDBG dollars. But we have an immediate need of a population of over 4,000 coastal Mississippians living in travel trailers. We have the resources ready to deploy tomorrow, but we can't deploy those resources because of the environmental requirements placed on those resources.

Chairwoman WATERS. I don't understand what you are saying. You can't build housing because of environmental problems?

Mr. NORRIS. We were directly subsidizing the construction of affordable rental units using CDBG dollars. You cannot deploy

CDBG dollars without going through all the environmental requirements that are attached to the expenditure of the dollar.

Chairwoman WATERS. Yes, I mean, they are requirements. To spend money, usually, you are saying that they are too onerous, that you can't spend the money because you can't be in compliance?

Mr. NORRIS. I would say to you, Madam Chairwoman, that our environmental engineering company that we have contracted with has estimated that for each individual home site, say, if you take Round I of the population, we have over 3,300 units. For each individual site, it requires a full environmental review.

Each environmental review for each site could take over 3 months. If you multiply that over 3,000 units, the time is inordinate. I mean, if you look specifically for Round I of our Small Rental Assistance Grant Program, it will take 11 months from beginning to end in that process.

Chairwoman WATERS. How much CDBG money have you used to build any housing?

Mr. NORRIS. We have given to date $1.5 billion in direct compensation to homeowners. Phase II of our housing property project—

Chairwoman WATERS. No, I'm really asking quite another question. I am not going back to what we were talking about before. I am asking a question that is more related to what you are describing now.

You are talking about having the ability to use CDBG to actually assist with construction of housing. Is that right?

Mr. NORRIS. Madam Chairwoman, that is correct.

Chairwoman WATERS. Okay, so I want to know, have you done any of this at all?

Have you built or constructed or assisted in constructing any housing other than those two categories we talked about?

Mr. NORRIS. We are at different stages through our different phases of employment.

Chairwoman WATERS. Have any been completed?

Mr. NORRIS. There are some public housing projects that are currently through the environmental process.

Chairwoman WATERS. Have you completed any housing that you have been involved in direct construction of?

Mr. NORRIS. Madam Chairwoman, I respectfully say that due to some of these projects—

Chairwoman WATERS. Okay. I know the reasons. You have told me that, and I have to just rush a little bit, but I get it.

You are saying that because of the onerous environmental requirements, you have not been able to construct any housing, but you have people who are living in the trailers now.

How much money are you giving to the port? I know you have answered this before, but let's hear it again.

Mr. NORRIS. There is $600 million obligated to the port redevelopment.

Chairwoman WATERS. $600 million that is obligated already to port?

Mr. NORRIS. It depends on the definition of "obligated."

Chairwoman WATERS. I know what the traditional definition is. I guess what I am trying to look at is whether or not you have done several things. Number one, in addition to the first category of assistance to homeowners, have you completed assisting those homeowners who did not have insurance?

Most of them fall into lower-income areas. These are the ones who basically say they could not afford the insurance. I want to know what is going on there. How many people are left to be assisted? I want to know what the housing needs are, and have you completed any housing, because when, of course, we get the news that you are putting money into the port, we want to know what has been done with housing.

Finally, I am going to wrap up because this member has been waiting. Those people whom you have assisted, say in Round I, who lived in flood areas or maybe didn't live in flood areas and they were flooded, as I understand it, they were told that if they rebuild in those areas again, that they would not be eligible for any kind of assistance.

Is that correct?

Mr. NORRIS. Madam Chairwoman, that is not correct.

Chairwoman WATERS. Would you correct me?

Mr. NORRIS. We did place requirements for those individuals who received those grants that they mitigate against future storm damage, but they can use those resources to build back in that location but would required to meet the new flood elevation levels, new building standards, and so forth.

Chairwoman WATERS. Okay, and they have been able to do that?

Mr. NORRIS. Yes. And we are also providing another supplemental program on top of Round I and II that homeowners who qualify under Rounds I and II also qualify for an additional $30,000 to pay for the elevation costs, the additional cost of elevating due to the flood level.

Chairwoman WATERS. How much have you spent on supplemental?

Mr. NORRIS. Pardon me, ma'am. I'm sorry?

Chairwoman WATERS. How much money have you spent in your supplemental program? And where did that money come from?

Is that CDBG?

Mr. NORRIS. That money came—it is CDBG money, and it also comes out of the Homeowners Assistance Grant Program.

Chairwoman WATERS. The CDBG that funded the Homeowner Assistance Program—how many folks in Round I received supplemental money?

Mr. NORRIS. Congresswoman, I do not have that specific number.

Chairwoman WATERS. Okay, I would like to ask you to submit to us the number of people who received supplemental money in Round I and in Round II. We are going to ask also for how many applications you received in both of these areas.

How many people in Round II have been waiting; and, also, we are going to ask some additional questions about housing. We can't do it all today, but we are going to ask you to submit this in writing; and, we will formulate exactly how and frame these questions for you. But I get a sense of it right now, and I don't have any more time.

My time has long been up. So, thank you very much and I call on the gentleman from Missouri, Mr. Cleaver.

Mr. CLEAVER. Thank you, Madam Chairwoman. Let me go back to Mr. Norris, because I think that this could be a key. What is your definition of the word "obligated?"

Mr. NORRIS. Well, the definition according to HUD of "obligated" from my understanding is that a grant agreement has been signed with the receiving entity. A grant agreement has not been signed in the case of the port.

Mr. CLEAVER. So there is no obligation?

Mr. NORRIS. A grant agreement has not been signed. No, sir.

Mr. CLEAVER. Okay, so there has been no obligation.

Mr. NORRIS. Again, my definition of obligation—

Mr. CLEAVER. No. No, sir.

Mr. NORRIS. The money is dedicated to the port recovery under the State's comprehensive recovery plan. I would point out the State of Mississippi is building back more affordable housing than existed pre-Katrina. So, overall recovery, Congress provided us with the necessary resources to fully fund housing and to fully fund economic recovery, including the port. But the money is not technically obligated, no, sir.

Mr. CLEAVER. So, there are no contracts?

Mr. NORRIS. There are no contracts signed. We are in the process.

Mr. CLEAVER. Are the contracts written?

Mr. NORRIS. The first contract that we have is we are in the process of signing a contract for a program manager but no contracts have been signed.

Mr. CLEAVER. So, if you sign that contract for project manager, does that wait on an obligation? Does that mean we are not obligated once you sign the contract or can you sign that contract without the obligation?

Mr. NORRIS. Congressman Cleaver, I would need to follow up with you in writing on the specific definition of "obligated" and "contract." But we expect to sign a contract for program managers this week.

Mr. CLEAVER. Is this similar to what "is" is?

[Laughter]

Mr. NORRIS. Congressman, the money is not obligated until a contract is signed. And I am telling you that we have not signed a contract on the port.

Mr. CLEAVER. What needs to happen before you can sign a contract?

Mr. NORRIS. From my understanding, before a contract can be signed, and I will need to follow up with details in writing, but an environmental assessment needs to be done. And the other steps that are required statutorily by the CDBG program before a contract can be signed and a grant can be officially obligated.

Chairwoman WATERS. Will the gentleman yield for one point?

Mr. CLEAVER. Yes.

Chairwoman WATERS. Yes, because I thought I just heard you say that you discussed the definition of "obligate," and I kind of get where you are going with this, but, you said something about the CBDG money that would be used for this. You are able to meet all the requirements of CDBG in order to move forward on the port. Is that correct?

Mr. NORRIS. Are you referring to the low- to moderate-income requirements?

Chairwoman WATERS. I am not requiring doing anything in specific. What I am really asking is whether or not you have the same kind of impediment to building a port that you have to building houses.

Mr. NORRIS. We absolutely have the environmental impediments to the rebuilding of them.

Chairwoman WATERS. So you probably can't get this done very easily? You have the same problems you had with building houses?

Mr. NORRIS. Absolutely. We were mired in the same regulatory burdens of environmental that we are with our other programs.

Chairwoman WATERS. Would it be wise to fight through the building of the housing before you commit to the port? I imagine that will be even more difficult and more complicated to be in compliance.

Mr. NORRIS. Well, there are different circumstances. The housing program is difficult because of the thousands of different sites that are involved with the processing of the environmental. The port is more or less one holistic environmental assessment. Our housing programs are individual, environmental reviews for each individual site; so, I would say as far as it complicates things, exponentially.

Chairwoman WATERS. I don't know why it would. It seems to me that there would be any number of locations where you could get negative declarations in order to go ahead and build housing. I don't think all of the land that you are thinking about using somehow or the sites are environmentally problematic to the point where you can't build a house.

I mean, you know, if I was a city, I could not overcome environmental impediments to building a house. I would feel very, very strange. So I could not help but raise a question in relationship to the ports.

Thank you very much. I yield back.

Mr. CLEAVER. I surrender. Thank you. I was going to get a headache, so I just quit.

Let's move on to—I have been a mayor, so I am very familiar with CDBG, very familiar. And one of the requirements, an extricable requirement, has always been that a public hearing must take place before any allocation of CDBG Block Grants. Is that right, Mr. Gimont?

Mr. GIMONT. In the regular program that is correct; however, for the purposes of the Supplemental Disaster Recovery Funds, we waive the requirement with regard to a public hearing, preferring to utilize an alternative approach as permitted under the supplemental appropriation language. If you can turn the clock back to the days following the impact of the hurricanes, an awful lot of people had to leave their homes and their communities. They were not there physically to be able to attend a public hearing.

So we established alternative requirements for the grantees to utilize for the purpose of obtaining citizen comments, such as posting the information on the Internet, publicizing it in papers for general circulation, and various approaches to ensure that the word got out with regard to the activities that are being proposed—

Mr. CLEAVER. Yes—

Mr. GIMONT. And that the grantees wished to carry out.

Mr. CLEAVER. Yes. We held a hearing in Mississippi. I know, I'm familiar with what happened early on. And, of course, in our conversations with citizens in Mississippi, they believed that there was a great deal of intentionality in soliciting information from the public the way you did because obviously if your home is being washed away, you didn't run back in to get your computer, if you had a computer. Which means that essentially there was no contact with the public with regard to the issues.

And then, would you agree that we issued more waivers in Mississippi than we have in all of the other southern States?

Mr. GIMONT. I don't know that we have issued more for Mississippi. We have generally tended to waive things across-the-board with regard to the various States, although some States have asked for particular waivers. I would be happy to supply that information to you with regard to particular waivers granted to the State of Mississippi.

Mr. CLEAVER. My concern is that now in the aftermath of Katrina, we do have time to have public hearings, and I am wondering why we have not.

Mr. GIMONT. One of the requirements of the supplemental appropriation language is that we reconsider waivers on the 2-year anniversary of their issuance, and we are now just beginning to come into those 2-year review periods. So we will be looking at each one of the waivers that's been issued in making the decision as to whether or not it should be extended.

Mr. CLEAVER. There is a belief in Mississippi—and this won't be new to you—that the waivers and the dollars have been badly skewed toward wealthy homeowners. Is that a result of mass hysteria or people who just don't understand the complexity of Community Development Block Grant, and all of the implications thereof?

Mr. GIMONT. From where we sit, and the data that we are seeing submitted by the States, we feel that they are doing an adequate job in meeting the low- and moderate-income benefits requirements that are imposed upon them through the program.

Mr. CLEAVER. Now, where did this research come from?

Mr. GIMONT. We receive, as is noted in my statement earlier, quarterly reports from our grantees with regard to—

Mr. CLEAVER. HUD grantees?

Mr. GIMONT. From the States. So we—

Mr. CLEAVER. I'm sorry, Mr. Gimont. The report came from—

Mr. GIMONT. Again, we are getting a continual stream of information from our grantees, the States, with regard to the activities that they are implementing.

Mr. CLEAVER. So do you really think that the State would send you a report saying, "We have responded to the low-income people of Mississippi poorly?"

Mr. GIMONT. No. What they are required to do is to keep information with regard to the income levels of the beneficiaries of the activities that they are assisting. So as they are going out and their contractors in the case of Louisiana and Mississippi are concerned, they are tracking the income eligibility of the various people who are being assisted through these programs.

Mr. CLEAVER. Mr. Johnson, is that a public document?

Mr. JOHNSON. The reports?

Mr. CLEAVER. Yes.

Mr. JOHNSON. Yes, sir. As far as I know.

Mr. CLEAVER. And the report is based on some sampling of the people?

Mr. JOHNSON. Yes. From the information that we get, and who is receiving funds, we know exactly what their circumstances are, and in Alabama, we are anticipating that we might get a 100 percent low- to moderate-income benefit, based on we're doing.

Mr. CLEAVER. Yes. Alabama has, I think, performed at a much higher level than Mississippi, and that is where my concern is that the people in Mississippi, the lowest, the most decimated parts of this community, the most devastated individuals, are the ones who have not received the assistance. And I don't know what we can do with HUD to get that across, that receiving a report from the Mississippi State government may not be sufficient.

I mean if there is widespread dissatisfaction—look, let me ask you: Do you believe, Mr. Gimont, that there is widespread dissatisfaction and disillusionment with the recovery program in Mississippi?

Mr. GIMONT. Again, from what we are observing, the States are doing a good job of delivering this money to the homeowners who were impacted by the storm. When we look at the State of Louisiana, I believe there were around 105,000 homeowners assisted at this point. When we look at the State of Mississippi, it is 20,000 homeowners assisted to this point. We think these are good results, good outcomes.

Mr. CLEAVER. But are there—

Mr. GIMONT. Are there people who don't feel that they have gotten what they deserved or should have received? Certainly. And we see a stream of mail to that effect and we work with the States to address these issues.

Mr. CLEAVER. How?

Mr. GIMONT. We return it to them, and say, "Please look at this again, and then report back to us with regard to your reevaluation of the claim being made by this individual." So we are watching this. I mean we also monitoring the States on a very regular basis. We will probably have 20 different monitoring trips to these five States in the course of this fiscal year, where we are sending out teams of 5 to 7 people to spend a week in their offices and review their files and talk to their contractors about what they are doing and how they are implementing the programs, and who is benefitting.

We are going back, as we do in the regular CDBG program to check that they are doing what they said they would do.

Mr. CLEAVER. One final question. Well, actually I have 36 more questions, but I will just ask one: Are you satisfied that everything that can possibly be done in Mississippi is being done to provide the swiftest aid to the victims of Katrina and Rita?

Mr. GIMONT. Would we like to see more progress on some fronts? Certainly. Is it realistic to expect that? That is a hard judgment to make at this particular point in time. I think that these homeowner compensation programs have probably been the easiest things to stand up for the States, that setting up the process, evaluating the applications, and cutting checks to this point, relatively speaking.

We are now beginning to get into the ground game of recovery on the Gulf Coast, the hard construction work. Doing things such as rebuilding housing, rebuilding the public housing, doing the infrastructure work. These things are just coming on-line now. And we would expect to see significant progress on those program components over the next several years. This is going to be a long-term effort on the Gulf Coast.

Mr. CLEAVER. Just a second. I thought I would catch the Chair talking, and I could slip in another question.

If you were a Member of Congress and people all over this Nation are angry because they believe that our response on the Gulf Coast is pathetic and if all of the people around the country are angry and it generates anger towards the United States Congress, which is what's happening—people are angry.

I mean the percentage of Americans dissatisfied is at an all-time historic high, 80 percent. And the rise began—if you go the Gallop & Harris people, it began with the response to Katrina; 80 percent of the American public says that the Nation is moving in the wrong direction.

Katrina and Rita started it. And when people look at television and see that much of the devastation has not been addressed, they become angry. They think we live in the world's only superpower, the most industrialized nation on the planet. There is a catastrophe now in Burma and it looks like Katrina, in the aftermath of Katrina, what has happened in Burma, and they are thinking, you know, we're not going be able to fix our own country. People are angry.

And so when they get angry, I have no other recourse but to express the anger coming from the district I serve. And I think they believe that the money—and particularly when they read—I'm through, Madam Chairwoman—when they read articles which suggest Mississippi's use of waivers to redirect funds designated for low-income Katrina victims, and the article goes on to talk about how helping people of low- to moderate-income seems to be on the back burner in Mississippi.

And so, well, I mean, you know, you are shaking your head, but there is nothing that has been said here today that convinces me otherwise.

Thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you very much.

I would like to thank all of the members of this panel who have participated today, and I'm sorry we didn't have the opportunity to talk more with Texas and Florida. We know that Florida has been, as you described so well, the victim of these natural disasters for a long time. You can't get out from under one before you get another one. And what we need to do is just keep trying to get as much assistance to you as possible. We don't have any real questions about how you have utilized these. Unfortunately, our questions fall to those who have been responsible for the expenditures that we sent to them in Louisiana, and Mississippi in particular.

We didn't talk a lot about Louisiana today. But the complaints continue to be what they were early on: Number one, that there is every opportunity to squeeze the homeowners under the Road Home Program, and instead of them ever being able to get the maximum or near maximum, people are walking out with, you know, $20,000 or $40,000, way below the claims are that they're putting in. That is an ongoing complaint.

And you have a backlog of people who have been in process for well over a year to a year-and-a-half, and are still waiting to hear. So before you leave, Mr. David Bowman, when are you going to clean up the backlog in Louisiana? And why are people complaining about being squeezed and not getting reimbursed adequate amounts that they think they are eligible for?

Mr. BOWMAN. Well, I think on your first point, I would like to point out that the State is streamlining and taking over the entire appeals process.

Chairwoman WATERS. I can't hear you.

Mr. BOWMAN. The State is in the process of completely redesigning and taking over the appeals process from the contractor. So we acknowledge that has been problematic, and we cannot make excuses for it, however, moving forward, we are streamlining and taking that process over, so that we do not continue to have these problems.

To address some of the questions from earlier, though, as far as serving low- to moderate-income versus wealthier clients, most of our complaints actually come from those who are not LMI; and in fact the average award for LMI, because of our affordable compensation grant program, is actually higher than the average grant for the wealthier clients. Part of that is because of the insurance capacity that the wealthier clients tend to have as well. But the additional affordable compensation grant has boosted those LMI persons with more resources to rebuild, so they actually have higher average grant awards.

Chairwoman WATERS. We have more questions, and we will send them to you in writing. As a matter of fact, we are going to ask for a report. You must have something available to talk about what has been done today. But we will send a letter to you to request that information.

If there are no more questions of this panel, we are going to dismiss the panel. I thank all of you for your testimony today.

The Chair notes that some of our members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

Thank you very much. The panel is now dismissed, and I would like to welcome our second panel. Thank you.

Hello, Mr. Craig, is it "Bab" or "Baab?" What is the correct pronunciation?

Mr. BAAB. "Baab."

Chairwoman WATERS. "Baab?" Thank you very much. Please come forward. Mr. Baab is a Katrina advocacy fellow at Alabama Appleseed Center for Law and Justice, Inc.

Our second witness will be Ms. Leslie Powell, senior attorney, Legal Services of North Florida.

Our third witness will be Mr. James Perry, Louisiana Housing Alliance, Greater New Orleans Fair Housing Action Center.

Our fourth witness will be Mr. Derrick Johnson, president, Mississippi State NAACP.

Our fifth witness will be Mr. Reilly Morse, Equal Justice Works Fellow, Mississippi Center for Justice.

And our sixth witness will be Mr. John Henneberger, co-director, Texas Low-Income Housing Information Service.

Without objection, your written statements will be made a part of the record. You will now be recognized for a 5-minute summary of your testimony.

Thank you very much.

Mr. Baab?

STATEMENT OF CRAIG H. BAAB, KATRINA ADVOCACY FELLOW, ALABAMA APPLESEED CENTER FOR LAW & JUSTICE, INC.

Mr. BAAB. Thank you very much for convening this hearing. Mr. Cleaver, thank you for joining us, also. You are one of the few people on the Hill who has not allowed Katrina fatigue to get in the way of saying and doing the right things and keeping your colleagues and the rest of us in the public sector working on this, and we are forever grateful for that.

The National Office of Appleseed and the centers in Alabama, Georgia, Texas, and Louisiana published a sweeping study a year ago, a continuing story on the ongoing struggles of Hurricane Katrina evacuees, and we are using that as instructive in helping us wade through the CDBG problems we are facing right now.

I join my colleagues on this panel in commending you for convening this hearing, not as focused on one or two States, but on the entire region, which is to say that Katrina didn't take a State-by-State look; it took a regional look. And as Mr. Green pointed out earlier, if we don't respond regionally, then we are going to waste a lot of time and money.

It is important also at this point, I think, to relive the detrimental practice witnessed since the storms of one State pitted against another State, and one county pitted against another county. I don't really care, and I don't think any of us here really cares if Mississippi got more or less than some other State. Nobody even knows Alabama is around.

The issue is that none of us got all that we needed, and if we all don't work together to try to get more that we need across the coast, as the chairwoman pointed out a minute ago, dealing with Mississippi, then we are not doing our jobs.

Perhaps the time has arrived for local, State, and national officials to focus closer attention on the regional rebuilding needs of post-Katrina, and less on what they bring home to their people.

Katrina and Rita paid scant attention to State or local political borders, and for us to continue to do so simply perpetuates the storm's impact on all of the survivors.

Senator Shelby, our Ranking Member in the Senate, I think summarized both what we're doing here, and the problem, very well last September 25th, when he said that the way to honor the memories of nearly 2,000 souls who perished in Katrina's wrath was by ensuring that the Gulf Coast was rebuilt not as it was, but as it should be.

He had it just right, and Senator Sessions and others have helped us also. But the reality in Alabama, and I want to begin with this right now, is that Mobile County has received $18 million in CDBG money specifically targeted for house rebuilding. Not a single nickel has gone into building a house that somebody has moved into yet, and it is almost 3 years later.

Procedures are chaotic, the process by which everybody is working is not open, and it is very difficult for anybody to know what is going on. And because, as more time goes on and little happens, there is less willingness to come forward because everybody, of course, is reluctant to talk about what has not worked.

The only thing I would like to point out in the context of my predecessor who is here—and we are just very grateful for Mr. Johnson of ADECA to be here, and in particular I want to get it on the record, because he didn't say so, that he is asking for over $100 million in additional money. It is essential that we have it. And I am going to ask for a realistic number of $237 million. These are unmet needs.

And these go to the following—and I'll try to do this very quickly, because the chairwoman wields a heavy hammer up there.

[Laughter]

Mr. BAAB. The points that I want to make, and we can get back to if you wish, are the following: Number one, that the absence of and the need for serious in-place plans outlined by Congress and implemented by HUD to change how emergency CDGB funding is budgeted and allocated, and to do so transparently with all interested parties in advance, you can set the guidelines. Because what is going on in the past with CDBG frankly has little relevance to emergency CDBG functioning, and that ought to be in place. Failure to do this in Washington ensures that comparable poor planning and waste at the State and local level will be guaranteed.

Number two, Congress should direct, and HUD should implement, that clear comprehensive needs assessments in emergency situations be undertaken. Not the usual thing, but it has to be very explicit, and HUD has to oversee that.

Number three, we have urged that you give serious consideration into looking into the benefit of maintaining emergency CDBG implementation at the State level and not at the local level. Frankly, entitlement communities who receive CDBG funds may do well on that. They have no competence to deal with this problem. I think we have seen it in Mississippi, or in Texas anyway, and I must tell you that we see it very clearly Alabama. It is not that State governments necessarily are going to be better, but in this situation, they are going to be far better.

Congress and HUD should look into the practice in Alabama, and I want to stress this as much as I can, that is not the case in other States. And that is that in reviewing people who apply for grants, prior condition of their home—and these are low-income people—49, 39 percent of the people who applied for money in Alabama have $15,000 annual incomes, and they are being denied money because they have prior repairs on their houses that they didn't do, and CDBG folks say, "Well, if it was before the storm, we're not going to touch it." It is outrageous and it is primarily focused on lower-income people.

Finally, I would like to say that, as you know in a lot of States and particularly in the coastal areas, heir property is a serious problem among lower-income people. There are 25,000 families New Orleans with heir property problems. We have many throughout all other States. They are all lower-income folks, and with heir property, they cannot qualify to receive these grants.

We would urge that in the future that there would be standby authority either in HUD or in the Legal Services Corporation to make supplemental appropriations to Legal Services lawyers to assist with this process.

And I need a breath. Thank you.

[The prepared statement of Mr. Baab can be found on page 56 of the appendix.]

Chairwoman WATERS. Thank you very much.

Ms. Powell?

STATEMENT OF LESLIE N. POWELL, SENIOR ATTORNEY, LEGAL SERVICES OF NORTH FLORIDA, INC.

Ms. POWELL. Yes. Thank you, Chairwoman Waters, for convening this hearing and for inviting me to participate.

As a Legal Services attorney, I work directly with low-income, extremely-low-income individuals who are directly affected. Specifically, in 2004, Hurricane Ivan hit Pensacola directly, and that is where my office is located. I have also practiced in Miami and worked with colleagues there. We have a statewide effort of Legal Services that we collaborate and work together to try and solve problems statewide.

And based on that, I feel like I have a relatively strong perspective as to how the recovery efforts have been handled in Florida as well as the CDBG monies, and I would like to say that overall, it has been a success. And as the prior panelist from Florida suggested, there was a Hurricane Housing Workgroup that was convened by then-Governor Bush. And he pulled together a group, a very diverse group, a very broad-based group of individuals. He didn't simply rely on government officials and local entities. Consumer advocates were brought in, housing advocates, legal service advocates, and business owners were all brought in to study the statistics.

And to hit on one in particular, in 2004, 74 percent of those people who were deemed to have inadequate insurance had incomes of less than $30,000 a year, 74 percent. So it was very clear, based on the statistics that were compiled by that workgroup, that low-income people, extremely-low-income people needed to be assisted with these funds, and in the wisdom of Lt. Governor Jennings, who was the chair of that workgroup, that was the focus.

While not all the recommendations of that workgroup were taken on, by coming to that conclusion that low-income people needed to be the focus, that is where the money has gone. And they have benefitted extremely from this.

That lesson was applied again in 2005, when those hurricanes hit Florida, and hopefully those lessons will continue to be applied in years to come. In fact, the State has mandated that each municipality have a community plan, a developmental plan of to how these resources will be used in the future, including land use plans as to future land use.

So those are very important components, not just thinking about what do we need to do now to fix the immediate problem, but planning ahead. A lot of these funds have gone to mitigation, not simply to rehabbing the homes that were damaged, but to strengthening the homes that were not damaged.

The issue that was brought up by my fellow panelist from Alabama regarding heir property is a significant one, as suggested. Those who do not have clear title cannot get FEMA assistance, cannot get rehab assistance, and cannot get insurance, for the most part. This is a significant issue. Substandard housing is a significant problem.

And we are working to try to resolve those. Quiet title issues are very time consuming. Those cases can take a long time and a good bit of money. And I echo that funding for that, and to try to plan ahead so that they can get their own insurance and mitigate on their own would be beneficial.

Community preparedness is a large and significant focus. To again echo what has been stated already, community and faith-based groups working together have formed coalitions. This was mandated by the State government that these coalitions be formed, and they are focusing on, right now, disaster preparedness. Hurricane season is right around the corner. Let's talk about it now, let's figure it out. And as that happens year 'round, this has helped these communities to be better prepared. In fact, I think the 2004 efforts made us more prepared for 2005. And funding should continue to be provided to allow for those efforts to continue.

In essence, while these funds were emergency funds, there will always be a disaster somewhere, and to have this money available and to know that it is available is essential towards community planning. We don't know where the next hurricane is going to hit. We don't know where the next disaster is going to hit. But encouraging communities to start with this sort of development in advance has certainly aided our clients since 2004, to some degree, I wish it had happened sooner, but it is benefiting the communities now, and I hope if there is a lesson to take from it, it is that while we can talk about more money when the emergency actually hits, preparing for it is certainly something that needs to happen, including ensuring that there is money for Legal Services and other advocates to be able to provide these services; and fortunately, we were able to receive that.

Thank you.

[The prepared statement of Ms. Powell can be found on page 244 of the appendix.]

Chairwoman WATERS. Thank you very much.

I am going to ask Mr. Cleaver if he will take the chair while I go to the Floor on our housing bill and speak for a few minutes. I will return as quickly as I possibly can.

Mr. James Perry from that Louisiana Housing Alliance is next. Thank you very much.

STATEMENT OF JAMES PERRY, EXECUTIVE DIRECTOR, GREATER NEW ORLEANS FAIR HOUSING ACTION CENTER, AND PRESIDENT, LOUISIANA HOUSING ALLIANCE

Mr. PERRY. Thank you, Congresswoman Waters and Congressman Cleaver, for the opportunity to testify, and also thank you for being great champions for the victims of the 2005 hurricanes.

There are a few things that I want to talk about. The first is regarding the three most important aspects, I think, of the CDBG program: First, to assist low-income Americans; second, to cause community development in poor communities; and finally, to affirmatively further fair housing.

I regret to inform you that the CDBG allocations into the Gulf Coast have failed, really, on all three of these fronts.

The first issue in the failing is about the lack of oversight. Members of Congress will recall that CDBG funding was allocated to the Gulf Coast communities, and many of the program requirements were stripped. Particularly instead of 70 percent of funding being required to go to low-income residents, only 50 percent of funding was required to assist low-income families. The result is that the majority of the CDBG funding that has been used to assist people in Louisiana has gone to assist middle- and upper-income families rather than low-income citizens.

For example, the State of Louisiana through its Road Home Program and its allocation in CDBG money has used 86.2 percent of the money to help people in homeownership programs regardless of the income of the citizens. Only 13.1 percent of the money that they allocated went to affordable rental housing. But even when it comes to that 13.1 percent, they use it in the small rental program. They tried and got applicants for 12,800 units, but to date, they have only actually repaired 13 units with that funding. And that is particularly troublesome when you consider that the State estimates a need for 60,000 to 80,000 additional units to be constructed in Louisiana.

It is also troublesome because Unity for the Homeless, a New Orleans nonprofit, estimates that our homeless population in the City of New Orleans has doubled from 6,000 to 12,000 citizens, which clearly indicates a need to use Community Development Block Grant funds for low-income citizens. The fact, however, is that they are not being used to benefit low-income citizens.

I would also argue that Community Development Block Grant funds are not being used to affirmatively further fair housing. I will give an example in the Road Home Program, and it has everything to do with how the program values properties. Members know that there has been a pattern of historic segregation in communities of color. The result is that properties have been valued at lower amounts.

So what happens is that Road Home grants are paid out for the most part based on the property values of properties, which means that communities of color are going to get lower and smaller grant amounts. Instead, these grant amounts should be paid in value based on replacement and repair costs. Not doing this fails to affirmatively further fair housing and of course doesn't meet the requirements of community development block grant money.

I would also note that there has been significant discrimination by municipalities that receive CDBG funding in the New Orleans and Louisiana area. Specifically, a lot of the issue comes up when CDBG money is paired with the low-income tax credit financing tool.

In Kenner, the City passed a moratorium on the construction of any multi-family housing. And they did so after residents raised concern about the redevelopment of a complex that was occupied mostly by Latino residents in the community. And so they forbid construction of any multi-family housing. Of course, this makes it impossible to provide low-income rental opportunities for families using CDBG funding.

In Jefferson Parish, the Parish passed an ordinance that asked that the tax credit not be used in their community, and then they used zoning tactics to kill a development by the Volunteers of America. And as a result, again, low-income residents missed out on an opportunity for housing.

The examples are numerous, and I could go on for literally hours about the different examples of discrimination that has limited the opportunity to create affordable housing opportunities, both through CDBG funds and the low-income tax credit.

The fundamental issue for Congress is this: I think that we need more oversight in terms of how the funding is used. We have to make sure that Congress can ensure that grantees who get CDBG funding have to use it to affirmatively further fair housing and that they have to use it to assist low-income residents. I think the trend that we have seen today from the earlier panel and that you hear in this panel is that consistently CDBG money post-storm has not been used for low-income residents; instead it has been used to assist middle- and upper-income residents. And I think that does not embody the intent of the program. I would ask that Members of Congress do everything possible in order to make sure that these funds go to assist low-income residents.

Thank you.

[The prepared statement of Mr. Perry can be found on page 235 of the appendix.]

Mr. CLEAVER. Thank you, Mr. Perry.

Mr. Johnson?

STATEMENT OF DERRICK JOHNSON, PRESIDENT, MISSISSIPPI STATE NAACP

Mr. JOHNSON. Thank you for allowing me to speak here today.

After surveying the Mississippi Gulf Coast and rural areas affected by Hurricane Katrina, and relief following the storm, we identified a pattern where African Americans in low-income communities were not receiving support from the various agencies charged with that responsibility. As a result, the Mississippi NAACP began to actively monitor State and Federal recovery programs, advocating to ensure that the recovery process is equal for all communities affected by the hurricane. All communities affected by the storm have a right to a full recovery, in our opinion, but in reality, discriminatory and inequitable governmental policies are impeding full recovery for many Katrina survivors.

Mississippi, for example, has received $5.4 billion in Federal CDBG funds for disaster recovery. Congress required Mississippi to spend at least 50 percent of the CDBG funds received on persons of low and moderate income. However, Mississippi requested $4 billion in waivers from this requirement. We are the only State in the country to have requested and received such extraordinary waivers.

It is outrageous that the Federal Government allows the poorest State in the country to abdicate its responsible to assist the citizens most affected by Hurricane Katrina. These waivers have had a very real impact on Mississippi's poor communities.

For example, to date, the Governor's office has not implemented a single plan to assist home renters. To date, almost 10,000 families representing 27,000 Mississippians still live in FEMA housing, of which 56 percent of them were renters before the storm. Unfortunately, for many of these families, there are no affordable rental units currently available.

Two-and-a-half years after the storm, affordable rental units that were damaged or destroyed have not been rebuilt, and the rent costs for the rental units that were not damaged have doubled or tripled.

For example, the fair market value for rent increase for an apartment on the Mississippi Gulf Coast went from $592 before Hurricane Katrina to $811 after the storm. When comparing home owner and rental under Mississippi's plan, Mississippi has paid out over $1.2 billion to homeowners, but has not opened a single CDBG-funded financed rental unit.

Several factors contribute to Mississippi's failure to address affordable housing needs. First, the amount of CDBG funds provided was greater than Mississippi's total State budget. These funds are completely administered by the executive branch, with no provision under State or Federal law for State legislative input or oversight. Without meaningful checks and balances, contracts were awarded to private companies to administer CDBG funds, including questions about lucrative contracts awarded to sitting State's legislators.

Accountability includes ensuring that decisions are made fairly about who receives CDBG funds on a level playing field. Many of the waivers requested and received were for private industries or economic development.

For example, the Mississippi Development Authority, MDA, which is charged with the responsibility of overseeing CDBG funds, requested and received a waiver to transfer $600 million to the State Port of Gulfport. This waiver is highly questionable, particularly because MDA itself has the ownership and operational role with the State Port at Gulfport. MDA also requested and received a waiver to award to a private south Mississippi utility company in the amount of $300 million. What is most troubling about MDA's decision to request waivers for the State Port of Gulfport and the power company is the fact that all three entities, MDA, the State port of Gulfport, and the power company, are all represented by the same law firm.

Even if the members of that firm act in full compliance with legal ethical standards without any legislative oversight, input, or the necessary checks and balances in place, the needs of low- and moderate-income families were never fully considered.

Second, the general public is left in the dark regarding the State's recovery process. In the first legislative session following the landfall of Hurricane Katrina, the legislature passed a bill to require State reporting of key information regarding the implementation of CDBG funds received. In response, the Governor vetoed the bill, stating that MDA will exceed the level of disclosure, publishing on the Internet the average grant award by income range and geographic area. We have not seen such publishing of information on the Internet. However, the Governor has failed to release any significant disclosures regarding how funds are spent. As a result, the public has been denied access to accurate timely information on how Federal funds are being spent to benefit low- and moderate-income families.

In closing, in response to the questions raised in the invitation for this hearing, this State's affordable housing needs have not been a priority as evidenced by the fact that there have not been any funds available to assist renters or to repair and rebuild rental units to pre-Katrina levels. Recipients are at a greater disadvantage than any other State because we have not enacted a State fair housing act. This reality makes it difficult to comprehensively evaluate the needs of low-income communities of color, the barriers to housing, and how to overcome them.

Two recommendations I want to leave with the committee today are: First, Federal CDBG allocations should require States to have legislative input and oversight to ensure the proper checks and balances; second, all States should be required to track expenditures of CDBG funds by zip code, and data collection should be made public so the success of CDBG funds can be properly measured and timely evaluated.

On March 15th of this year, the State cut-off Phase II of its program, the only phase of its program that supported low- and moderate-income families. Despite the fact that they were still receiving 30 to 40 applications weekly, they cut off the time for the program. We respectfully ask this committee to seek an extension of that program to ensure additional individuals who were impacted by the storm, who fall in the category of low- and moderate-income individuals, be properly supported in that recovery effort.

Thank you.

[The prepared statement of Mr. Johnson can be found on page 148 of the appendix.]

Mr. CLEAVER. Thank you.

Mr. Morse?

STATEMENT OF REILLY MORSE, SENIOR ATTORNEY, KATRINA RECOVERY OFFICE, MISSISSIPPI CENTER FOR JUSTICE

Mr. MORSE. Representative Cleaver and Chairwoman Waters, thank you for the opportunity to address you.

I will summarize my written responses to the questions you posed in the invitation.

First, the affordable housing needs of Mississippi have not been adequately addressed with emergency CDBG funding. All of the State's CDBG and tax credit programs taken together, Mr. Chairman, ultimately will restore little more than half, or about 48,000, of all housing, not just affordable housing, with major-to-severe damage. That's about 90,000 units, contrary to what Mr. Norris from—State testified. This is not adequate, sir. As of December 2007, Mississippi had reported to HUD that it had spent $1.8 billion out of its first $5.05 billion allocation; but only 13.2 percent of that has benefitted low- and moderate-income persons; 13.2 percent is not adequate.

Congress expected Mississippi to spend at least 50 percent. Not a single affordable rental unit has been opened using CDBG funds earmarked for public housing, small rentals, or workforce housing. There will not be a doubling of public housing, and as the representative from Mississippi said, there will barely be a one-for-one replacement under the current plans. And that's according to other State writings, which are cited in my written testimony.

Second, Mississippi's use of emergency CDBG funds has not affirmatively furthered fair housing. Lower-income Mississippi renters include especially high numbers of persons protected under the Fair Housing Act, due to their race, sex, disability, or household status. Mississippi's rental program delay is protracted. We are into our 33rd month post-Katrina, and none of the CDBG-funded rental housing programs has produced results.

There are 8,000 residents in FEMA trailers, probably another 8,000 pending in long-term recovery groups—16,000 households right now awaiting a solution.

This inaction does not affirmatively further fair housing. South Mississippi civic structures and public works are rebuilt better and bigger than before. But Mississippi's use of CDBG funds so far has not affirmatively addressed a decades-long pattern of inequitable development in historically segregated communities. Mississippi's extensive demands for waivers for low- and moderate-income requirements by definition does not affirmatively further fair housing. It does precisely the opposite.

Third, Mississippi's transfer of $600 million from housing to the expansion—this is not the restoration—the expansion of the State port at Gulfport—will make it even more difficult to provide affordable housing.

Mississippi's existing affordable housing programs will not have enough money to fill in the gaps in the current programs. This is described in my written responses.

Instead, these funds will be diverted to a record-breaking investment in a State enterprise agency to realize a 20-year master plan conceived 2 years prior to Hurricane Katrina. This $600 million does not buy mere channel improvements; it creates a controversial new land form in the Mississippi sound, an inland terminal and causeway that will import traffic, pollution, and hazards to north Gulfport, an African-American community.

And finally, it will open up 60 waterfront acres in the center of the port for a luxury hotel and casino complex known as the Village at Gulfport. Mr. Chairman, the port has $108 million in insurance, tens of millions in FEMA funds pending settlement of the insurance claim.

And if you will look at Exhibit J, on page 4 of my testimony, you will find the cite for $82 million in unincumbered cash, far more than adequate to cover the estimated $50 million in damages to a port with an asset value of $127 million at the time Hurricane Katrina struck. This is an unacceptable use of emergency CDBG funds.

Fourth, a summary of recommendations: Make rebuilding rental housing as high a priority as assisting homeowners; require some recovery funds to be used specifically to correct persistent disinvestment in minority neighborhoods; require States early in the process to publish housing damage estimates with sufficient information to plan adequate recovery for protected classes under the Fair Housing Act—Mississippi announces today 33 months into the storm that they are doing a request for a proposal to do such a thing. This comes terribly late—eliminate, or more severely restrict the use of waivers; require the State to present a comprehensive plan instead of a succession of partial plans; require Federal uniformity in multi-State disasters, including per-capita funding, common eligibility standards, and common rules on deductions; condition local disaster relief upon commitments by localities to prevent NIMBYism; pursue unfair housing practices aggressively, using HUD and the Department of Justice; and finally, urge the incoming HUD Secretary to reconsider the approval of the port diversion, and put that money back into the housing recovery where it is so badly needed.

Thank you.

[The prepared statement of Mr. Morse can be found on page 153 of the appendix.]

Mr. CLEAVER. Thank you, Mr. Morse.

Mr. Henneberger?

STATEMENT OF JOHN HENNEBERGER, CO-DIRECTOR, TEXAS LOW INCOME HOUSING INFORMATION SERVICE

Mr. HENNEBERGER. Thank you, Representative Cleaver, and thanks to Chairwoman Waters and the members of the subcommittee for inviting me to testify today about the status of the disaster recovery program in Texas.

I am John Henneberger, the co-director of the Texas Low Income Housing Information Service. We are a policy research advocacy organization that supports low-income Texans' efforts to achieve the American dream of a safe, decent, and affordable home. My organization doesn't represent any one sector of the housing industry, but rather we work on the behalf of and in the interests of low-income people who need affordable housing. I have detailed eight specific recommendations in my written testimony, and I know that I do not have time to summarize those here. But I will talk about a few of them.

Texas has the highest population of Hurricane Katrina evacuees of any State other than Louisiana. An estimated 100,000 poor Katrina evacuees remain in Houston alone, and there are 14,000 families in Texas being assisted through the HUD Disaster Housing Assistance Program. Already, these families are responsible for a portion of their rent, and as months pass, they will be responsible for an increasing amount of that rent, and there is no other assistance available for this population, a population so poor that 7 in

10 of them, when they arrived in Texas as evacuees, did not have a savings account or a checking account.

Given the severely inadequate levels of CDBG funds that have been appropriated to Texas, the State has committed a mere $60 million in funding to house the entire Katrina evacuee population in our State. This amounts to about $400 per evacuee.

We estimate that Federal hurricane relief has fallen about $700 million short of what we need in Texas to house on a long-term basis the Katrina evacuees, many of whom were renters and will be receiving no assistance through the homeowner programs in Louisiana and Mississippi.

As a long-term solution, Texas cities with large evacuee populations desperately need additional Section 8 housing choice vouchers. In Houston alone, 42,000 households are on the Section 8 waiting list, and the need for assistance among evacuees has greatly enhanced this demand.

Without substantial additional Section 8 housing vouchers, cities in Texas, especially Houston, are facing being crippled with homelessness, and with families living in grossly substandard and overcrowded housing, as their disaster housing assistance program increases to the point where they can no longer afford to pay the rent.

Congress needs also specifically to provide Texas with a supplemental appropriation of low-income housing tax credits and a temporary waiver for those tax credits, so that the State government will be allowed to deeper target the subsidies in order to house families who need very low rents, such as the Katrina evacuees.

The situation we face with Katrina evacuees is dire, and in a similar manner, we have a dire situation from those in our State who suffered from Hurricane Rita.

There are 75,000 homes that were damaged or destroyed by Hurricane Rita. Those are homes suffering what the Texas Governor's office estimates to be significant damage or total destruction.

With the funds that HUD has made available, of those 75,000 households, most of whom are low-income, at most 4,000 households will be assisted: 4,000 of 75,000 households assisted in Texas. This amounts to 6 percent of the owner-occupied households in Texas that the Governor's office estimated suffered major-to-severe damage.

I have documented in detail in my testimony the many problems that Texas has had with its disaster housing program. But I have to say this: I think we are in a little better situation today than our colleagues in Louisiana and Mississippi in terms of our State's administration. The State's program to provide Rita evacuees as now designated is probably the most effective and efficient program that can be operated. Within the context of the severe funding constraints that we have, we understand we are only going to help a very small fraction of the households who lost their homes to the hurricane. But within that context, the program that the State has designed, I believe, is reasonable.

We will provide a maximum of $40,000 in rehabilitation and the State will oversee the rehabilitation, and we will provide between $60,000 and $75,000 for housing construction for replacement housing.

Now, this is a far cry from the benefit levels that our colleagues in Louisiana and Mississippi are theoretically, at least, eligible to be able to receive for their low-income evacuees.

We estimate that in order to substantially impact the Rita population, we need $500 million of additional assistance. And further, we have a severe problem, because our State has chosen to provide assistance directly to the evacuees, with this problem of duplication of benefits under the definitions of the Stafford Act. We desperately need a waiver of the duplication of benefits clause in the current act. And if we cannot get that, we are going to be facing a situation where we are going to pass over most of our low-income population, and end up only being able to assist the higher-income populations who suffered damage from Rita.

Mr. Chairman, I see that my time is up, so I will conclude by basically saying that I think it's incumbent upon those of us who have lived through this—and it has been tremendously wrenching for the people who lost their homes—that we make sure that this never happens again. We have to make sure that the status quo programs that FEMA puts in place and that HUD has put in place, which rely on temporary trailers and which rely on short-term solutions is not the program that we apply in the future. We have to learn from this terrible catastrophe that we have been through, and we have to begin immediately to construct an alternative and a better system, which recognizes that the housing needs of low-income people impacted by disaster are substantially different than what the FEMA regulations intend to provide.

Thank you very much.

[The prepared statement of Mr. Henneberger can be found on page 92 of the appendix.]

Mr. CLEAVER. Thank you, Mr. Henneberger. Let me just say that the chairwoman is handling housing legislation on the Floor at this time, and she probably is the toughest proponent on this Hill for housing for low- to moderate-income Americans, so I just wanted to make sure you understood that is what she is doing, even as we continue this hearing.

Mr. Henneberger, do you happen to know what part of Houston received the largest number of evacuees from the Gulf Coast?

Mr. HENNEBERGER. Yes, sir. It was the southwestern section of the City of Houston, and there is a tremendous problem with the hyper-concentration of the evacuees in those areas, and in my testimony I provided our deep fair housing concerns about the decisions of the City of Houston on how to expend its very limited amount of money for Katrina evacuees, because we believe that the City's programs are designed basically to institutionalize and continue to exacerbate that overconcentration.

Mr. CLEAVER. Third and fifth wards?

Mr. HENNEBERGER. It is the Fondren and Southwest section. It is Congressman Greene's district, and surrounding areas.

Mr. CLEAVER. So that is a portion of the fifth ward. Are you familiar with—

Mr. HENNEBERGER. Yes, sir. I believe—I would describe it as an area generally around and outside of the loop and in the Southwest section.

Mr. CLEAVER. Okay. All right.

In certain parts, that is already one of the poorest parts of Houston.

Mr. HENNEBERGER. Those were where the vacant apartments were at the time the evacuees came. And so that is where they were referred. And unfortunately, you know, we believe it is really incumbent upon HUD to provide a moving-to-opportunity style program to help those evacuees be able to move to areas of higher opportunity, closer to jobs, better schools, where they choose to live, rather than sort of trying to provide limited assistance at improving the quality of apartments and basically locking those families into that area, where there's frankly far too many concentrated multi-family units that are in far too great a need of rehabilitation.

Mr. CLEAVER. Yes, I am very familiar with the area.

Let me find out, Mr. Johnson, the fair housing issues you raised, is there a State Fair Housing Act?

Mr. JOHNSON. No.

Mr. CLEAVER. Okay. I thought you said that, and those were in your comments. But then I thought he made an error that in 2008, there was just an oversight, and that you were looking at a lot of other acts, and you just were confused.

Mr. JOHNSON. No. Mississippi is one of the few, if not the only, State without a fair housing act, and Mississippi is the only State without a Department of Labor, and there are a whole bunch of things we don't have, which probably contributes to why we are the poorest State in the country.

Mr. CLEAVER. It was my understanding until this hearing that HUD required fair housing components when it distributes Community Development Block Grant funds. I don't know if anybody—I mean the HUD people have abandoned this.

Mr. PERRY. Congressman, the language in the Community Development Block Program simply says that grantees must affirmatively further fair housing, but there are no teeth, there are no enforcement mechanisms, and there aren't significant regulations, so HUD has not been very stringent about making sure that grantees follow these regulations. And so the result are the numbers of fair housing problems that we have seen testified to in this panel.

Entities that actually get CDBG funding have engaged in actual discrimination, and I think it's because of the lack of detail in the Community Development Block Grant funding mechanism.

I would note that Alabama also does not have a State fair housing law. And so to the extent that Congress can urge these States to get fair housing laws, I think it's a very important step.

Mr. CLEAVER. Did they forget?

[Laughter]

Mr. PERRY. In the case of Mississippi, there is a Fair Housing Act bill during every legislative session. As the political winds blow, the House is primarily dominated by the Democrats; they will pass an act out of that body, which inevitably is killed in the Senate. And that is the give-and-take every legislative session for at least the past 9 or 10 sessions.

Mr. CLEAVER. And Mr. Perry, you're saying that all that State has to do is say, "We believe in fair housing."

Mr. PERRY. Unfortunately, that's the case. It is unfortunately very easy to prove that you've affirmatively furthered fair housing.

And one thing that advocates like myself have said for a long time is that we really need Congress to tighten the language, so that there are actual penalties for failing to affirmatively further fair housing. And that's so crucial. Without it, they simply write up a statement saying, you know, we sponsored a poster context, and therefore we have affirmatively furthered fair housing. Meanwhile, they have, you know, for instance, not done anything to help any low-income citizens find rental housing in the State.

Mr. BAAB. Well, Mr. Cleaver, I wanted to also add for Alabama that—and this really highlights the importance of HUD's responsibilities—in the two action plans, the initial and supplemental action plans submitted by Alabama to HUD for approval prior to receipt of CDBG funds, the words, "fair housing" do not appear.

Mr. CLEAVER. I was the mayor of Kansas City. When we enter into our annual CDBG contract with HUD, we certify that the—because we had a fair housing department—but we certified that the City will adhere to all of the requirements of the law. And I'm not sure that my colleagues have a good understanding of what is going on with both States.

But the other problem we have is that in the middle of this program, it's difficult for us to then start tightening the screws, because if that happens, that becomes the excuse for not, you know, speeding up the program. You know, if we say, for example, we're going to cut off funds if you don't conform to our expectations of fair housing, that works to the detriment of the people that all of you on the panel are advocating for.

Mr. Baab?

Mr. BAAB. You're exactly right, sir, and I might say, just to be fair, that the contract that the State entered into, or I should say Mobile County entered into with the contractor to actually exercise his program, that contract does contain all of that usual fair housing obligations and commitments that the contractor agrees to. But without the State including something in there in their project plan to HUD and without HUD saying anything back, it gives it worse than no teeth; there's nothing in there to do. And furthermore, in these applications there is no information retained about the racial background of any of the applicants. The question is, I think, racial minority? Yes or no. Whatever that means.

And so the information isn't even gathered in such a way that we could test on whether compliance is existing.

Mr. CLEAVER. Mr. Morse?

Mr. MORSE. Representative Cleaver, I wanted to mention that Mississippi, like all the other States, is under a regulation to compile and maintain records to assure compliance with fair housing laws.

Mr. CLEAVER. Do that again, do that one more time, please.

Mr. BAAB. The emergency CDBG regulations require each State to maintain records and keep records of the pertinent demographics to assure that the Fair Housing Law is being complied with. If you look on pages 11 and 12 of my written statement, you'll find the cite to the regulation and the language itself.

But here's the point. The point is that Mississippi has not kept those statistics, that they have treated that as a voluntary option for people coming in for the homeowner's grant. And Representative Cleaver, that's the one that over a billion dollars has been paid out to, that overwhelmingly from our understanding of the facts, is skewed towards moderate- to upper-income households, and not to lower-income households.

So there's no way at this point, with the money already out the door, for you or HUD or anybody else to determine whether or not there was compliance with the Fair Housing Law, because the front-end data gathering was not kept, and so there is going to be no accountability. That ought not be allowed to occur without consequences.

Our understanding, Mr. Cleaver, is that HUD is in discussions with Mississippi about the shortcomings of its record-keeping requirements. We would encourage greater oversight and investigation from your end on that, because we believe it's critical to seeing some kind of fairness come out of this process.

Mr. CLEAVER. Well, I am frankly flabbergasted and just stunned. That solves the hearing for me. I mean I understand now why we haven't made any progress.

Madam Chairwoman and Mr. Johnson's testimony mentioned that there was no fair housing law in Mississippi. Well, it turns out there is no fair housing law in Mississippi or Alabama on the books. And so it skews any kind of certificate that low- to moderate-income people are being helped, because there is, you know, the State is not obligated legally—am I correct, Mr. Morse?

Mr. MORSE. Actually, I think the State is obligated under a Federal HUD regulation to record the race and other pertinent fair housing demographics. My statement to you, sir, though, is that the State has not done so.

Mr. CLEAVER. Yes, I understand that.

Mr. MORSE. And that's the dilemma. From the Federal obligation side. It's our information this is in writing from a State representative that they treated that as a voluntary piece of information, did not record it mandatorily as the regulation required, and therefore there is no possible way to assure that the fair housing obligation has been met. One cannot determine the racial demographics of those who received the homeowner's grants because they didn't record it at the front end. If you allow that to go unanswered, you know there is no point in any accountability.

Mr. CLEAVER. Yes.

Mr. BAAB. Mr. Cleaver, if I can—

Mr. CLEAVER. Let's turn this over, back to—

Mr. BAAB. If I could make a quick comment, because I want to get this on the record in the context of what you're discussing here, if I may, Madam Chairwoman. In a little town or little area of north Mobile County called Trinity Gardens, it is about 94 percent African American, one of the community leaders there, Lavonis DuBose, had meetings with two of the three Mobile County commissioners last year, and in those meetings they were told by the commissioners, two separate meetings, that this little community did not qualify for Community Development Block Grants, so they shouldn't even bother applying. They were simply mistaken, they were just wrong. But among other reasons, these folks then didn't. And so, Ms. DuBose went about raising $250,000 in private money, and helped about 160 families just get a roof on their house. Sixty folks are going to apply again if we ever open up the process again. But even if it was out of stupidity or ignorance, the fact remains that virtually an all-black community in Mobile county fully qualified to apply for CDBG funds was told by two of the commissioners of the county that they couldn't do it.

Chairwoman WATERS. Yes. Thank you very much. That is on the record. And again, I'm sorry I had to leave, but some of the information that you have shared with Mr. Cleaver here today—well, all of it is on the record. Some of it I am pretty much aware of.

Our challenge now is to really do some follow-up, and to see what we can do. I just talked with my staff about the money that is being directed towards the port and I am absolutely going to see what we can do to avert that over the next few days. We are going to have to move on it very quickly to see what we can do to stop that from moving forward.

Also, I will get the information about Phase I and Phase II in Mississippi.

Yes, sir?

Mr. MORSE. Madam Chairwoman, I wanted to mention that actually the representative from the State of Mississippi and you and anybody else in this room can go online at the Mississippi Development Authority, and go to the right location and see the information current as of each Wednesday. I am fairly familiar with that, and I can answer a couple of the questions you were trying to put to Mr. Norris, which he was unable to answer. Would you like me to do so?

Chairwoman WATERS. Yes. You heard the questions.

Mr. MORSE. Your first question to Mr. Norris was: What was the average grant amount for Phase I? The answer to that is: About $70,000. He has given you a fairly accurate answer. The number of grantees is probably in the range of 15,000 to 16,000. What is distinctive about Phase I, Madam Chairwoman, is that those people already will have received some insurance, so $70,000 is not the sum total of funds that they will have received in order to restore their dwellings.

In contrast, Phase II, a significant percentage of those folks will have not had insurance. They will be lower-income households. They will probably have had only actual cash value as opposed to replacement cost coverage, because of persistent problems with the insurance industry in writing in minority neighborhoods. And so the gap between any insurance money, if any, they receive and the cost to repair is going be higher.

And Madam Chairwoman, in Phase II, the average grant amount was also about $70,000. But because of the insurance problems I just described, the aggregate amounts of households receiving home grants in the lower-income side will be smaller, and we are seeing at the Mississippi Center for Justice and in all of the other service organizations across the coast persistent gaps of people who have received grants, but can't finish the job. So the total number of households that have received the grants, Madam Chairwoman, I think is in the range of 4,000. But as I say, if you were to go to Mississippi.org and then go to their disaster relief section, there is a weekly report that gives you a breakout on that, and those numbers actually add up to a smaller number than the one Mr. Norris quoted to you about the total number of people receiving grants.

Chairwoman WATERS. What was the total number of people in Phase II?

Mr. MORSE. I think he indicated that in total, it was close to 25,000 currently, and I think currently the actual number is closer to 19,000 to 20,000, of which 4,000 are in Phase II.

Chairwoman WATERS. Thank you very much. We are going to look a lot closer at that. It is something that has been on my mind ever since Mr. Norris, I think you first brought it to our—who was it that first brought it to our attention? The NAACP. Mr. Derrick Johnson first brought it to our attention, I think when we were in Mississippi, and this is information that needs to be followed up on.

I want to thank all of the panelists for being here today. I will review the testimony of each one of you who have appeared here today. It is being recorded. This committee is going to do some follow-up. We are coming back; we are going to look at the numbers; and we are going to look at what we need to do legislatively. We are going to look at what we need to do, working with a combination of HUD and the Governors of these States, particularly Louisiana and Alabama. We are going to try not to be categorized as having came, looked, did a look-a-loo, and didn't come back, didn't do anything. I know a lot of people are feeling that way now, and we feel a real sense of responsibility to that.

So we will follow up, and we will be back. Okay?

I thank all of you for being here today.

The Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record.

The panel is now dismissed. Before we adjourn, without objection, the written statement of the Equity & Inclusion Campaign will be made a part of the record of this hearing.

The hearing is now adjourned. And thank you so much for your patience here today.

[Whereupon, at 3:09 p.m., the hearing was adjourned.]

A P P E N D I X

May 8, 2008

Opening Statement of the

Honorable Maxine Waters, D-35th CA

Chairwoman, Subcommittee on Housing and Community Opportunity

Hearing on "Emergency CDBG Funds in the Gulf Coast: Uses, Challenges, and Lessons for the Future"

Thursday, May 8, 2008

2128 Rayburn House Office Building

10 a.m.

Good morning ladies and gentlemen. As a national advocate for the Gulf Coast, I was quick to push for emergency appropriations to help the states affected by Hurricanes Katrina, Rita, and Wilma recover from the devastation caused by those storms.

The 2005 hurricanes were the deadliest and most expensive storms on record. Over 1 million housing units were damaged along the Gulf Coast as a result of the hurricanes in 2005, with half of the damaged units located in Louisiana, which bore the brunt of

Hurricane Katrina. Total catastrophic losses from Hurricane Katrina are estimated at $40.6 billion, with uninsured losses much higher.

Altogether, the Federal government has provided $123 billion for hurricane relief. However, $19.7 billion of this amount was provided through the Community Development Block Grant (CDBG) program.

Congress has historically appropriated supplemental CDBG funds to respond to natural disasters such as hurricanes, earthquakes, and tornadoes. In addition, CDBG funds supported recovery efforts in New York City following the terrorist attacks of September 11, 2001; in Oklahoma City following the bombing of the Alfred Murrah Building in 1995; and in the city and county of Los Angeles following the riots of 1992.

However, the severity of the damage inflicted by the 2005 hurricanes and the slow responses of some of the states to get these funds out of the door has put the program into question. I have several concerns about how these CDBG programs have been administered and implemented.

First, I am concerned about how states in the Gulf Coast have used CDBG funds to replace or repair damaged rental housing. Many of the programs implemented to date heavily focus on assistance to homeowners. While I agree that homeowners who have felt the impact of these storms should receive compensation, I do not agree that these funds should be used to help homeowners at the expense of renters. Furthermore, in areas where states have tried to rebuild rental housing, I am alarmed by the reaction of some communities to having this much needed housing resource in their communities. I am eager to hear from our witnesses about the extent to which the "Not-in-My-Backyard" effect is hampering their ability to provide affordable rental housing with CDBG funds.

Second, adherence to fair housing laws and the requirement that states affirmatively further fair housing is of vital importance. We will hear a lot about CDBG waivers today and there may be some discussion about what Congress' intent was in allowing HUD to grant waivers of some CDBG program requirements. However, there can be no doubt that Congress never intended for HUD to waive fair housing laws. Although no state has requested such a waiver and HUD is prohibited from issuing such a waiver, I remain concerned about how some of the programs being implemented are affirmatively furthering fair housing. Given the focus of these programs on owner-occupied housing and the fact that most rental housing is occupied by people of color, I have questions about whether or not these programs do enough to affirmatively further fair housing.

Third, I am concerned about complaints that states have been slow in getting the money out and in constructing or repairing housing. I am interested to know what is causing these delays—

such as the environmental review process or NIMBYism—and what we can do to make sure that almost 3 years after Katrina we giving the states the tools they need to make sure that they are getting funds out the door quickly and efficiently.

Fourth, as I mentioned earlier, I am concerned about HUD's process for providing waivers, including waivers of the requirement that at least 50 percent of grant funds benefit low- and moderate-income households. So far HUD has granted 4 such waivers. Although, I must commend the Department for repeatedly denying Mississippi's request to receive a "blanket" waiver of the “low-mod” requirement in its entirety, I am concerned that as a result of these waivers that some of the state CDBG programs are not as targeted to low-income families as they should be. After all, the CDBG program, is at its root, a program designed to help alleviate poverty.

Finally, I am concerned about the diversion of CDBG housing funds for other purposes. The state of Mississippi has made headlines for its plans to divert $600 million from its Phase I homeowner Grant Assistance program to the restoration and expansion of the Port of Gulfport. Frankly, I am not convinced that the state has met all of its unmet housing needs. I am very interested in hearing from our witnesses from Mississippi on this issue. On another note, I am also interested in hearing the views of these witnesses on the difficulty Mississippi homeowners who received Phase I assistance are encountering in obtaining flood insurance.

I'm looking forward to hearing from our two panels of witnesses on the uses and challenges of CDBG funds in the Gulf Coast. I would now like to recognize our Subcommittee's Ranking Member to make an opening statement.

Appleseed

Statement of

Craig H. Baab, Katrina Advocacy Fellow

Alabama Appleseed Center for Law & Justice, Inc.

Concerning

"Emergency Community Block Grant Funds in the Gulf Coast: Uses, Challenges and Lessons for the Future"

Before

Hon. Maxine Waters, Chair
Subcommittee on Housing and Community Opportunity
Committee on Financial Services
United States House of Representatives

May 8, 2008
Washington, DC

Good morning, Chairwoman Waters, Ranking Member Capito, and subcommittee members. Chairwoman Waters is among the few leaders in our government who have not hidden behind "Katrina fatigue," but who has pushed her colleagues and the rest of us, to maintain our support for our neighbors on Katrina's Gulf Coast just as we continue our support for the victims of 9/11 on the Atlantic Coast.

My name is Craig H. Baab[1] and I am the Katrina Advocacy Fellow with the Alabama Appleseed Center for Law & Justice, Inc, in Montgomery, Alabama, one of 16 autonomous legal policy centers throughout the United States and Mexico.[2]

The national office of Appleseed and the Centers in Alabama, Georgia, Texas and Louisiana last year published a sweeping study of how Katrina and Rita survivors were treated in the various cities to which they fled – Atlanta, Birmingham, Houston, Baton Rouge and San Antonio. That report, **A Continuing Storm: The On-Going Struggles of Hurricane Katrina Evacuees – A Review of Needs, Best Practices, and Recommendations,** (www.appleseeds.net) tells how thousands of Americans provided immediate support and assistance both faster and often with greater competence than larger groups and governments. That report, which I ask be included in the record, contains important lessons as we look to how better to fashion the essential work of Community Development Block Grants.

I join my colleagues on this panel in commending you for convening this oversight hearing about the post-Katrina and Rita experience with the federal Community Development Block Grant (CDBG) program, not just in one or two of the states most affected by those storms, but appropriately into all of the states so affected – which is to say a regional look, just as Katrina was a regional catastrophe.

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[1] Mr. Baab earned a BA in political science from Elmhurst College in Elmhurst, IL and earned his law degree from The Washington College of Law at the American University in Washington, DC. He is admitted to practice law in Washington, DC. For 19 years he served in various capacities in the Governmental Relations Office of the American Bar Association. He was responsible for a wide range of issues, including the reauthorization of the Voting Rights Act, the establishment of the State Justice Institute, and numerous other issues in the areas of regulatory reform, election law, military and national security law and a number of international law issues, including US ratification of the UN Genocide Convention and other human rights treaties. He was the General Counsel of the Armenian Assembly of America, and served in the Center for Democracy and Governance at the US Agency for International Development. He led missions investigating the rule of law in the Democratic Republic of the Congo, Malawi, former Soviet republics and the referendum on independence in the Republic of Armenia. He was the Chief of Party for the Palestinian Rule of Law Project in the West Bank and Gaza Strip prior to the beginning of the 2000 Intefada.

[2] Alabama Appleseed is a non-profit, non-partisan legal policy center working to identify the root causes of inequity and inequality in Alabama and seeking systemic changes in law and policy that will improve the lives of all Alabamians. Each of the other Appleseed Centers likewise is autonomous, focusing on needed law changes in that state, but also working in collaboration with some or all of the other Centers on broader challenges, such as those posed in the aftermath of Hurricane Katrina, which require state, regional and national solutions.

This approach is particularly important to help relieve the detrimental practice witnessed since the storms of one state pitted against another state, or one county competing against another county, over who gets the most money or who can get more than the most money. The truth is that there is not near enough funding in many jurisdictions for many pressing needs. Perhaps the time has arrived for local, state and national officials to focus closer attention to the regional rebuilding needs post-Katrina, and less on what they bring home to "their" people.

Katrina and Rita paid scant attention to state or local political borders, and for us to continue to do so simply perpetuate the storms' impact on all its survivors.

Summary: Today in Alabama

I will begin with a short summary of how Alabama's Katrina survivors are faring today and how the federal government's CDBG program is helping rebuild the storm's destruction. Our senior senator, Richard Shelby, the Ranking Member on the counterpart full Senate committee, thoughtfully and succinctly summarized at hearings last September 25, what our goal should be. He observed that a way to honor the memories of the nearly 2000 souls who perished in Katrina's wrath was, "... by insuring that the Gulf area is rebuilt not as it was, but as it should be."

Sen. Shelby got it just right, and his statement also is a good summary of the real purpose of Community Development Block Grants – to develop our communities as we want them to be. It is not a federal program intended simply to return our communities to their prior condition, and certainly should not be viewed as some financial band aid being applied to cover over, and not renew, our ruined communities.

Today's reality in coastal Alabama is sobering. That reality continues to be a marginal existence for thousands of our coastal neighbors still breathing the fumes in FEMA trailers, living with neighbors because the insurance paid off the mortgage, but left nothing with which to rebuild and wondering why they have not received the CDBG assistance for which they applied 15 months ago. We are grateful to Sen. Sessions for coming to Mobile last week to meet with so many of his supporters who remain without the help he recently told me is too long coming.

Alabama has received to date a total of $95,613,574.00 in CDBG funds of which $19,811,267 has been spent. Of that total, the amounts awarded by the state to units of local government for housing total $31,513,606. Total housing expenditures as of May 6, 2008, are $5,819,474. That investment has resulted in building 40 modular homes and ordering 22 surplus mobile homes

The 400,000 inhabitants of Mobile County were allocated $18.9 million in total CDBG funds solely for the purpose of building or rehabilitating homes and rental units impacted by Katrina. Of that money, not a cent has yet resulted in a storm survivor moving into a new home. Part of that $18.9 million -- the second supplemental CDBG allocation of approximately $8.5 million for housing -- is not even under contract. So, not only has the initial $10.5 million moved no one into a new home, the second supplemental, while available, is not even in play.

1. **<u>The affordable housing needs of Alabama citizens have not been met with emergency CDBG funding.</u>**

In the absence of a comprehensive, professional needs assessment it is difficult to know with any clarity what housing needs exist, much less if they have been fulfilled. However, a comparison of emergency CDBG funds received in Alabama with how much of that funding has been spent, does begin to paint a picture -- a small percentage of the affordable housing needs of Katrina survivors have been met. Only $5.8 million of the total state-wide housing allocation of $31.5 million has been spent, broken down as follows:[3]

<u>Initial Funding:</u>
Bayou La Batre – $7,308,694. Spent: $5,262,607. Built: 40 modular homes
Mobile County – $10,459,588. Spent: $441,559. Built: 0
Washington County – $1,177,500. Spent: $115,308. Built: 0. Ordered: 22 mobile homes

<u>Supplemental Funding:</u>
City of Mobile – $4,103,146. Spent: $0
Mobile County – $8,464,678. Spent: No contract awarded

Thus, of the 24 Alabama counties that were damaged by Katrina, only Mobile and Washington Counties received emergency CDBG housing assistance, and Mobile County's needs and funding are by far the greatest. If a comprehensive needs assessment had been undertaken throughout Mobile County, and particularly the unincorporated coastal towns including Coden, it would have identified far greater housing damage requiring millions more in CDBG funding than has been provided.

If that appropriate level of funding had been provided in a more timely fashion Mobile County's decisional process of how to spend that funding would not be as seriously hamstrung as it is, by devoting inordinate amounts of time trying to decide how to spread the available money among perhaps 7% of the qualified homeowners and renters. Freed of those otherwise unnecessary constraints, Mobile County would have been less inclined to disqualify low-income homeowners because they had the misfortune to live in sub-standard, aging housing before the storm hit, or because they live on "heir property" and have difficulty proving clear title to their land.

Substantial and valid attention is paid to thwarting CDBG fraud and abuse, and prosecuting such cases when found. Arguably, however, poor planning or no planning results in greater amounts of money wasted, time squandered and Katrina survivors still without homes, as outlined above.

After continuing calls for a meaningful needs analysis, led by Alabama Arise, Mobile Fair Housing Center, the South Bay Communities Alliance, Appleseed and other citizen groups, went unanswered by ADECA and Mobile County, Appleseed decided to gather what data it could. With the cooperation and assistance of Mobile County's CDBG contractor, Roth, McHugh & Associates, LLC, Appleseed staff and volunteer law students from Jones School of Law distilled data that Roth, McHugh had compiled from

[3] Appleseed has not been able to obtain more detailed information on the income level of those assisted, and whether they are renters, homeowners or FEMA or other manufactured housing occupants.

CDBG applicants. Piecemeal as it was, the resulting information allowed for the first time a clearer view as to who was to be served with emergency CDBG funds, and what was the level of their need.

Based on information gleaned from the 1179 applicants who timely applied for CDBG funding early in 2007, Appleseed found:

*39% have annual household incomes of $15,000 or less;
*average household income was $19,202;[4]
*at least 552 people with disabilities live in 363 households (31% of total);
*166 of these households are headed by an elderly person;
*58% of households have one or more minor children, often headed by a single parent (or grandparent).

Furthermore, Appleseed totaled the various estimates of damage conducted in May – July, 2007 by a Roth, McHugh contractor on approximately 700 of the applicant properties, and extrapolated those results across all applicants to reach very rough, minimum estimates of costs for various repairs. These conclusions:

*exterior estimate to repair houses not completely destroyed: $35,220,560
*approximately 171 homes were destroyed and needed to be rebuilt (based on average cost of $148,500 for recently built homes): $25,393,500
*replacement/repair of waste disposal systems in 440 homes @ established program ceiling of $18,000: $7,920,000
*raising 766 homes (65%) @ maximum program cost of $30,000: $22,990,500

The total of these category costs, which are rough and very conservative, is $91,524,560, a figure based entirely on an exterior review, and not including any interior repairs or replacements. Consequently, that amount is tripled in order to arrive at a more realistic total of $274,573,680. Thus, the current emergency CDBG allocation for housing in Mobile County of $18.9 million would meet perhaps 7% of the estimated need of nearly $275 million.

Earlier damage assessments, including housing and other infrastructure costs, appear in hindsight wholly unrealistic. One projected state-wide Katrina damage at $139.7 million.[5] Woods Research, Inc. had been retained by ADECA in 2006 to prepare a comprehensive evaluation of the damage and projected repair costs.[6] The resulting data reported on Mobile City municipality estimates of hundreds of millions of dollars in housing costs. However, Woods Research's final report, in listing various priority projects and associated expenditures, did not rely on existing FEMA or Mobile City estimates, but rather recommended that a comprehensive needs assessment be undertaken for housing in Mobile County. The projected value of this work was "high," and the estimated cost was $10,000.

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[4] 12 household incomes ranging from $75,000 to over $2 million were excluded from the total of 1179 so as not to skew average household incomes of the otherwise low-income communities represented.
[5] Economic recovery Strategy for Alabama Counties Impacted by Hurricane Katrina, ADECA, March 2007
[6] A Post-Katrina Housing & Needs Analysis for The Mobile, Alabama MSA, Woods Research, Inc., Columbia, SC, June 2006.

Two years after the Woods' report recommendation, and at the persistent urging of the community organizations, Mobile County/ADECA contracted with a regional government consortium to prepare a "needs assessment" for a small portion of largely unincorporated southern Mobile County, at a cost of $15,000. The result was quietly published late in 2007, and is useless.

Recommendation: ADECA promptly should undertake a comprehensive, professional assessment of the housing conditions and needs of Mobile County residents.

Mobile County has insisted on imposing on CDBG applicants a standard of qualification for assistance found no where in the CDBG law or regulations, that of "deferred maintenance." The County recently amended its Procedures to require that any structure with Katrina damage less than 50% the pre-Katrina value of the house, must meet a very high standard of imminent danger to health to receive any CDBG assistance. Huge amounts of time and money for home inspectors, attempting to discern how much of an old house was direct storm damage, and how much merely was existing frailties of a low-income person's old house. The attitude behind this thinking is exemplified by a Mobile County employee working on CDBG home rebuilding: "Just because someone doesn't keep up their house the way the rest of us do, and then is lucky enough to be hit by a hurricane, why should we then repair their house?"

Recommendation: Congress should urge HUD to explicitly state that pre-existing house damage may be included in CDBG repairs if to do so would improve the person's home and the condition of the community.

2. **<u>The use or distribution of emergency CDBG funds does not appear to have affirmatively furthered fair housing in Alabama for Katrina survivors.</u>**

Nearly two years after the storm, and long after the approval of Alabama's Action Plans by HUD, the approval of all CDBG funds and the acceptance by Mobile County of the work plan of its successful contractor, the staff of the Alabama Department of Community and Economic Affairs posed the following question to the contractor to consider as possible objectives of the housing assistance program:

Is a program objective to give priority to elderly, disabled, families with children, people residing in FEMA trailers or otherwise displaced, etc?

While the answer is "yes," it is the asking that is instructive. The HUD-approved action plans[7] prepared by Alabama's Department of Economic & Community Affairs – the agency responsible for directing CDBG programs -- contained no reference to the use of CDBG funds for the purpose of providing fair housing services under the federal Fair Housing Act, nor did it suggest as an element of Alabama's action plans the analysis and determination of the impact of Katrina on classes of people protected under the Fair

[7] *Hurricane Katrina Action Plan for Disaster Recovery Funds, March 2006* and *Hurricane Katrina Action Plan for Supplemental Disaster Recovery Funds, December 2006*, both at Community Development Block Grant Program, State of Alabama, Alabama Department of Economic and Community Affairs (www.adeca.alabama.gov)

Housing Act. There was no reference to the Fair Housing Act at all. Little wonder that an ADECA employee should ask if CDBG funds should be prioritized to those persons protected under the Fair Housing Act, such as people with disabilities and families with children.

As noted above, Appleseed undertook an informal analysis of data from the 1179 CDBG applicants, and found a substantial population of households with minor children, with disabled occupants and elderly-headed households. Appleseed was not able to quantify the racial makeup of the applicants as this information had not been requested in the application form.

Key elements of furthering fair housing understanding and compliance are public education and outreach. The Policy & Procedures adopted by Mobile County to govern the CDBG process included a commitment that all public notices and related notices of meetings would be published in English, Spanish, Vietnamese, Laotian and Cambodian. There have been no reports that any such notices ever were published in any language but English. Roth, McHugh did retain a Vietnamese translator to translate program documents. However, in practice the person so hired found it easier simply to meet with the non-English speaker and complete any required forms in English himself.

Finally, Appleseed has confirmed a troubling example of misinformation. Leaders of a 1500-household community comprised of 94% African-Americans in northern Mobile County were told that their citizens did not qualify to apply for CDBG rebuilding grants. Some 200 households were damaged in the storm. As a result of this guidance, by one appointed member and one elected member of the Mobile County Commission, those citizens, who in fact were fully qualified to seek CDBG funds, did not apply within the required time period early in 2007.

While the community did what so many on the coast did, and raised over $250,000 to help put a roof or otherwise fix up some 140 damaged homes, 60 households still remain without assistance, and are expected to seek to reopen the application process.

3. Other information resulting from Alabama Appleseed's experience with the emergency CDBG program.

As noted above during the identification of clouded property title as a constraint to CDBG payments, the underlying problem of heir property is significant. Almost by definition owners of heir property are low-wealth individuals and families, and those living on heir property damaged by Katrina continue to require legal assistance to qualify for CDBG funding. Alabama Appleseed, with the support of the AARP Foundation, and in partnership with the Alabama State Bar and the Mobile County Bar's Volunteer Lawyer Program, has undertaken to fashion a network of pro bono lawyers to assist these people. Others have asked for assistance through offices of the Legal Services Corporation.

ADECA has indicated in its public hearings on the initial CDBG allocation that it appeared legal and other assistance helping people with heir property problems was well within the mandate of CDBG. We agree and would urge that a more regional and national consideration of solutions be found for owners of this land who often are low-wealth, African American with little access to or trust in our legal system. Indeed, Both Texas Appleseed and South Carolina Appleseed are continuing to seek solutions, and in Alabama we are partnering with Extension Agents to present public education programs to low-wealth, rural communities. Louisiana Appleseed, in the wake of the serious heir property problem in New Orleans has persuaded the state legislature to establish a study commission to come up with proposals by next year.

Alabama may be the only state that does not fund civil legal services for low-income people through its annual legislative appropriation. Congress does not include in its Legal Services Corporation appropriations a line item for disaster legal services contingencies; the congressional effort post Katrina to enact a special disaster assistance appropriation for the Legal Services Corporation for all affected states was not successful.

Thus, while the burden on selected legal services offices in Alabama was not overwhelming, it was still an unbudgeted and unfunded cost. By comparison, an estimated 25,000 low-income families own heir property in New Orleans, and Louisiana's legal services offices have been inundated by these and other Katrina-related cases without adequate funding.

Louisiana CDBG funds have been used to fund these essential legal services by Southeast Louisiana Legal Services and others, but recent obstacles have halted this funding. In response, Brian Sullivan, a HUD spokesman, observed that, "We're confident the state will restart this valuable program so the people who need these services can get these services." Alabama's Department of Economic and Community Affairs also has provided limited funding for Legal Services Alabama.

Recommendation: Congress should amend the Community Development Block Grant and/or the Legal Services Corporation laws to direct that, for disaster emergency appropriations, no less than a certain percentage (as determined by each state) of the grant shall be allocated to support the delivery of legal services for low-income persons. Congress might indicate such funding is both to "affirmatively further fair housing" as well as to render what other legal services are required to assist eligible disaster victims qualify for CDBG assistance.

I thank this Subcommittee and look forward to continuing this conversation.

WRITTEN TESTIMONY OF DAVID J. BOWMAN, DIRECTOR, RESEARCH AND SPECIAL PROJECTS FOR THE LOUISIANA RECOVERY AUTHORITY BEFORE THE U.S. HOUSE OF REPRESENTATIVES COMMITTEE ON FINANCIAL SERVICES SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

May 8, 2008

Chairwoman Waters, Ranking Member Capito, Members of the Subcommittee, thank you for inviting me to testify today on behalf of the State of Louisiana. My name is David Bowman of the Louisiana Recovery Authority; our executive director, Paul Rainwater, deeply regrets that he was unable to attend today due to a pre-scheduled surgery. I would also like to recognize one of our board members and the chairperson for our Long-Term Community Planning Task Force, Ms. Donna Fraiche, who is here today.

On behalf of the citizens of Louisiana, I thank this committee, the US Congress and each American taxpayer for the generous support to our state following the unprecedented devastation caused by Hurricanes Katrina and Rita. These hurricanes were two of the most costly storms to strike the US and they hit Louisiana just 26 days apart.

Our State has suffered immensely in terms of lost lives, livelihoods and personal assets, including the loss of over 200,000 housing units. The State of Louisiana is grateful for the $13.4 billion in Community Development Block Grant funds of which $11.6B, or over 86%, has been dedicated directly to repairing or replacing the massive losses to our housing stock. And, as you will see, we are making strides with these Federal funds, but even with these resources a number of practical challenges remain to the rebuilding efforts. These include increased costs of labor and materials, increased costs of utilities and insurance, and a decrease in available infrastructure and services. These challenges impact the single family housing market as well as the rental market and drive individual decisions every day regarding their ability to return home. In addition, the sheer magnitude and concentration of the losses dictate that this will be a long term rebuilding process.

The Louisiana Recovery Authority is dedicated to the recovery of our most devastated areas through the effective use of federal and state resources in a manner that provides accountability and transparency. As such, we welcome the opportunity to answer the questions below:

1. ***How many units were destroyed as a result of Hurricane Katrina in the state of Louisiana? What are the current unmet housing needs in the state of Louisiana? For each question, please provide figures for rental and owner-occupied units.***

The table below provides the overall number of major and severe damaged properties based on HUD analysis of FEMA inspection data. These figures include Katrina and Rita, but the vast majority of damages are from Katrina. This analysis was conducted in all five impacted states back in February of 2006 and is available through the HUD website at http://www.huduser.org/publications/pdf/GulfCoast_HsngDmgEst.pdf.

State of Louisiana Housing Damage Statistics:

	Owner Occupied	Rental Properties	Total
Major	59,023	39,063	**98,086**
Severe	63,569	43,082	**106,651**
Major & Severe	**122,592**	**82,145**	**204,737**

Assessing the true demand for housing in the wake of this unprecedented disaster is nearly impossible. We still have tens of thousands of citizens displaced throughout the country and gauging their intent or ability to return home is a guess at best. However, we can look at some population indicators as well as those still living in federally assisted housing to provide some context. Based on active residential postal addresses, Orleans parish is still down by about 129,000 individuals. In addition, we currently have approximately 34,000 individuals receiving federal assistance under HUD's DHAP program, which is due to expire in March of 2009. We currently have approximately 18,600 Louisiana households still living in FEMA trailers. The bulk of these are trailers on private sites with over 2/3 of these being current or former homeowners.

FEMA Active Trailer Leases in Louisiana

	Owners	Renters	Total
Commercial	694	1,461	2,155
Group	236	531	618
Private	11,845	3,948	15,793
TOTAL	12,775	5,940	18,566

As of April 21, 2008

The numbers above indicate an *immediate* demand, especially as trailer leases are set to end in the coming months, but these do not indicate total demand. In addition, the homeless population in New Orleans is estimated to have doubled to 12,000 indicated a further need for housing available to lower income groups. Job vacancy surveys for the New Orleans region from the Louisiana Department of Labor indicate an increased demand for employees even while the total number of employers has dropped. These employees need places to live in proximity to the workplace.

The Louisiana and New Orleans Metro Housing Needs Assessment published by the Louisiana Housing Finance Agency indicates the following needs for housing affordable to low, moderate and middle income families:

	New Orleans Metro	Louisiana
Additional Rental Need	29,000 - 50,000 units	60,000 – 80,000 units
Demand for Purchase of Affordable Homes	20,000 – 40,000 units	60,000 – 80,000 units

The complete housing needs assessment can be found at http://www.lhfa.louisiana.gov/downloads/aboutus/HousingNeedsAssessment_032808.pdf.

2. ***Please describe the State's plan for rebuilding or repairing lost or damaged housing units. How will this plan address all of the State's unmet housing needs?***

The State's plan for rebuilding and repairing lost or damaged housing units comes primarily through the use of the Community Development Block Grant appropriation. In addition, the LHFA is utilizing Gulf Opportunity Zone tax credits and traditional programs to create market incentives for additional development and home ownership.

The current breakdown of CDBG funding for housing is as follows:

Assistance to Owner Occupants (Road Home)	$9,974,900,000	86.2%
Workforce & Affordable Rental Housing	$1,520,238,250	13.1%
Developer Incentives & Code Enforcement	$33,800,000	0.3%
Homeless Supports & Housing	$25,900,000	0.2%
Housing Startup	$17,100,000	0.1%
Total Housing	**$11,571,938,250**	**100.0%**

The state's plan for rebuilding is written through the Action Plans required by HUD for the use of CDBG funds. These plans are approved by both the Louisiana Recovery Authority and Louisiana's Joint Legislative Committee on the Budget (JLCB) before going to HUD for approval. All action plans are available online at http://www.doa.louisiana.gov/cdbg/DRactionplans.htm.

The Road Home program for homeowners provides compensation for the homeowners' loss up to $150,000 dollars and includes a Compensation Grant component, an Elevation Grant and an Additional Compensation Grant (ACG) for low-income applicants that need additional rebuilding dollars. While the homeowner effort is a compensation program designed to arm owners with financial resources to help them rebuild if they choose to, the State's Rental Housing efforts provide direct subsidies to owners to spur construction and restoration of affordable housing units. With the dramatic loss of supply and the resultant shortage of housing units, "demand-side" efforts, such as rental assistance vouchers, are limited in what they can accomplish – especially in a market where banks are unwilling to "underwrite" long term loans to owners/developers based on the current high rents.

The State's Small Rental Program is also making significant progress. Approximately 6,800 owners have received incentive awards to restore about 12,800 units. Approximately 1,500 of these owners have now received firm commitments from the State and are proceeding to complete their units. In fact, the first 9 projects totaling 13 units have been completed, and many more units are now moving through the pipeline. But as most of you know, housing construction programs always take significant amounts of time to produce units and especially here in the post Katrina environment where skyrocketing insurance costs are coupled with the nation-wide housing credit crunch to make this process especially challenging.

Complete program descriptions and FAQs for the Road Home homeowner and rental programs are available at www.road2la.org.

With regards to how the plan will address all of the State's unmet housing needs, the short answer is, that while these programs will have a dramatic impact on the housing market, they will not address all of the needs. The combination of a supply shortage and increased cost of inputs have driven rent prices up considerably higher than pre-Katrina. Many workers, particularly those supporting the service sector, will continue having a difficult time finding affordable rents for the foreseeable future. The State's disaster recovery rental programs will help restore or create about 33,000 units in the areas that were hit by the hurricanes. In addition, the LHFA is working to produce about 7,500 units across the State through their tax exempt bond and HOME programs – many of these units will be located in the GO Zone. It is difficult to assess how many of the 82,000 units will be able to be restored or replaced by the private sector – without the State's programs – but it is evident that the Louisiana Gulf region will not be able to regain its full pre-storm housing inventory and its full population without additional governmental assistance to stimulate development.

What is clear is that the critical shortage of housing that resulted from hurricanes still exists today. The future picture is significantly brighter thanks in large measure to the State's ongoing efforts. At present, there are about 2,200 completed units on line through the GO Zone Tax Credit initiative. This was the first rental housing program to get underway, because it was funded through the Low Income Housing Tax Program and was not dependant on the second appropriation of CDBG funds to get started. And we have now seen the first units to come on line through the CDBG funded rental programs. The first Piggyback project to be completed has just started to lease up on the Westbank. There are another 2,300 Piggyback units that are currently under construction of which 1,600 are scheduled to be complete by the end of this year. There are an additional 1003 non-Piggyback projects, closed and under construction, which are projected to be completed by 12/31/08.

*3. **In what ways has the State ensured that its housing plans affirmatively further fair housing?***

Louisiana prides itself on the design of its programs in terms of serving those most in need and considers this a strong point of the programs. The Affordable Compensation Grant portion of the homeowner program was specifically designed to provide additional resources where they are needed most. The rental program is a model of best practices including the creation of mixed income units and permanent supportive housing. These programs are specifically designed to help those most in need without concentrating poverty.

Louisiana is committed to working with the public, private and non-profit sectors to ensure fair housing choice for all Louisiana residents. The State has infused its housing programs and policies with the following objectives:

1. Analyze and eliminate housing discrimination in Louisiana;
2. Promote fair housing choice for all persons;
3. Provide opportunities for inclusive patterns of housing occupancy regardless of race, color, religion, sex, familial status, disability and national origin;
4. Promote housing that is structurally accessible to, and usable by, all persons, particularly persons with disabilities;
5. Fostering compliance with the nondiscrimination provisions of the Fair Housing Act.

The State is taking concrete steps, reviewed below, to achieve these objectives in all applicable programs and activities.

All of the State's housing programs require owners and managers to follow all of the Federal Fair Housing statutes and regulations. Discrimination is not tolerated in any of the programs we operate. In addition, the State's programs have gone well beyond what is required by the Federal statutes in order to expand opportunities for Louisiana citizens in need. The Piggyback program is specifically designed to relieve concentrations of poverty and to enable very low income households of all races and creeds the opportunity to live in mixed-income communities that previously have been beyond their reach. A number of the Piggyback projects now underway will provide low income units in some of the highest rental markets on the Gulf Coast, including the *Warehouse District* in New Orleans.

The State's rental housing programs also have required that a significant number of units be set aside as Permanent Supportive Housing for people with mental or physical disabilities – a group often targeted for discrimination. These units are required to be substantially similar to the other units and will be distributed throughout the development.

The State will soon launch a new, rigorous, statewide Analysis of Impediments to Fair Housing. This analysis will identify and propose solutions to policies or practices that discriminate or have the effect of discriminating against individuals based on their race, color, religion, sex, familial status, disability or national origin. The scope of work for this project has been designed to take into account the major demographic shifts and significant loss of housing stock resulting from the hurricanes. This project is currently out for bid and we anticipate a start date in mid-summer. We will address the most severely disaster impacted parishes first and look for preliminary results to be available in the late fall.

Fighting housing discrimination is a full time job and we applaud the work of advocates such as James Perry and his organization who are committed to this effort. We value their input and their watchfulness to ensure all of our citizens are provided the tools to rebuild and better their lives.

4. ***What difficulties has the State encountered in meeting the CDBG program's low- and moderate-income requirement?***

The State of Louisiana is committed to and will meet the 50% low and moderate income benefit test. By far the largest program utilizing the CDBG disaster recovery funds is the Road Home homeowner program. With the 'Additional Compensation Grant' available to low income households to cover damages beyond their lost equity, the Road Home program is projected to have 53% - 55% of funding go toward the LMI requirement. The second largest program is the Workforce and Affordable Rental Program. Because these programs target funds to workforce households and low income families in need, we project that over 90% of these program dollars will serve the LMI population. This is not to say that challenges do not exist. Creating incentives for developers to serve low-income families and overcoming prejudices of local communities is always a challenge in moving projects forward. And it clearly requires greater pre unit subsidies to support low income households than middle or upper income families. However, we are working through these challenges and we fully expect to meet the required LMI targets. The figures for the first appropriation are currently 56% and we are currently at close to 60% for the second appropriation for an overall 57.8% benefit to LMI. We do not view the 50% LMI target as an onerous requirement; rather we see it as an appropriate and indeed essential element to full recovery for all of our citizens.

5. ***What problems or challenges has the State encountered as it has implemented its housing programs through the CDBG program? What legislative or regulatory reforms are necessary to address these problems or challenges?***

Louisiana has experienced many challenges in the implementation of its housing programs, which is somewhat to be expected when you consider the unprecedented magnitude of these disasters. First and foremost, the CDBG program was not designed to respond to a catastrophic event and trying to implement recovery under these guidelines has been like trying to fit a round peg into a square hole. In addition, much greater coordination and cooperation is needed across both federal and state agencies. Obviously, our first big obstacle was the requirement to go back to Congress to get full funding proportional to the damage. HUD approved our homeowner program in August of 2006 and then disapproved it in March of 2007. We struggled with designing programs that could incorporate FEMA hazard mitigation money with CDBG funds and it took almost two years for the administration to waive the 10% match on PA projects, which required us to design CDBG programs that would qualify for match. All of these struggles took time and staff resources away from implementation and getting recovery dollars into the hands of those who needed it. Rather than focus on the past, I prefer to lay out some key actions for future catastrophies:

- Allocations based on credible damage estimates
- Pre-set triggers to waive the federal match requirement
- Pre-set triggers to provide appropriate waivers
- Establish common requirements across federal programs
- Streamline approval processes
- Develop a cooperative, problem-solving approach with state and federal agencies to get recovery dollars on the ground quickly.

To expand on this last point, in the early days of the recovery, we needed a war room that involved HUD, FEMA, SBA, State agencies and national experts to quickly frame solutions and channel resources. Instead we had an approach where states were expected to come up with solutions and get them approved by oversight agencies to ensure they met all legal requirements. This resulted in continued delays of the actual disbursement of funds for critical rebuilding.

Below are two specific federal requirements that caused delays in rebuilding: those are environmental rules and duplication of benefit requirements.

Clearly, the Environmental rules have been the biggest Federal impediment to both the homeowner and rental programs funded by CDBG. On the homeowner side, environmental evaluations were the single biggest reason for the State opting for a 'compensation' program rather than a 'construction' program. There was no practical way to cost-effectively perform environmental evaluations on well over 100,000 homes and expect our homeowner program to get rebuilding money on the street in a timely manner. Had these been waived, the State and the taxpayers would have had greater assurance that every dollar went directly to rebuilding. Regarding rental programs, it is understandable that some of the larger Piggyback deals, several of which involve a change in use on the site, must undergo an environmental review. But the imposition of environmental review requirements has been especially difficult in the Small Rental Program where this review has cost millions of dollars and has slowed projects by months, even though this program is merely assisting property owners to restore buildings that were occupied before the storm. It is difficult to tell a small owner that he must go wait to get environmental clearance before we can issue a firm funding commitment even though he may only be replacing his roof or putting in new wiring and plumbing in a building that has been occupied for more than a hundred years (and would have continued to be occupied – without any Federal assistance – had the levees held). Environmental requirements do have their place, but not in a disaster of this magnitude involving the replacement or repair of thousands of buildings that were occupied before the disaster. It is somewhat frustrating and difficult to comprehend that the Department of Homeland Security was able to administratively waive environmental requirements for new construction on the wall between the U.S. and Mexico, but that these same laws could not be administratively waived to rebuild existing structures.

The Duplication of Benefits requirement is another rule that has proven difficult to administer in both the homeowner and rental programs. Duplication of benefit for the homeowner program has been problematic, but we think this is more a problem with administrative interpretation rather than legislative requirements. The most egregious example is counting the SBA loans as if they were grants. In the case of the Road Home program, moneys are paid directly to SBA to cover the loan amount before it goes to the homeowner. Unless you are low-income, the Road Home only brings you back to your pre-storm equity and does not cover all damages. Not enough funding was provided for this. We also have homeowners who have lost jobs or are paying both a mortgage and a rent payment. So this often puts homeowners in a position of repaying SBA without having the resources to rebuild. In the case of the Small Rental Program, one of the reasons the State developed an incentive structure where payments are tied to rent reductions rather than physical construction was to avoid having to perform the time-consuming and administratively difficult task of verifying additional payments for construction support. While the concept of limiting duplication is a valid one, the structure of how it is administered needs to be revised and the States who are actually developing and administering the disaster recovery programs should be given the flexibility to design their own systems - recognizing that not all payments to property owners are "grants" that must be deducted from any future payments.

Legislative/administrative reforms:

One specific recommendation regards federal funds interchangeability. In a time of crisis, and as a broad-spectrum means of streamlining HUD's regulatory process, we recommend that Congress combine CDBG and HOME funds in the federal budget and condense the regulatory controls that govern their use. CDBG and HOME funds could then be used interchangeably, but within reasonable discretionary limits imposed by HUD. Under this approach, any state in crisis that is short of federal funds in one area could use funds from another to immediately accomplish an objective that would otherwise be postponed until sufficient funds in both areas are accumulated to initiate a recovery project. Aside from allowing projects to start sooner, this approach also serves as a hedge against capital market inflation as well as a hedge against incurring increased cost associated with project start delays. Condensing and combining the regulatory controls placed on the use of CDBG and HOME funds would also result in one set of manageable regulations rather than two sets working at odds with each other.

The devastation wrought by Hurricane Katrina and Hurricane Rita included the failure of levees built by the federal government that resulted in the flooding of one of our great American cities. The damages rose beyond the level of disaster; the damages were catastrophic. CDBG was not and is not up to the task. In terms of legislation, please consider setting up a *subpart* under CDBG that is designed specifically for Disaster Response and Recovery. We envision a ***Disaster Block Grant*** mechanism with built-in capacity to release and monitor funds with due diligence *and* deliberate speed.

The Disaster Block Grant mechanism could be triggered by existing protocols, such as Presidential Disaster Declarations. The mechanism could have multiple tiers such that the scale of the disaster activates *pre-determined waivers* for activities that protect public health and safety and restore critical infrastructure. This one regulatory accommodation, by itself, has the potential for sparing the people in future disasters the many months of negotiations that stalled our recovery efforts. Louisiana stands ready to work with our federal partners and legislative staffs on appropriate reforms for future disasters.

Thank you again for this opportunity to speak to you today, and for your continued support and interest in the recovery of the Gulf States.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Testimony of:

William C. Dally
Deputy Executive Director
Texas Department of Housing and Community Affairs

Hearing on:

"Emergency CDBG Funds in the Gulf Coast:
Uses, Challenges, and Lessons for the Future"

Committee on Financial Services
Subcommittee on Housing and Community Opportunity
United States House of Representatives

May 8, 2008

221 East 11th - P.O. Box 13941 - Austin, Texas 78711-3941 - (800) 525-0657 - (512) 475-3800

Chairwoman Waters, Ranking Member Capito, and Members of the Committee:

My name is Bill Dally and I am Deputy Executive Director of the Texas Department of Housing and Community Affairs (TDHCA). TDHCA has been designated by Governor Rick Perry as the lead agency in Texas responsible for Hurricane Rita recovery. Thank you for inviting me to update you on these efforts.

I would like to start by saying that TDHCA is clearly not a first responder agency. Rather, we are Texas' lead agency responsible for affordable housing, community and energy assistance programs, and colonia housing activities. The Department annually administers funds in excess of $400 million, the majority of which is derived from federal grants, federal tax credits, and mortgage revenue bond financing.

Our enabling legislation allows the Governor to assign additional programs not contemplated in statute, which is how we became active in disaster recovery. The disaster recovery program was assigned to TDHCA because local communities and officials identified housing as the overwhelming need after hurricanes Rita and Katrina impacted Texas.

Primary among the duties that TDHCA carries out is to assist local communities in overcoming financial, social and environmental problems to help put affordable housing on the ground. Another legislative charge is to contribute to the preservation, development and redevelopment of neighborhoods and communities.

We have an excellent track record in accomplishing these goals and we like to think that is one of the reasons why we were asked to take on the disaster recovery program that has assisted individuals and entire neighborhoods throughout Southeast Texas.

With the first allocation of federally appropriated funds in May 2006 – $74.5 million in Community Development Block Grant (CDBG) dollars – we worked closely with and listened to local elected officials, community leaders and faith-based organizations. We clearly heard the message that because the funds were so limited, local governments wanted to be directly involved with their distribution so that they could maximize these funds. Consequently, TDHCA utilized local Councils of Government which are organizations made up of local elected officials and key staff that serve as regional planning boards. There are three Councils of Government in Southeast Texas that we contracted with in July 2006 for the distribution of $40.3 million in housing funds which came from the $74.5 million appropriation.

These Councils of Government are responsible for identifying and qualifying eligible families for help, and then hiring contractors to make emergency repairs or rebuild a home, or to replace a manufactured housing unit. The balance of the $74.5 million is being used for critical infrastructure repair throughout Southeast Texas.

Given the funds available at the time, we believed that working through the Councils of Government would allow local governments to weigh the needs of all the residents of the region and provide the greatest impact. In all instances, the intended beneficiaries of these funds are the lowest-income Texans, those at well below 80 percent Area Median Family Income, and we've given priority to seniors, persons with disabilities, and other vulnerable populations.

This process did take some time to get up and running because of the complexities of the CDBG program, and the State of Texas' overriding desire to rebuild communities – restoring both the region's tax base and people's lives.

Texas' action plans for the first and second supplemental – as approved by HUD – clearly outlined the expectations we have regarding compliance with all fair housing laws. CDBG funds mandate that all subgrantees adhere to this provision and we have done so in Texas through our research, our outreach to communities, and our construction processes.

It is important to note that Texas identified more than $2 billion dollars in need in the region from both Hurricane Rita direct damage – more than 75,000 homes were damaged or destroyed – and Hurricane Katrina needs with the flood of more than 400,000 evacuees that Texas welcomed with open arms. That is why we also welcomed the second appropriation of funds by Congress which raised our total allocation of disaster recovery dollars from $74.5 million to $503 million in CDBG funds. However, that second round of funding, $428.6 million, was not fully available to Texas until just 13 months ago, when our grant agreement was signed with HUD.

Texas is grateful for the efforts of Congress to assist our communities with the funds to implement recovery. Our Texas Congressional delegation did an outstanding job understanding the rebuilding needs of the region and securing these funds. However, the State still had to make tough choices about how to help communities recover.

After much public discussion again with local officials, community groups and faith-based organizations, Texas chose to continue on the path of assisting individuals and communities by focusing on actual housing and infrastructure construction. Building a home, repairing a home, or replacing a manufactured housing unit takes a greater amount of time than qualifying someone and simply issuing a check to cover their storm damage. Again, Texas chose because of our limited funds to do a rebuilding program and not a compensation program that other states have opted to do because of their more generous allocations from HUD. Also, because of the limited funds available, we had to tell people who had already rebuilt that we were going to assign first priority to those who could not rebuild without government assistance.

The decision to undertake a rebuilding program caused us to move more slowly than we wished in qualifying residents and ensuring that they were eligible for the program. Qualifying residents has been a challenging process. The factors that caused many of the delays – environmental clearance, historic preservation requirements, flood plain limitations, and duplication of benefits restrictions – are all requirements of federal law or HUD rules. The only limitation Texas has regards the amount of funds an individual may receive so as to distribute disaster help as broadly as possible. I would also like to note that HUD is also an agency not typically in the disaster recovery business; yet, we have received tremendous technical assistance from career staff at HUD to navigate these complicated issues.

TDHCA remains confident that we will have all housing funds from the first round of the $74.5 million allocation distributed and homes built by the end of the year. Most of the work we are doing are full rebuilds of homes, and we expect that for the $40.3 million in housing funds, we will rebuild or replace nearly 500 homes.

For the second round of funds – $428.6 million – Congress approved this appropriation in the summer of 2006. HUD gave us approval of our action plan on how to best use these funds for the second round in April 2007, again just a little over a year ago.

TDHCA committed all $428.6 million in funds by September 2007. It took some time because several of the programs were competitively run, and required communities to submit applications and to be judged on the number of low-income persons who would benefit or be helped. In the case of the Homeowner Assistance Program, for which $222 million has been dedicated, TDHCA used a competitive bid process. We selected a group of professionals to help the state expedite the delivery of funds to qualified homeowners and to build homes and make repairs.

The contractor team is well in the midst of working on the delivery process of these funds and qualifying applicants who were not funded through round one. We are confident that significant construction activity will commence early this fall as homes are rebuilt.

On a final note, we also know that starting over in a new community is difficult. That is why the State has dedicated $60 million of the $428.6 million in round two to the City of Houston and Harris County to assist and provide services for evacuees from Hurricane Katrina.

For the entire disaster recovery program in Texas, we believe that we have turned the corner from the planning stage and are now fully into the building and reconstruction stage throughout the region. Furthermore, we expect that all funds – all $503 million – will be fully used within the next two and a half years.

We welcome the Committee exploring funding options for states responding to a major disaster and asking tough questions about who should have ultimate responsibility for the inevitable longer-term recovery. In Texas, I believe that we have done some things very well. When you look back at our program, I believe that you will find strong accountability and controls intended to prevent instances of fraud, waste and abuse that have plagued other disaster recovery programs as has been reported in the press. You will also find that our program actually built homes and repaired infrastructure for those whom the program was intended – our lowest-income Texans, seniors, and persons with disabilities.

Again, I thank you for this opportunity and I would be pleased to respond to any questions that you may have.

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Rebuilding Texas: Disaster Recovery from Hurricane Rita
Appropriations Summary

First Supplemental Appropriation ($74.5 million) – Public Law 109-148

Purpose	To Date	Next Steps	Completion
$40.3 million for housing	173 homes completed or near completed	Construction and rehabilitation of remaining 327 homes	December 2008
$30.5 for infrastructure	19 of 97 projects are completed	Finish completion of remaining 78 projects	November 2008

Second Supplemental Appropriation ($428.6 million) – Public Law 109-234

Purpose	To Date	Next Steps	Completion
Homeowner Assistance Program - $210 million	3 service centers operational, conducting application intake	Finish intake, begin bid process for construction, rehabilitation	March 2010
Sabine Pass Restoration - $12 million	66 applications submitted; ongoing outreach	Construction contractor selection in May 2008	August 2009
Rental Housing Restoration - $82.8 million	$81 million awarded to 7 developments restoring 813 destroyed units	Loan closings complete by July 2008, all construction commenced by August 2008	September 2010
Houston/Harris County Program - $60 million	All $60 million allocated	Houston procuring contractors to administer multifamily component	July 2010
Infrastructure - $42 million	8 contracts executed and projects ongoing	Completion of project work	March 2010

**Expenditures ("drawdown") for each project are made in increments with the majority of the amount being expended towards the end of the construction phase*

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

***Rebuilding Texas*: Disaster Recovery from Hurricane Rita**
First Supplemental Update

Timeline

- September 24, 2005: Hurricane Rita makes landfall near Sabine Pass approximately one month after Hurricane Katrina sends 400,000 evacuees into Texas

- December 30, 2005: Congress appropriates $11.5 billion in Community Development Block Grant funds for disaster recovery. Texas has identified more than $2 billion in needed assistance

- February 2006: HUD announces availability of $74.5 million in CDBG funds for Texas from Congressionally appropriated funds

- February – May 2006: TDHCA produces draft plan and obtains significant public comment on proposed State of Texas Action Plan (application for CDBG funds) and holds public hearing where the TDHCA Governing Board approves the plan representing the comments of the public.

- May 2006: Texas submits Action Plan; HUD approves Plan and awards $74.5 million to Texas, some nine months after hurricane hits state but less than four months since funds made available

- May – July 2006: Office of Governor coordinates with TDHCA and COGs to determine funding amounts for each community to be represented by their COG based on most severe impacts. Grant agreement signed June 19, 2008; funds available.

- July 2006: TDHCA Governing Board awards funds to Councils of Governments (COGs) at first available meeting

- August 2006: Contracts are developed and signed and COGs begin intake of applications and planning for other elements of process

- October 2007: Intake completed having reached more than the number of applicants who could be funded

- November 2007 – present: Applicant certification process, manufactured home replacement process, and, bid and construction process for conventional homes

- December 2008: All construction, home replacement projected to be complete

Status of Housing Funds
$40.3 million

Key Accomplishments:

- All eligible Texas families that can be assisted under this first round of funding have completed necessary paperwork to receive assistance under this first round of funding. Applicants that have filed applications but have not yet been approved have been forwarded to the contractor – ACS – for consideration in the second round of funding.

- Seventy-five percent (75%) of the homes contracted to be served are either in the bid process, awarded, under construction, or completed.

- One hundred seventy-three (173) homes have either been completed or are near completion

- One hundred fifteen (115) additional homes are ready to begin construction

- Seventy (70) homes are out for bid and bid packages are being developed for all additional applications that have been approved

- $11.2 million of the allocated $30.5 million for infrastructure needs has been expended

- $6.9 million of the allocated $40.2 million for housing needs has been expended

- Expenditures ("draw downs") for each project are made on a reimbursement basis in increments with the majority of the amount being expended towards the end of the construction phase

Key Projection:

- All homes will be completed or nearly completed by December 1, 2008

- Infrastructure projects will be completed by December 1, 2008

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

***Rebuilding Texas*: Disaster Recovery from Hurricane Rita**
Second Supplemental Update

Timeline

- September 24, 2005: Hurricane Rita makes landfall near Sabine Pass while Texas is working to help over 400,000 refugees displaced from Hurricane Katrina

- June 15, 2006: Congress appropriates a second round of CDBG funds for disaster recovery after Texas has identified $2 billion in need and received $74 million from the initial funding

- October 30, 2006: HUD announces availability of $428.6 million for Texas

- October through December 2006: Governor Perry meets with leaders of affected communities to determine how to divide funds to help the largest number of impact people from both Hurricanes Katrina and Rita

- December 2006-January 2007: Using a comprehensive plan worked out with community leaders, TDHCA drafts an action plan and holds public hearing throughout the region to solicit and receives significant public comment on proposed State of Texas Action Plan (application for CDBG funds)

- February 2007: TDHCA Board approves plan and State submits plan to HUD at it first available meeting after the public comment is incorporated

- April 2007: HUD awards $428.6 million in Community Development Block Grant funds to State of Texas for disaster recovery to help Texans rebuild their homes which have gotten worse with homes damaged in the fall of 2005 having been subjected to almost 100 inches of additional rain

- April-August 2007: Working with experienced federal contracting attorneys at Vinson & Elkins, TDHCA issues a Request for Proposals for third-party administrator to oversee housing assistance program; collects and evaluates proposals; and, selects top proposal and analyzes the submitted information to determine the best proposal and conducts initial clean up of the top proposal to make certain they can perform the work before making a recommendation

- August 2007: TDHCA Board approves the selection of the nationally recognized ACS State and Local Solutions, Inc. team that includes Katrina-experienced consultants Reznick Company and Shaw Engineering, as the third-party administrator who will manage $222 million in funds to repair or rebuild homes in the region thereby assuring the money will go toward rebuilding communities and providing safe affordable housing

- August 2007: TDHCA awards $6 million to Memorial Hermann Baptist Orange Hospital to replace damaged equipment in Orange County deemed by the community to be the most important medical resource in the area

- September 2007: TDHCA Governing Board also awards 81 million dollars in rental housing stock restoration to seven Golden Triangle-area affordable multifamily rental developments. The construction work, once completed, serves low-income individuals and families and will restore 813 rental units housing demolished by Hurricane Rita.

- October 2007: TDHCA awards $10 million to Hardin County for timber and debris removal to help stop additional flooding that has isolated neighborhoods and caused additional home loss because of "natural damming" of the local rivers

- October 2007: TDHCA executes contract with City of Houston for $40 million based on a plan to specifically help Hurricane Katrina victims who are relocating to Texas

- November 2007: TDHCA executes contract with Harris County for $20 million; total of $60 million for the City of Houston and Harris County Public Service and Community Development Program to provide much needed support to Katrina refugees now residing in Harris County

- November 2007: TDHCA awards $26 million in non-housing (infrastructure) funding and prioritizes an additional $48.6 million amount of need in the region if funds become available

- December 2007: TDHCA awards $3.8 million to Bridge City to repair water treatment facility and all funds are now awarded to administrators under the second round of funding eight months after funding was made available to Texas

- December 2007: State and ACS reach an agreement on how to protect Texans and still provide safe affordable housing to victims of Hurricane Rita that have been waiting for assistance. The contract allows for significant expediting of approving existing applications that were collected but not funded in Round 1 and calls for contracts with local builders to provide cost efficient reconstruction or manufactured home replacement where necessary by local builders thereby assuring a commitment to the home by the builder and helping the local economy

- December 2007: All funds are allocated as State of Texas/TDHCA finalizes contract with ACS

Funding Breakdown:

Activity	Available Funding for Activity
Homeowner Assistance Program ("HAP")	$210,371,273
Sabine Pass Restoration Program ("SPRP")	$12,000,000
Rental Housing Stock Restoration Program ("Rental")	$82,866,984
City of Houston and Harris County Public Service and Community Development Program ("Houston/Harris")	$60,000,000
Restoration of Critical Infrastructure Program (Infrastructure)	$42,000,000
State Administration Funds (Used to Administer Funding)	$21,433,592
Total Plan Funding	$428,671,849

Status of Contract Awards

- Expenditures ("drawdowns") for each project are made in increments with the majority of the amount being expended towards the end of the construction phase.

- The following expenditures have been drawn down: $1.5 million for rental housing restoration; $1.1 million for infrastructure; $679,000 for state administrative funds; and, $122,000 for City of Houston/Harris County programs.

WRITTEN STATEMENT OF

STANLEY GIMONT

ACTING DIRECTOR, OFFICE OF BLOCK GRANT ASSISTANCE

U.S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

HEARING ON

"EMERGENCY CDBG FUNDS IN THE GULF STATES: USES, CHALLENGES, AND LESSONS FOR THE FUTURE"

BEFORE THE

SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY

U.S. HOUSE OF REPRESENTATIVES

MAY 8, 2008

On behalf of Deputy Secretary Roy Bernardi, thank you Chairwoman Waters for the invitation to appear before the Subcommittee today. I am Stanley Gimont, Acting Director of the Office of Block Grant Assistance of the Department of Housing and Urban Development. I appreciate the opportunity to discuss disaster recovery through the Community Development Block Grant (CDBG) program.

Overview

Three supplemental appropriations providing CDBG funds for Gulf Coast disaster recovery purposes have been enacted since the time immediately following Hurricane Katrina's landfall on August 29, 2005. The first CDBG supplemental provided \$11.5 billion in CDBG disaster recovery funding on December 30, 2005. Within one month, the Department allocated these funds based on areas of highest need and with greatest concentration of destruction. In June 2006, the second CDBG supplemental provided an additional \$5.2 billion and the Department promptly allocated these funds to the affected states. The third supplemental was signed in November 2007, providing an additional \$3 billion specifically to close the funding gap for the State of Louisiana's "Road Home" homeowner assistance program.

To date, a total of \$19.673 billion in CDBG funding has been appropriated for the five Gulf States impacted by Hurricanes Katrina, Rita, and Wilma. Of this amount, states have proposed to fund housing programs totaling over \$13.8 billion, or 70 percent of the amounts appropriated. In slightly more than two years since the first supplemental appropriation, the states have expended over \$9.2 billion for CDBG recovery activities; over \$8.2 billion has been disbursed for housing assistance activities. Thus, approximately 90 percent of all funds expended to date have been for housing activities.

The first two CDBG supplemental appropriations were clear in their intent and extraordinary in the flexibility they conferred on the states. Traditionally, such supplemental funding requires substantial oversight by the Department on program issues but Congress clearly indicated that HUD should not dictate uses of funds or the amounts to be set aside for each activity unless otherwise specified by Congress. The first CDBG supplemental stated that HUD <u>must</u> waive all regulations or statutes which could hinder implementation of the states' plans. Only four areas were exempt from this mandate: fair housing, environmental review, civil rights and labor standards. The second supplemental bill modified the direction on waivers to state that HUD <u>may</u> approve waivers.

As Congress intended, the eligible states have thus had substantial flexibility in designing programs within the overall purposes of the legislation, establishing funding levels, and carrying out the activities to achieve their goals. This approach has allowed each of the five states to tailor its recovery programs to best address the needs of its citizens. HUD's primary role has been to provide technical assistance on the federal program requirements and to monitor the use of funds.

HUD has implemented the grants with waivers and alternative requirements that emphasize and balance flexibility, accountability and performance. A State may establish innovative activities, but must still follow Federal financial management requirements. Quarterly performance reports are submitted not only to HUD program staff that use them to track progress; the States must send the reports to Congress and post them on the Internet. The largest activities in CDBG history – the Louisiana and Mississippi homeowners compensation and incentive programs – have had, collectively, more than 45 compliance or financial review from HUD and its Office of Inspector General, state auditors, internal auditors, independent auditors and multiple anti-fraud investigators. So far, the news is encouraging as documented non-compliance appears to total less than one percent of all funds expended to date.

The mutual goal of HUD and the states has been to assist the victims of the storms and to act efficiently to get funding into the hands of those who deserve it as quickly as possible. A continuous improvement process regularly evaluates obstacles and seeks both short and long term solutions. The states have the authority and ability to revise funding levels in response to changes in need and opportunity. While not everyone agrees with every program choice, HUD has found overall compliance with program and financial rules to be very good. In addition, fraud and abuse has been minimized thanks to the collective diligence of Federal, State, and local officials.

The following discussion addresses points of interest identified by the Subcommittee.

Fund Distribution

The distribution and oversight of funds has not proven to be a problem for HUD or for the affected states. The CDBG Program provided an existing conduit through which to channel disaster recovery funding. The Department has longstanding relationships with all five affected states through the State Community Development Block Grant program, which makes funding available to non-metropolitan communities. Thus, each state had in place a sound mechanism to receive and begin to administer CDBG disaster recovery funds.

Some states opted to distribute funds directly to non-profit and other community organizations, as well as to engage for-profit contractors. This approach was in contrast to the basic State CDBG program which typically passes funds through directly to units of general local government. However, these changes were primarily technical; the states were funding a different type of subrecipient and the flow of funds was only slightly affected. Monitoring and auditing have followed long established procedures of the regular CDBG program.

Benefit to Low- and Moderate-Income Persons

On February 13, 2006, HUD granted waivers to all five states to allow them to demonstrate a 50% overall benefit to low- and moderate-income people, rather than the 70% standard in the regular CDBG program. The primary justification for this waiver is that the disasters caused widespread physical damage to infrastructure and housing affecting those of varying incomes. This waiver is similar to overall benefit waivers that HUD has granted for several previous disaster recovery efforts, such as those related to the city of Grand Forks, North Dakota and the State of Maine. The states believed that assistance to some income blind housing and infrastructure programs was critical to their overall recovery. It is HUD's observation that all the states are meeting the revised standard but not exceeding it substantially.

On June 14, 2006, the Department expanded the low- and moderate-income benefit waiver for the state of Mississippi, as follows:

> "*Overall benefit.* 42 U.S.C. 5301(c) and 5304(b)(3), and 24 CFR 570.484 and 24 CFR 91.325(b)(4)(ii) with respect to the overall benefit requirement are waived for the CDBG disaster recovery grant covered by this notice to the extent necessary to permit Mississippi to carry out the activities contained in its March 31, 2006, action plan submission, provided that the state must give reasonable priority for the balance of its funds to activities which will primarily benefit persons of low and moderate income. HUD expects the grantee to maintain low- and moderate income benefit documentation for each activity providing such benefit."

This waiver allowed Phase I of the homeowner compensation program to go forward. Note that because of the nature of the calculation method, inevitably, the overall percentage of lower income people is reduced below 50% as the size of the service area increases. In contrast, under the regular CDBG program, communities can target more narrowly to low- and moderate-income neighborhoods.

State Housing Plans and Programs

<u>Programs for Homeowners</u>

Each state was given flexibility to adopt its own recovery plans. The states of Alabama and Florida are implementing more traditional CDBG housing programs by a method of distribution to local governments for housing activities with jurisdictions in Alabama and Florida undertaking different combinations of housing rehabilitation, relocation, and reconstruction. The state of Texas is undertaking rehabilitation through its councils of governments with funds from the first supplemental. Texas' primary homeowner assistance program is a regional housing rehabilitation program through which it intends to assist several thousand homeowners. While the program was contemplated by the state prior to the second supplemental appropriation, it was not implemented as there were not sufficient funds for a program of that scale.

The particular environmental processes mandated in the laws and the regulations have proved difficult to fit into the pressing schedules of many of the Gulf Coast recovery housing programs. Note that the environmental requirement was one of the four statutory areas that the supplemental appropriations did not allow the Secretary to waive. The shorter duration of the environmental review required was one factor influencing the choice of the homeowner compensation program model over the housing rehabilitation model in Mississippi and Louisiana. A housing rehabilitation program requires an environmental review of each individual site. The homeowner compensation model requires a program level review.

Other factors influencing program design choices were the additional operational requirements a housing rehabilitation program would require, such as work write-ups and specifications, progress payments and inspections. HUD is beginning a study to ascertain and compare the results of these different approaches.

The states of Louisiana and Mississippi elected to implement a homeowner compensation program as the primary model. The compensation model provides eligible homeowners with a grant for uncompensated property losses to their primary residence. In consideration for assistance, homeowners agree to covenants on their property (or entering into a contract) that would require any new or rehabilitated structure to meet new building code requirements and FEMA elevation requirements if applicable. The goal of the compensation model was to ensure that any rebuilt properties would be safe from future hurricanes. Mississippi has assisted over 20,000 homeowners and the Louisiana Road Home program has assisted approximately 105,000 homeowners. These programs represent the largest CDBG-funded activities in the 34-year history of the CDBG program.

Both Mississippi and Louisiana chose to hire contractors and compensate owners directly rather than perform the work through public or non-profit subrecipient agencies. The compensation approach enabled them to get money to disaster victims sooner, but once the State has made the payment to the homeowner, the funds lose their Federal nature and the State loses control over how the funds are used. To assure the homeowners take actions to further disaster recovery, the States developed a program that held the beneficiaries to the terms of the covenant or contract. The States developed policies that allow for some compassionate charge-offs of repayments for those unable to live up to their agreements, but these were for exceptions.

Texas, however, chose to assist homeowners through a more standard rehabilitation and reconstruction approach, in which the State helps manage each project and sets limits on how funds may be used. This approach, and most other recovery projects, is still subject to a site-by-site environmental review which can add time to the development process, but the trade-off is greater assurance that intended activities are completed. HUD is constantly working with the States to find ways to meet these requirements in a manner that prevents work stoppage and keeps projects moving quickly through development.

Mississippi Programs for Homeowners

With regard to the State of Mississippi's CDBG supplemental disaster grant programs generally, and its housing programs specifically, the State made its first action plan submission on March 31, 2006. HUD awarded the full grant of $5 billion from the first supplemental and Mississippi proposed a $3.24 billion Homeowner Grant Assistance program to provide up to $150,000 in compensation grants for uncompensated damages to the homeowner's primary residence.

To date, Mississippi has awarded more than 20,000 homeowner grants for a total of $1.4 billion, for an average compensation grant of $71,000. Approximately 2,000 grants remain to be made under Phase I of the program. The estimated total cost is approximately $1.28 billion in compensation grants. It is apparent that the state had expected a greater number of homeowner applicants and a greater average compensation grant.

On December 12, 2006, Mississippi submitted a modification to its Homeowner Assistance Grant program to expand the program to assist homeowners who lived inside the pre-Katrina designated floodplain. That plan provided for the following:

> "The Phase II Homeowner Grant Assistance program is to provide compensation, up to a maximum of $100,000, to homeowners who suffered damage to their primary residence as of August 29, 2005 from Hurricane Katrina. In addition, an elevation grant of up to $30,000 may be offered to eligible applicants who meet program requirements. A qualifying homeowner must have a household income at or below 120% of the Area Median Income (AMI), agree to a covenant on their property that establishes building code, homeowner insurance, and elevation requirements for them or any future owner of the land. ...
>
> "MDA is redirecting $700 million of the $3 billion initially allocated for Homeowner Assistance Grants to the Phase II Homeowner Grant Assistance Program."

The state received approximately 8,000 applications for its Phase II homeowner grant assistance program. The state has made approximately 3,900 compensation grant awards for approximately $251 million or an average compensation grant of approximately $71,000. There are approximately 1,200 approved grant applications remaining to be closed.

Mississippi expects to assist approximately 22,000 households though the components of its Homeowner Grant program. The smaller than expected number of eligible units and lower than expected cost per unit is projected to result in a surplus of at least $800 million in CDBG Disaster Recovery funds in the Homeowner Grant Program. This excess housing funding is being reallocated by the state to expand Long-term Workforce Housing by $200 million and to support $600 million in costs for development of the Port of Gulfport. No rental housing funds were reallocated to the Port project.

Programs for Renters

The first CDBG supplemental disaster grant did not specify that any percentage of any amounts be programmed for any particular program activity category. With regard to CDBG disaster grant funds programmed for affordable rental housing, the second supplemental provided:

> "not less than $1,000,000,000 from funds made available on a pro-rata basis according to the allocation made to each State under this heading shall be used for repair, rehabilitation, and reconstruction (including demolition, site clearance and remediation) of the affordable rental housing stock (including public and other HUD-assisted housing) in the impacted areas."

For each individual state allocation, the amount resulting from this provision was not less than 19.33 percent of each state grant. In a Federal Register notice published October 30, 2006, the Department provided the CDBG disaster grant allocations for each of the five states and the minimum amount of funds required to be used for affordable rental housing stock activities.

Required and Actual CDBG Amounts Programmed For Affordable Rental Housing As Provided for by PL 109-234

STATE	109-234 Required	Actual Amount	Actual Percentage
Alabama	$4,103,146	$4,103,146	19.33%
Florida	$19,344,001	$20,013,304	20.00%
Louisiana	$811,907,984	$1,071,208,250	25.50%
Mississippi	$81,777,703	$258,500,000	61.11%
Texas	$82,867,166	$122,866,984	28.66%
Total	$1,000,000,000	$1,476,691,684	28.55%

As shown by the table above, over $1.4 billion has been programmed for affordable rental housing programs and four of the five states elected to program more than the minimum required by law for rental housing activities.

Funding Levels for Affordable Rental Housing in All 5 Gulf States

State	First Supplemental	1st Supp-funded Rental Housing	Second Supplemental	2nd Supp-funded Rental Housing	Total Grants	Total Rental Housing	Rental as % of Total Grant
AL	$74,388,000	$0	$21,225,574	$4,103,146	$95,613,574	$4,103,146	4.3%
FL	$82,904,000	$0	$100,066,518	$19,344,001	$182,970,518	$19,344,001	10.6%
LA	$6,210,000,000	$376,300,000	$4,200,000,000	$1,071,208,250	$10,410,000,000	$1,447,508,250	13.9%
MS	$5,085,185,000	$254,000,000	$423,671,849	$258,500,000	$5,481,221,059	$512,500,000	9.4%
TX	$74,523,000	$0	$428,671,849	$122,866,984	$503,194,849	$122,866,984	24.4%
ALL	**$11,527,000,000**	**$630,300,000**	**$5,173,635,790**	**$1,476,022,381**	**$16,673,000,000**	**$2,106,322,381**	**12.5% AVG**

When taking into account spending dedicated for affordable rental housing from the first and second appropriations, the five states allocated an average of 12.5% of their grants for rental housing. A third supplemental appropriation was signed in November 2007, providing an additional $3 billion specifically for the State of Louisiana's "Road Home" homeowner assistance program and will not affect this total as rental housing is not eligible under this grant.

Mississippi Programs for Renters

On August 8, 2006, Mississippi submitted its partial Action Plan for public housing reconstruction. That partial Action Plan proposed $105 million to repair or rebuild 110 percent of the total public housing units affected by Hurricane Katrina. The state determined that the hurricane impacted 2,534 units of public housing. The state expects to renovate and will assist

2,796 total public housing units. HUD notified the state on August 31, 2006, of the acceptance of the partial Action Plan.

On June 12, 2007, the State of Mississippi submitted its partial action plan for its Small Rental Housing Program. The plan proposed $262.5 million in CDBG disaster recovery funds to repair and replace lost or damaged rental units in one to four unit structures. The program would provide loans of up to $30,000 per unit to owners of small rental properties located in Hancock, Harrison, Jackson and Pearl River Counties. HUD accepted the state's small rental housing plan on July 2, 2007.

On February 20, 2008, Mississippi announced its Long-Term Workforce Housing program that will be funded with $150 million in CDBG disaster recovery funds, and may include some rental housing. The state is preparing its draft CDBG partial action plan submission for public comment after which it will submit its partial action plan to HUD. As noted earlier, the state expects to request reallocation of another $200 million in CDBG funding from excess Homeowner Program funds to Long Term Workforce Housing. The first round is expected to allocate $15.8 million for rental housing construction and $40 million for mixed use projects involving both rental and ownership housing.

Port of Gulfport Restoration Program

As previously mentioned, the State of Mississippi reallocated approximately $800 million from its Homeowner Compensation program because fewer homes required funding than originally anticipated. Of this amount, $600 million was directed to the Port of Gulfport for renovation of its infrastructure. Gulfport sustained significant damage in the hurricanes and the port now employs 1,286 people, down from over 2,000 before the storms. According to the State, the "multiplier effect" of these direct jobs, through support services and related functions, means that the port generates 700 added jobs, for a current total of about 2,000 jobs. This figure is 38% below pre-disaster levels. Damage to the port has already made certain shipments impossible due to lack of storage or refrigeration facilities. The state projects that, after restoration and improvement, the port will employ over 2,500 workers directly and another 2,800 indirectly, with these increases attributable to changes to the capacity of the port. These jobs will help provide long-term economic stability to the region.

In the partial action plan for the Port of Gulfport submitted on December 12, 2007, the state identified in its final submission to HUD that there had been petitions with 1,377 signatures and 195 individual responses submitted that were opposed to funding the port with funds currently allocated to the Homeowner Assistance Program. However, as described previously, the State of Mississippi believes that it has reached nearly every homeowner requiring assistance and therefore decided to reprogram the additional funds to the Port of Gulfport.

The letter from HUD to Governor Barbour indicated that the Department had "little discretion" to deny the state's action plan amendment. Therefore, the Department did not formally evaluate the Gulfport project relative to housing needs.

The Department is following this project very closely to ensure that it meets its goals of creating jobs, especially for low and moderate income people. In addition, the Department will continue to monitor these programs closely and will ensure that there is no duplication of benefits provided by either the Federal Emergency Management Agency or the Army Corps of Engineers. To date, there has been no indication that any duplication has occurred. The numerous audit and monitoring reviews that all the states have undergone will continue and HUD is confident that the states will adhere to all applicable laws and regulations.

Affirmatively Furthering Fair Housing

The supplemental appropriations did not allow any waiver of fair housing requirements and HUD takes seriously its responsibility to ensure that all grantees meet this requirement. From the earliest contacts with the States, HUD program staff advised the States to review and update their Analysis of Impediments (AI) to Fair Housing. The Department conducts regular reviews for compliance with applicable civil rights and fair housing laws and requirements and responds aggressively to verified complaints. HUD has not received an unusual number of complaints or found significant violations, although we will continue to review regularly in this area. HUD has provided technical assistance regarding appropriate design for housing that is accessible to persons with disabilities. Both Louisiana and Mississippi, as well as the other hurricane-impacted States, have been reviewed without findings of noncompliance with these requirements and both States are undertaking updates of their Analyses of Impediments.

The Subcommittee questioned how the Port of Gulfport project is affirmatively furthering fair housing. The Department expects the state to affirmatively further fair housing by addressing impediments to housing choice. This requirement does not keep a grantee with an across-the-board housing shortage from choosing to carry out eligible economic development, public services or public works projects if they are also needed for its recovery. The CDBG program establishes the responsibility for establishing funding priorities at the state or local level.

The State of Mississippi has an Analysis of Impediments (AI) to Fair Housing, which was submitted to HUD in July 2004. Many of the identified impediments have been or will be addressed during the annual application and implementation workshops for the HOME and CDBG programs. The State has initiated an update of the AI to include any possible impact to fair housing choice caused by Hurricane Katrina.

Additional information about specific programs, and links to required grantee Internet pages, may be found at HUD's Office of Community Planning and Development website.

Thank you for the opportunity to appear before the Subcommittee today. The Department looks forward to working with Congress and the states in continuing our joint efforts to rebuild along the Gulf Coast.

«Organization»

Testimony of John Henneberger

co-director - Texas Low Income Housing Information Service

"Emergency CDBG Funds in the Gulf Coast: Uses, Challenges, and Lessons for the Future"

before the United States House of Representatives Financial Services Committee, Subcommittee on Housing and Community Opportunity

Washington, DC

May 8, 2008

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Introduction

Chairwoman Waters and Members of the Subcommittee, thank you for the opportunity to testify today about the status of the Texas disaster recovery program and its effectiveness in addressing the immense housing challenges caused by Hurricanes Katrina and Rita more than two years ago.

I would like to express my sincere appreciation to you and the members of your staff who are working to create a better future for long-term disaster recovery. You have done a terrific job of raising awareness of the housing needs of Gulf Coast hurricane survivors and of supporting federal resources to help them recover from the storm's lasting devastation. The thoughtful process with which you have addressed this issue and organized this committee hearing is a cause for optimism among survivors and advocates who continue to be overwhelmed by the post-disaster housing needs in Texas.

I am John Henneberger, co-director of the Texas Low Income Housing Information Service (TxLIHIS). Our mission is to support low-income Texans' efforts to achieve the American dream of a safe, decent, affordable home in a quality neighborhood. We collaborate with housing stakeholders across the state to achieve our mission. TxLIHIS does not represent any sector of the housing industry. Rather, TxLIHIS works only on behalf of and with low income people who need safe, decent, and affordable housing, especially those with the most serious housing problems. TxLIHIS is entirely funded with private donations.

TxLIHIS role in the disaster relief programs and policy

Since 2005, when Hurricanes Katrina and Rita presented Texas with a housing crisis unlike any it has faced in my 27 years as a housing advocate, my organization has taken a leading role in advocating a long-term housing recovery plan that helps the poorest and most vulnerable survivors recover. We organized two statewide housing forums to bring together hurricane survivors, housing providers, policy makers, government officials and citizens to devise solutions and policy recommendations for lasting recovery. We have studied the operation of hurricane relief programs in Texas and published the results. We have brought together volunteers to get involved in devising solutions, including bringing together the Texas Association of Architects, some of the largest financial institutions, homebuilders and government to develop new designs for affordable housing to replace the homes lost in the disaster. As an adjunct instructor in Community and Regional Planning at the University of Texas at Austin I have also engaged the academic community in an examination of best practices in disaster relief to provide a starting point for the discussion of what should be the federal and state policies regarding future disasters effecting large populations of low income households.

We advocate solutions based on the recognition that disasters of this magnitude that destroy the homes and lives of thousands of low-income people are not solved in months, or even years. They are not solved with “temporary” programs, be they travel trailers or short-term rental vouchers. Katrina and Rita shook an already vulnerable low-income population to the core, breaking their only grasp on security: their home.

Our focus has been not as being a disinterested critic but on making programs work by advising and collaborating with the state. While we are advocates for the interests of the poor we have viewed this crisis as requiring that we enter into a partnership with state government to find solutions to an unprecedented problem. Simply fixing the problems that face us today is not enough however. It is vital that we learn from this experience and be better prepared in the future.

Prefatory comment

While my testimony documents the extensive shortcomings of the early rounds of disaster housing assistance in Texas, I would like to begin by stating that in my opinion the current program of the State of Texas to provide housing for disaster victims who are homeowners is generally the most effective and efficient program that can be operated given the severe funding constraints the state is under.

The state's rental housing program has been marginally adequate but less than efficient and falls far short of providing rental housing to those households with the lowest income and those most in need. A large part, but not all of this shortcoming can also be attributed to the failure of the federal government to provide the state the tools and funding needed.

There are a number of specific concerns I have with the particulars of the program that I will outline in my testimony. But, on the whole, I think the overall Round 2 owner occupied program is appropriate and workable.

Unlike other Gulf Coast states, Texas was allocated only 25 percent of the funds required to assist the eligible households rebuild. This has forced the State to make tradeoffs that reduce or limit the benefits to Texans below those enjoyed by residents of Louisiana and Mississippi.

As an advocate I have been critical of my state's earlier efforts to craft a program most notably the program we refer to as Round 1 homeowner assistance which I describe in my testimony. But over the past several months as the State developed the much larger Round 2 program the state sought to learn for the experience it gained in administering Round 1. The State has reached out to faith-based groups, local communities and housing advocates to craft a more workable program. To it's credit the Texas Department of Housing and Community Affairs also sought to learn the lessons from the administration of the programs by other states.

No one is happy by the compromises that are occasioned by the failure to appropriate adequate funding for all the Texas families who lost their homes to Hurricane Rita. The Katrina evacuees who moved to Texas have been largely ignored so far as their long term housing needs goes.

I strongly support the overall direction of targeting the lower income homeowners as a priority and in providing direct assistance in the form of housing rehabilitation and housing reconstruction services through State contractors.

Overview of my testimony

In my testimony today I will describe for you the status of three hurricane recovery initiatives in the state of Texas. First, I will discuss efforts to assist the evacuees who came to Texas from other states as a result of losing their homes to hurricane Katrina. Second, I will discuss the challenges and status of ongoing efforts to assist Texas households who lost their homes to Hurricane Rita rebuild. Third, I will report on the efforts within the state of Texas to implement FEMA's Affordable Housing Pilot Program.

In the second section of my testimony I will present specific recommendations for federal action to assist the State of Texas in the permanent resettlement of hurricane Katrina survivors and the reconstruction of homes damaged and destroyed by Hurricane Rita.

Finally I will discuss the efforts that are ongoing to learn the lessons from the struggle to house low-income families in the wake of these disasters so that we have in place a plan to more quickly and effectively deal with future disasters.

Status of ongoing programs

Hurricane Katrina

Scope of problem

Two and one-half years after about half a million predominantly poor and destitute Hurricane Katrina survivors evacuated to Texas, approximately 150,000 remain in the state. According to the U.S. Census, Harris County gained about 123,000 residents, many of them Katrina evacuees. A survey conducted by the Houston city government in January 2006 revealed that roughly one-fourth of the city's hurricane evacuees were living in apartments funded by the Federal Emergency Management Agency (FEMA), located in high-crime, high-poverty neighborhoods on the city's southwest side.

The hurricane survivors that remain the largest concern to us today have extremely low-incomes, about one-third are elderly or disabled and generally cannot afford private market rate housing in Texas cities.

A 2007 Zogby International poll of Katrina and Rita evacuees in Texas found that:

•
• 86 percent have household incomes of less than $25,000 a year;
• 69 percent have incomes of less than $15,000 a year;
• Prior to their evacuation, 72 percent were employed. Now only 38 percent are employed;
• 58 percent were seeking a job; and
• 24 percent are 55 years of age or older and 6 percent of the under 55 evacuees are disabled.

Seventy percent of the low-income evacuees in Texas rented single-family homes before Katrina struck. Now 84 percent are renters, mostly in apartment developments. Half of those surveyed indicated that they planned to remain in Texas by May 2007 and 18 percent didn't know where they would live. Most have extremely low-incomes and are living in Houston, without local community ties, family support, and with marginal or no employment.

Houston received the greatest number of Katrina evacuees. According to Robert Johnson, assistant attorney at the City of Houston, an estimated 90,000 – 100,000 hurricane survivors, mainly from New Orleans and some from East Texas, were still living in the greater Houston area as of September 2007.

An unofficial tally provided by the City of Houston in March indicates that 13,750 households (or about 87,000 individuals) in Texas are receiving housing assistance through the DHAP program. In Houston alone, almost 9,000 families are DHAP assisted. In fact, the Harris County Housing Authority is administering the program to the most clients nationally— more than the Housing Authority of New Orleans. In March, complete assistance ended and families became responsible for $50 of the rent, and will continue to be responsible for an additional $50 each month until the program ends in March 2009.

As the evacuees came to Texas the City of Houston coordinated an effort to identify vacant apartments that could provide temporary housing. Overwhelmingly the evacuees were placed in apartments located within the Southwest segment of the city. This part of Houston is characterized by its extreme concentration of lower quality multifamily housing, by a high level of ethnic and racial concentration, and by lower socioeconomic characteristics.

Several factors have come together to maintain a disproportionate concentration of the evacuees in this part of the city. These factors include: the shortage of affordable housing generally within the city; the refusal of private landlords to rent to Katrina and Rita evacuees or anyone with a section 8 voucher; long-standing problems with housing discrimination coupled with a lack of effective fair housing enforcement in the city; the evacuees lack of knowledge of local housing opportunities in other sections of the city; the lack of access to private transportation by the evacuees coupled with the poor level of public transportation available in the city.

The city of Houston has the third smallest amount of Section 8 and public housing per city resident in poverty of the twenty largest US cities, behind Phoenix and Detroit.

Houston had one unit of public housing or one Section 8 voucher for every 22.5 of its citizens below the poverty level.

42,000 households are on the Houston Housing Authority's Section 8/ Public Housing waiting list. Another 5,000 households are on the Harris County waiting list. In addition, 200-300 would-be clients walk into the Houston Housing Authority's offices every day seeking housing help.

Houston Housing director Richard Celli reports that Katrina evacuees are further increasing demand for affordable housing— a demand that Celli describes as "staggering." Celli estimates that including new arrivals such as Katrina evacuees and existing under served residents, 2000 households per year will require housing products, and of these, 1300 (or 65%) are projected to have incomes below 30 percent AMI. Demand is only going to increase as the roughly 14,000 DHAP-assisted Katrina families lose their assistance next year and will need to find housing on their own. Demand among these formerly DHAP-assisted evacuee families could increase the already massive Section 8/Public Housing waiting list by up to 32%.

The segregation of the evacuees into a relatively low opportunity, high crime area of the city has focused public and media attention on crime problems within the area and has lead to a backlash of public support against the evacuees.

Perversely however the City of Houston has proposed to use the Community Development Block Grant funds allocated to it by the State to further enhance the segregation of Katrina evacuees in the overcrowded, low opportunity census tracts in which they were first relocated through the temporary housing program. In describing the city's proposed use of the Community Development Block Grant funds in a plan submitted to HUD the City of Houston wrote,

"The best way to target housing assistance for an evacuee population will be to concentrate this assistance [multifamily housing rehabilitation] in the geographical submarket within Houston where the highest concentration of evacuees have chosen to reside and get on with their lives. (See Attachment A) Specifically, Houston will target the funds in and around the Fondren/Southwest area, the geographical area south of IH 59 outside Loop 610, in the southwest part of the City."

Incredibly, the City of Houston further proposes to use additional federal block grant funds to seek to mitigate the negative effects of the segregation it seeks to enhance through the use of other federal block grant funds. Once again, from the plan submitted by the City of Houston to HUD.

"The $20 million intended for housing safety efforts in and around multi-family complexes is based on similar principles. Violent crime rose dramatically in multi-family complexes located within four Police Districts that contain the high percentages of evacuees. Murder rose 62%, rape rose 20%, robbery rose 3%, and aggravated assault rose 20% in multi-family complexes in these districts. These figures do not include crime that spilled over into the neighborhoods near these hot zones."

"The housing safety program must be extended while evacuees remain since housing safety is a direct function of population and density. Crime analysis by the Houston Police Department has shown that residents of lower-income, multi-family apartment complexes are disproportionately the victims of violent crime."

Not only does the City of Houston fail to affirmatively further fair housing is required by the Community Development Block Grant funds but it seeks to use the funds to affirmatively further segregation of Katrina evacuees who, in Houston, are overwhelmingly low income and African-American.

Although statistics suggest Katrina survivors are not solely responsible for Houston's spike in crime in 2005, public support for evacuees in the Houston area is in dramatic decline. In August 2006, 1,700 angry residents crowded west Houston's Grace Presbyterian Church to confront Houston Mayor Bill White and Police Chief Harold Hurtt about the evacuees' presence and rising crime and to demand that housing assistance to evacuees end.

A June 2007 survey by a Rice University sociologist indicates that an overwhelming 97 percent of Houstonians are proud of the way the city pulled together to help the victims of Katrina, yet 65 percent of those surveyed said the overall impact on the city has been a negative one. 74 percent of respondents concurred with the suggestion that "helping the evacuees has put a considerable strain on the Houston community," and 66 percent were convinced that "a major increase in violent crime has occurred in Houston because of the evacuees."

The deliberate segregation of the evacuees into a small geographic area has focused the public's ire on the evacuees. The "evacuee problem" cannot be addressed in Houston until adequate provision is made for the evacuees to be able to obtain long-term affordable housing in desegregated settings away from the crime and poverty that characterize the neighborhoods that evacuees were located in when they first came to Houston.

In summary then the housing challenges facing the Hurricane Katrina evacuees living in Texas cities include: incomes that are insufficient for the evacuees to be able to afford permanent housing in low affordable housing opportunity markets such as Texas cities; public housing and Section 8 waiting lists have been extended many years as Katrina evacuees compete for the hugely inadequate existing supply a publicly assisted housing; hyper segregation of the evacuees in Houston has created major challenges for both the evacuees in the community as a whole.

In light of these major problems a significant provision of public funds is clearly needed. Yet, as we will see, no significant allocation of funds has been forthcoming.

State's allocation of CDBG funds between Katrina and Rita

The total amount of funds available to address the long term housing needs of the 150,000 Katrina survivors in Texas is a mere $60 million ($400 per evacuee). We estimate that federal hurricane relief has fallen at least $700 million short of what is needed to house low-income Hurricane Katrina survivors who remain in Texas.

Congress left decisions on how to divide the multi-billion dollar appropriations among the affected Gulf states to the US Department of Housing and Urban Development (HUD). It took the Administration longer to provide significant housing relief funding to Texas than to Louisiana and Mississippi. Initial HUD decisions to provide Texas only $74 million in assistance occasioned significant delays in the provision of housing assistance as State officials struggled to devise a plan to allocate this absurdly an adequate amount of assistance among the approximately 200,000 Rita and Katrina survivor families needing housing assistance.

A second congressional appropriation gave Texas an additional $420 million in hurricane recovery funds but still left the State far short of meeting the rebuilding needs and far short of the per capita levels of funding awarded to Mississippi and Louisiana.

The delayed appropriation of funds for Texas meant that Louisiana and Mississippi would set up their long-term housing assistance programs well before Texas. This has hurt Texas families waiting for assistance, And has proven especially costly in the case of Hurricane Rita survivors who have experienced significant delays in housing rehabilitation which has resulted in dramatically escalated costs. The delay however did offer the State the opportunity to watch and potentially learn from the experiences of the other Gulf states in establishing and administering their programs.

The lack of adequate federal funding for housing means many will get no help.

The Texas congressional delegation secured a total appropriation of only $503,194,849 for all hurricane rebuilding programs to serve Katrina evacuees and Rita victims. The Texas Governor's Office set aside $40,259,276 of $74,000,000 in Round 1 for housing assistance and $305,238,257 in Round 2 funding for housing assistance. $222,371,273 of round two funds has been reserved for owner-occupied rehabilitation and reconstruction. This amounts to $347,790,309 available for owner-occupied housing assistance for both rounds combined. If divided evenly this could provide $4,637 for each of the 75,000 households that were damaged or destroyed by Hurricane Rita. That is a far cry from the $150,000 that Louisiana and Mississippi homeowners are eligible to receive.

Facing a grossly inadequate federal appropriation of funds the State of Texas made a decision to devote the great majority of funds to damages caused by Hurricane Rita and to allocate a mere $60 million (about 12%) for housing assistance to the new Texans who came to the state in the wake of Hurricane Katrina. $40 million of the $60 million in Katrina assistance went to the City of Houston and $20 million went to Harris County. Despite the fact that large numbers of Katrina evacuees are present in other Texas cities, no CDBG supplemental appropriations went to assist Katrina evacuees outside the Houston/Harris County area.

Program implementation

We have been extremely critical of the decisions of the City of Houston and of Harris County so far as their uses of these funds. Neither the city or the county has proposed to expend any of the funds to directly help the Katrina evacuees with their critical housing needs. Instead, the funds are allocated to reimburse the city for expanded police enforcement in areas where large numbers of Katrina evacuees were living, to a program to reimburse landlords for repairs to apartments and to reimburse the county for the cost of MHMR services, counseling and jails.

A third of Houston's CDBG recovery funds are explicitly devoted to incarcerating evacuees as part of a broad public safety program to increase police presence at apartment developments with high evacuee populations. The "Evacuee Public Services" program anticipates arresting about 20% of the total evacuees remaining in the city. The City of Houston's draft amendment to the Texas Action Plan for Disaster Recovery to use CDBG recovery funds states: "It is anticipated that approximately 20,000 evacuees will be incarcerated in the County jail as a result of the proposed Multi-Family Community Liaison Program."

In another twist on an already problematic recovery strategy, the Houston Chronicle discovered last year that at least one of the apartment complexes to be funded by the CDBG public safety program would not even be housing evacuees. The landlord, it turned out, had chosen not to participate in the DHAP program. While the Harris County Housing Authority told the Chronicle they would provide relocation assistance to tenants at this and other developments that pulled out of the evacuee housing assistance program, the agency had no money to help pay for security and utility deposits, according to Guy Rankin, the housing authority's executive director. This situation illustrates how two major failures of hurricane recovery have intersected to tragically deny needy evacuees housing assistance: the misuse of federal CDBG recovery funds, and a poorly designed federal temporary assistance program that leaves evacuees in unstable housing that can be lost to the whims of a landlord.

In addition to the programs in our opinion being inappropriate to addressing the real needs of Katrina evacuees, both the city and the county have been unacceptably slow in getting their programs underway. Of the $60 million allocation the city and county have requested only $122,000 in draw downs.

Hurricane Rita

Program implementation

In summary as we approach the three year anniversary of Hurricane Rita 148 of the estimated 70,000 Texas households who suffered major or severe damage to their homes have received federal assistance using the over 1/2 billion dollar supplemental appropriation from Congress.

Round 1

First, I'll discuss the evolution of Texas' current disaster recovery program, funded with about half a billion in federal Community Development Block Grant (CDBG) funds that were allocated to the State in two waves, which I will here forth refer to as "Round 1" and "Round 2." Round 2 was by far the most significant allocation, but to understand the State's current recovery status, it is necessary to evaluate the State's experience in expending Round 1 funding.

In January 2006, the federal government awarded Texas $74.5 million in Round 1 funding to begin rebuilding from Hurricane Rita, a disaster that four months before had damaged or destroyed an estimated 75,000 homes. The storm hit the lowest-income and most vulnerable families the hardest, as indicated by the fact that almost half the homes destroyed were manufactured homes. Moreover, most of the Texas cities and counties that experienced the most destruction had significantly higher poverty rates than the national average. Beaumont, one of the cities heavily impacted by Rita, had a poverty rate of 22 percent. In Port Arthur, another devastated city, a quarter of residents were living below the poverty level.

Given the preexisting conditions and recorded damage of manufactured housing, the need for immediate replacement housing was urgent. Yet unfortunately, the provision of housing assistance has been unforgivably slow. Texas' housing agency, the Texas Department of Housing and Community Affairs (TDHCA), allocated the Round 1 funds to local Councils of Government (COGs) in July 2006. COGs are associations of local governments that cooperate around a broad array of regional development issues, but do not have any expertise in housing, and no experience in responding to the housing needs left by a disaster of Rita's magnitude. Essentially the State, which also had no experience in administering a large-scale housing repair and rebuilding program, turned to another agency—an agency that also had no experience in administering such a program. The result was an extremely protracted startup.

Under the 1st Supplemental CDBG Disaster Recovery Program (referred to as Round I), three Councils of Governments (COGs) are responsible for administering housing contracts to help restore and rebuild in areas of the State most directly impacted by Hurricane Rita. After a series on contract amendments over the course of the first eighteen months of the operation of the program, reducing the number of housing units the COGs will rehabilitate or replace, the total number of units (now all replacement units) is set at a mere 435. Of the $74.5 million, the total funding allocation earmarked for housing and administered by the COGs is $40,259,276 (the balance of the $74.5 million went for the restoration of public infrastructure).

This means the average cost per unit of housing provided by the COGs, a large portion of which are manufactured housing units, is $92,225.

Cumulatively the COGs have either replaced, reconstructed, or are in the process of reconstructing 198 housing units. 148 housing units are complete, consisting of 117 mobile homes and 31 site built homes. A total of 19% of the available $40,259,276 has been expended. Slightly over 28% of these funds have been expended for administrative expenses.

Contracts between TDHCA the COGs were executed in August 2006. The COGs contract ends July 27, 2008. It appears to us that the production goals will not be met by the end of the contract. TDHCA has stated that it does not intend to extend the contract term of the COGs beyond the end of August. We expect that the balance of funds will be transferred into the Round 2 program.

Based on current production, the total number of households assisted during the two year span of the contract will probably be less than 350.

As a consequence of the extremely slow progress in the Round 1 program the government's cost for housing rehabilitation and reconstruction has grown enormously. In the words of one of the leaders of a faith-based organization that has struggled to rehabilitate homes in Southeast Texas for 2 1/2 years using private funds, "where rehabilitation costs were generally reasonable two years ago, today after more than 200 inches of rain over those two years the cost of rehabilitating the leaking, mold filled homes has increased many times."

On September 24, 2007 my organization released an evaluation with recommendations of the State's progress in administering Round 1 of the disaster assistance program. The report is located at: http://www.texashousing.org/webnews/issues/news019.pdf

Our report reached four principal conclusions regarding the Round 1 program:

1) The State was completely unprepared to administer a large scale housing

program.
2) The federal funding was extremely slow in coming to Texas.
3) Inconsistent and inaccurate damage estimates resulted in a gross underfunding of assistance.
4) The lack of accurate damage estimates meant that even at the date of the report (two years after the hurricane) the types of housing assistance needed by hurricane survivors is not accurately known.

The report also chronicled the inexcusable delays in the provision of assistance which has resulted in continued deterioration of the damaged houses thus driving up the costs of restoring the housing.

Issue #1: The State was completely unprepared to administer a large scale housing program.
The challenge of providing housing assistance to 75,000 households spread out over 29 counties is unprecedented in Texas. After providing emergency shelter through FEMA and the Red Cross, Congress turned to state governments to administer long-term housing assistance programs designed to help survivors make major repairs or rebuild homes. Nothing in the State's experience prepared it to administer a half billion dollar emergency housing assistance program.

State administered housing programs are traditionally subcontracted by TDHCA to local cities and counties, for-profit housing developers and nonprofit housing organizations. The State's role had not been to administer programs, nor to provide assistance directly to individuals. Instead the State's decisions were limited to allocating federal housing block grant funding and tax credits to local governments, developers and corporations and to overseeing these contracts.

When considering the effectiveness of the hurricane housing programs, the unprecedented nature of this effort must be kept in mind.

In marked contrast to the delays experienced in the owner occupied housing program, the State's administration of the rental reconstruction program moved forward expeditiously. This program allocated low income housing tax credits and Community Development Block Grant funds in two independent programs to provide financing for the construction and rehabilitation of multi-family housing developments that had been damaged or destroyed as a result of the hurricane. The contracts and the program awards for this program were promptly executed.

The reason for the progress in the rental program is due to several factors. First, because of the State's experience in administering the low income housing tax credit program the State has existing relationships with multi-family housing developers who have substantial experience and capacity in the development and rehabilitation of rental housing. In contrast, the State had no similar relationships with single-family housing developers because prior to Hurricane Rita it subcontracted the administration of single-family housing rehabilitation programs through small cities and counties. Second, the contractual terms and the basis for financial assistance under the rental program conformed with existing departmental practices and program guidelines. In contrast, the single-family housing program rules so far as client eligibility, program benefit limits and all other aspects of the program including the identification of a subcontractor had to be developed after the funding levels that Congress provided were known to the State.

in summary, while there was a "on the shelf" model for a rental housing rehabilitation program that could be easily repurposed for the disaster rebuilding the State lacked such a model for owner occupied rehabilitation and reconstruction.

Issue #2: Federal funding slow to come to Texas.
Congress left decisions on how to divide multi-billion dollar appropriations among the affected Gulf states to the US Department of Housing and Urban Development (HUD). It took HUD far longer to provide significant housing relief funding to Texas than to Louisiana and Mississippi. The initial HUD decision to provide Texas only $74 million in assistance infuriated Texas elected officials.

HUD subsequently allocated an additional $420 million in hurricane recovery funds to Texas but that still left Texas far short of meeting the State's rebuilding needs and far short of the per victim levels of funding awarded to Mississippi and Louisiana.

The delayed appropriation of significant funds for Texas meant that Louisiana and Mississippi would set up their long-term housing assistance programs well before Texas. While this hurt Texas families waiting for assistance, it did offer Texas the opportunity to watch and learn from the experiences of the other Gulf states in establishing and administering their owner occupied assistance programs.

Issue #3: Inaccurate damage estimates bring inadequate funding.

In the weeks following Hurricane Rita, FEMA hired contractors to assess damage to houses whose occupants had applied to FEMA for assistance. FEMA counted 1,183 severely damaged and 8,091 homes with major damage. City and county officials promptly raised concerns with the low number of houses and contended that many times more homes were damaged or destroyed. So did Texas Governor Rick Perry. The Governor's office estimated that 75,000 homes were destroyed or suffered major damage. These wildly different damage estimates were never reconciled.

My organization watched this process with frustration. Accurate damage estimates are critical to securing adequate federal appropriations to rebuild the homes that were damaged or destroyed. We formally raised concerns over the dramatically conflicting damage estimates in a special report published in April 2006.

Although the State's count of the number of affected homes far exceeded FEMA's count, the State underestimated housing recovery costs and used these understated costs to advocate congressional appropriations. In the "Action Plan" submitted to HUD regarding allocation of the initial $74 million, the State commented:

"The State recognizes that these funds – while beneficial to affected areas – will meet only a small fraction of the enormous needs of Texas citizens in the region. In fact, as documented in the State's official disaster request document Texas Rebounds: Helping Our Communities and Neighbors Recover from Hurricanes Rita and Katrina, more than $2 billion in funds are required to sufficiently meet the existing need. This figure includes $322 million in CDBG eligible need for housing related activities alone. More specifically, as a result of Hurricane Rita, more than 75,000 homes in the area suffered major damage or were destroyed. Of these, approximately 40,000 homeowners were uninsured. These homeowners are likely to face average damage repair costs in excess of $8,000 that will not be reimbursed through FEMA or insurance claims."

The State based its funding request on faulty assumptions. It assumed that only uninsured homeowners would need public assistance to repair their homes and that the average cost would be only $8,000. Both assumptions are incorrect. Insurance companies failed to fully reimburse homeowners for their losses and repair costs for many homes have greatly exceeded the $8,000 estimate.

One the other hand, the State's disaster request to the federal government seems to have substantially overestimated the amount of funds required for the restoration of infrastructure. Based on the assumption that infrastructure of private utilities would be reimbursed from federal funds, the State requested, in addition to the $332 million request for a second round of housing funding, $1.7 billion for infrastructure. This assumption proved incorrect. Two years later the State is allocating $72.5 million for infrastructure and $430 million for housing from Round 2 funds.

TDHCA has informed congressional offices that the State now estimates needing an additional $128 million for housing. In our view, this figure is still wholly inadequate. By our estimates, the State of Texas needs at least $500 million in additional CDBG funding to rebuild homes damaged or destroyed by Hurricane Rita and $700 million to provide permanent housing options to the more than 100,000 low-income Hurricane Katrina survivors who are likely to remain in the state.

Initial estimates of repair costs were problematic for several reasons.

Federal damage estimates were especially inaccurate. FEMA simply failed to identify a large number of damaged houses, particularly outside urban areas. On top of this FEMA did not make accurate damage estimates to the houses they did identify. FEMA contractors attempted to estimate individual repair costs. Yet, based on casework by faith-based groups who have been on the ground in Rita impacted counties for two years, FEMA damage estimates vary dramatically from house to house. For example, a structure damaged by a tree falling through the roof would be categorized by one FEMA contractor as suffering $2,000 in damage, while a virtually identical situation might be estimated by another FEMA contractor as having suffered $8,000 in damage.

FEMA estimates are inconsistent, not comprehensive and thus useless.

The pre-hurricane condition of housing damaged by Hurricane Rita also complicates estimating damage. Many damaged homes were older and occupied by elderly and low-income families. These structures often had substantial pre-existing deferred maintenance and building code violations. FEMA contractors were instructed to evaluate only the damages that resulted directly from the hurricane. Yet separating and repairing hurricane specific damage may be impossible or delays in making repairs may have exacerbated damage. For example, it is virtually impossible to distinguish between water damage and rot that occurred before the storm and similar damage which was caused by the storm.

Delays in getting the housing reconstruction programs up and running further aggravate the difficulty of getting useful estimates. FEMA estimates were made in September 2005. Two years later, the failure to promptly repair the initial damage has produced far greater damage, with leaking roofs ruining structural framing, drywall, floors and cabinetry. Tattered blue plastic tarps that continue to cover damaged homes are evidence of just how widespread this problem is. Now, what were initially $7,000 repair needs have become $40,000 repair needs.

If the hurricane rehabilitation program has as its goal the restoration of housing to a decent safe and habitable condition than it must address pre-existing conditions prior to the hurricane which make the house unsafe or uninhabitable. Yet the cost estimates used by FEMA and presented to Congress for the rehabilitation of homes damaged in Texas by Hurricane Rita only considered the cost of repair of damages directly attributable to the hurricane.

Mississippi and Louisiana acted effectively to demonstrate that FEMA damage estimates were significantly less than actual damages. As a result, these states secured massive supplemental funding for housing from Congress. Texas never reconciled the differences between state and FEMA estimates and failed to make a compelling case for additional funding.

The Texas Governor's Office set aside $40,259,276 of $74,000,000 in Round 1 for housing assistance and $305,238,257 in Round 2 funding, with $222,371,273 reserved for owner-occupied rehabilitation and reconstruction. This amounts to a total of $347,790,309 available for owner-occupied housing assistance for both rounds. This is an average of $4,637 for each of the 75,000 homeowners that were damaged or destroyed. This is a far cry from the $150,000 that Louisiana and Mississippi homeowners are eligible to receive.

Issue #4: The types of housing assistance survivors need is not accurately known

Yet another problem that has hampered the informed design of a housing reconstruction program is lack of data on the economic situation of hurricane-affected households. FEMA presumedly could have collected this data but did not or at least did not report it.

We do know that a very large percentage of the people whose homes suffered major damage or were destroyed had no homeowners insurance. According to FEMA, about half of the houses had no insurance. Based on this fact we assume that a very large percentage of the population had very low incomes.

In addition to the high number of uninsured homeowners, we surmise that a fairly large number of the survivors had relatively low-incomes and lacked savings to pay for repairs. We base this on the fact that the governor's office reports that 47 percent of the homes destroyed were mobile homes.

Yet figures on manufactured home damage offer very little insight into the economic condition of affected households. There is a dearth of economic and demographic data on the economic condition of survivors. As a result, TDHCA is simply left to guess which loan or grant terms will work best. Critical questions that should guide the design of any publicly subsidized housing program remain unanswered.

Designing a housing program in the absence of this information is taking a shot in the dark. Because of the lack of basic data we do not know if the programs that have been set up will meet the needs of the hurricane survivors or not.

Ironically, the federal government's failure to provide more than a small fraction of the funds that are necessary to help qualified Texas survivors repair their homes has in some ways obviated the need for this basic market data. TDHCA has generally decided to restrict all assistance to low income households because there are simply not enough funds to assist more than a small fraction of those needing help. Therefore, TDHCA was never forced to address questions about repayment ability and instead could simply target grant funds at the lowest income households who could not afford to repay a loan.

Round 2

The 2nd Supplemental CDBG Disaster Recovery Funding (referred to Round 2) is broken down as follows:

Rental Housing Stock Restoration Program $82,866,984
ORCA's Restoration of Critical Infrastructure Program $42,000,000
City of Houston and Harris County Public Service and CDP $60,000,000
Homeowner Assistance Program $210,371,273
Sabine Pass Restoration Program $12,000,000
State Administration Funds $21,433,592
Total CDBG Round 2 Plan Funding $428,671,849

CDBG Round 2 Multifamily Rental Housing Restoration Program

On September 13, 2007, the TDHCA Board awarded $81.1 million to repair or rebuild five Southeast Texas affordable multifamily rental properties damaged or destroyed by Hurricane Rita. The construction work, once completed, will restore 813 rental units at a cost of $81,147,333 or approximately $100,000 per rental unit.

Considering that these rental housing units are affordable at 65% of the area median family income and open to households earning as much as 80% of the AMFI we do not consider this program to be very efficient or effective in meeting the housing needs of the most needy renters -- those with incomes below 30% of median family income.

It is interesting to note that the State has capped the benefit levels for owner occupants under Round 2, many of whom are extremely low income, at $40,000 for rehabilitation and $60,000 for new construction while allowing almost $100,000 per unit in Community Development Block Grant funds to be provided to rental housing developers and owners to house families with larger incomes.

CDBG Round 2 Homeowner Assistance Program and Sabine Pass Restoration Program

Based upon the slow and inadequate performance of the COGs during their two-year administration of the homeowner assistance program TDHCA adopted another model for the second round program which is just getting underway. The State elected to contract with a private contractor to administer the program.

The project management firm selected to administer the program is ACS State & Local Solutions, Inc., (ACS), with the firms of Reznick and Shaw playing supportive roles.

According to TDHCA, "Contrary to the COGs that administer Round 1 CDBG DR Housing Funds, the RFP required that the firm selected have substantial capacity and experience in administering this program and other similar programs, and is a for-profit entity. ... To be considered for award, offerers were required to submit a written proposal which satisfied the requirements outlined in the RFP no later than Monday, July 9, 2007. After a substantial TDHCA review process, staff recommended and the TDHCA Board approved ACS State & Local Solutions, Inc. on August 23, 2007. Based on the Proposal, TDHCA and ACS engaged in extensive negotiations, discussions and due diligence that culminated in the execution of the contract and policy development. Contract negotiations began after the Board approval, and the contract was executed on December 31, 2007.

The timeline for the Round 2 program presented at the TDHCA board meeting in January is as follows:

ACS Contract Milestone (All Final Policies Approved by TDHCA Prior to Implementation)		
	Start	End
ACS and TDHCA Development of Policies and Procedures in Conjunction with Input from CoGs, Faith Based, and Public Interest Groups	Jan 14, 2008	Mar 10, 2008
Environmental Reviews of Tiering and Individual Sites	Jan 7, 2008	Apr 16, 2008
Selection of Rehabilitation and New Construction Contractors	Jan 9, 2008	Feb 18, 2008
Outreach Program Development	Feb 1, 2008	Jun 6, 2008
Pilot Operations Testing Including	Apr 16, 2008	Oct 24, 2008
Construction Services Through Final Completion for Pilot	Oct 8, 2008	May 27, 2009

ACS Contract Milestone (All Final Policies Approved by TDHCA Prior to Implementation)		
Final Inspection/ Homes Complete	Apr 22, 2009	Dec 22, 2009

The Round 2 program offers homeowners either rehabilitation or replacement of their homes.

The owner's household will be eligible if their income is 80% or less AMI (based on household size) for the main program or 150% or less under the program to rebuild housing in the small coastal community of Sabine Pass.

The benefit for rehabilitation remained at $40,000. ACS will prepare an estimated cost to repair damage. If it exceeds the rehabilitation maximum, the home owner can elect to provide gap funding for all amounts exceeding the $40,000 maximum for rehabilitation, accept the options provided for reconstruction, or not to participate in the program.

The maximum benefit for the HAP for reconstruction, replacement, and/or new construction of a qualified home, including manufactured housing units, is based on household size:
- 1-4 person Household: $60,000
- 5-6 person Household: $67, 500
- 7 or more person Household: $75,000

The plan provides that if the available benefits are not sufficient to complete the reconstruction or rehabilitation of a home, the applicant will be required to identify and secure funding for the difference between the available funds and the funds required to complete the rehabilitation/reconstruction prior to beginning work.

To avoid duplication of benefits, the Estimate of Storm Damage Cost will be reduced by the following if such benefits were or will be paid to the household toward any of the activities included in the Estimate of Storm Damage Cost:

A. FEMA Grants;
B. Homeowner insurance proceeds (unpaid and outstanding insurance claims must be subrogated back to the State);
C. National Flood Insurance Program proceeds;
D. SBA loans identified by SBA as a duplication of benefits.

Any portion of the duplication of benefits that has been determined to be an "allowable or appropriate activities" (outlined below) that the applicant spent funds on will reduce the amount of duplication of benefits.

The following are Allowable activities and include:
1. Structure repairs (i.e. roof, foundation, electrical, plumbing, and windows)
2. Debris removal
3. Tree/shrub removal and replacement (replacement to bring the environment back to the way it was before Hurricane Rita)
4. Mold remediation
5. Cost of interim housing (rent, hotel payments)
6. Repairs to outbuildings (includes fences, sheds, separate garages, carports, and driveways)
7. Labor, material, and equipment rental to permanently or temporarily repair the damaged
residence (includes carpeting, cabinetry, appliances, flooring, fixtures, doors, walls, and ceilings)
8. Demolition costs
9. Installation of wells, septic tanks, electricity, HVAC and plumbing
10. Grading or leveling of property
11. Rental of Disposal and Removal Equipment (i.e. backhoes and dumpsters)

Areas of concern

The shortage of CDBG funds means only a small portion, at most 4,000, of the victims will be able to be assisted under the program. This represents 43% of the owner-occupied households that FEMA estimated suffered major to severe damage in Texas and represents only 6% of the owner-occupied households that the Texas governor's office estimates suffered major to severe damage.

An area of concern to the advocacy community has to do with the problem posed by the inability of a very large number of the poor and elderly to provide adequate documentation that the small payments that were received from FEMA early on in the disaster process were used for "allowable activities" as defined in the program regulations. The failure to provide adequate evidence of proper expenditure of these $2000-$4000 grants means that the families are placed in a position of having to repay these small grants in order to qualify for further assistance. This creates a problem that we have come to call the "gap funding problem". The advocates feel that it is essential that a solution be found for this gap funding before the program begins. To do otherwise will disqualify large numbers of the lowest income people and it will be impossible to retroactively go back and pick them up after they have been passed over and after families who do not have a gap funding problem have been promised housing.

We understand that a waiver for these funds has been granted to Louisiana. We strongly urge the Texas families be allowed to participate in this waiver.

The second area of concern for the advocates is the effect that houses with a $60,000 maximum cost figure will produce. People have complained about the quality of the TDHCA replacement house and indicate that they do not believe it is engineered to meet significant wind load. Some of the bedrooms are reported to be as small as 9' x 9'. We feels that it is essential that the engineering and architectural standards to be applied to these homes must be the subject of public review and comment. We are concerned that the amount of money budgeted for the reconstruction is going to prove to be simply inadequate to produce a decent quality house that can stand up in the wake of the next hurricane.

A third area which concerns advocates is our belief that it is essential to provide for one -- on -- one, in-home application assistance. While we agreed TDHCA's overall approach of attempting to limit administrative costs in order to help more families we fear that insufficient funds have been budgeted to allow for the type of personal assistance that will be necessary in order to help extremely low income families and the elderly be able to navigate the application and eligibility process to receive housing assistance. We understand that TDHCA has budgeted for 800 in-home visits for the 4000 households it expects to assist. In our opinion this may prove to be substantially inadequate. If the low income population and the elderly are unable to effectively participate in an eligibility and qualification system in which they are primarily dealt with by telephone and by mail than the consequence will be that the neediest households will be denied housing assistance.

A fourth area of concern to the advocates is the differential level of assistance provided for rehabilitation and for new construction. The State has determined to provide a maximum of $40,000 for rehabilitation of the home while providing between 60,000 and 75,000 dollars (depending on family size) for the construction of a new house. It has been our observation that many of the homeowners would prefer to have their homes rehabilitated rather than demolished and replaced with an extremely modest and extremely small new house. We have not heard an adequate justification from TDHCA for its decision to limit rehabilitation costs to a level substantially below reconstruction costs.

FEMA Affordable Housing Pilot Program

Description of the program

TDHCA, acting on the behalf of the State of Texas, is also responsible for administration of a Federal Emergency Management Agency (FEMA) award of $16,471,725 for the Affordable Housing Pilot Program (AHPP).

The purpose of the AHPP — awarded to TDHCA in January 2008— is to demonstrate an alternative housing solution to FEMA trailers in the areas devastated by the 2005 Hurricanes. The FEMA funds provided for AHPP allow the State to examine and model alternatives to the FEMA trailer, which hurricane survivors, advocates and policy leaders have agreed is a substandard post-disaster housing solution. The AHPP is the first program of its kind to allow the State to create new, cost-effective solutions that meet a variety of housing needs, including the provision of interim housing for disaster survivors. Pursuant to FEMA requirements, the pre-fabricated units developed under the program must be awarded within the 22 counties affected by Rita and Katrina.

The Heston Group was selected to pilot a pre-fabricated, panelized solution that can be rapidly deployed and built to accommodate a diverse population. According to The Heston Group, the estimated average price of each pre-fabricated unit is $77,500. The contract between The Heston Group and the Department has been executed and the list of eligible candidates in East Texas was finalized this April. A total of 26 eligible households expressed interest in the program before the deadline and site selection is currently undergoing review by TDHCA and FEMA. TDHCA has announced that it will award the Harris County Housing Authority 20 single-family units, one community center/leasing office, a playground, and costs for site acquisition.

The Harris County Housing Authority will be overseeing the program. It will therefore be responsible for testing the model units to ensure that they could actually be a better alternative to the status quo. This includes moving or redeploying the housing units to test whether they can be easily transported following a disaster. FEMA claims it will use this data to develop better temporary housing in future disasters. TDHCA is working with Harris County to locate the units on a single county-owned site within Harris County. Such a location for the Heston models is problematic. If the State proceeds to enter into an agreement with the Harris County Housing Authority to place the Heston housing units en masse in a rural subdivision, Hurricane Katrina evacuees will be isolated and segregated into a compound of units far from the services and opportunities they need to reestablish their lives in Houston. This is undesirable from the standpoint of the evacuees, who have been living in Houston since evacuating to the city over two years ago. It is also a repeat of one of the failures of the FEMA temporary trailer program, whereby housing units are undesirable and cannot be integrated into quality, high-opportunity communities.

The Heston program as a new model seems encouraging on the surface, yet it is actually taking precedent over the needs and desires of Katrina survivors themselves. It also ignores a fundamental problem: two and a half years after the hurricanes, there is no longer a need for quickly deployable temporary housing of the type the Heston model offers. The families in Southeast Texas need permanent housing. Their homes are decaying as the months pass and temporary FEMA trailers are becoming increasingly uninhabitable. Moreover, there are practical considerations that prevent the Heston model from being effectively used as permanent housing. First, the materials used to construct the structure are metal and other industrial materials. Moreover, it is simply not designed to be compatible with houses in an existing neighborhood—architecturally it looks like a mobile home. This is not the type of design that people welcome as a permanent fixture in their neighborhoods. These factors have made the demonstration program problematic for TDHCA. Rather than focusing on testing the deployment of the structures as temporary housing for disaster victims, the State must instead spend time attempting to identify locations where the houses can be set up as permanent housing without incurring opposition from cities and neighborhoods.

It would be far better for purposes of the demonstration program for FEMA to allow the State to use these structures in conjunction with a future disaster when there will be a need for temporary housing, rather than trying to make the Heston models permanent housing. But the rules governing the program at the federal level prohibit this. Another potential use of the houses, to provide a permanent alternative for existing mobile home residents in rural areas, seems to us to be a more appropriate use provided that the Heston models can be shown to be of as good or better quality than new manufactured housing that would otherwise be provided under the Round 2 CDBG program.

Areas of concern

The demonstration program is a worthy project in identifying an alternative to the FEMA trailer for providing interim housing for disaster refugees. The Heston model that the State of Texas was selected to test would seem to offer a good model for housing that can be quickly set-up in the wake of a disaster and easily removed as permanent housing becomes available.

The problem is that two and one half years after the disaster there is no need for quickly deployable temporary housing of the type the Heston model offers. The families in Southeast Texas need permanent housing.

There are practical considerations that prevent the Heston model from being effectively used as permanent housing. First, the materials used to construct the structure are metal and other industrial types. It is not designed to be compatible with houses in an existing neighborhood. Second, architecturally the structure looks like a mobile home. It is not the type of design that neighborhoods would welcome as a permanent housing type.

These factors have made the demonstration program problematic for TDHCA. The State really has no opportunity to test the deployment of the structures as temporary housing for disaster victims and instead must find a way to attempt to identify locations where the houses can be set up as permanent housing without incurring opposition from cities and neighborhoods.

It would be far better for purposes of the demonstration program to allow the State to use these structures in conjunction with a future disaster where there was a need for temporary housing instead of trying to make the Heston models into permanent housing. But the rules governing the program at the federal level prohibit this.

TDHCA's attempt to identify locations for the Heston models has thus become problematic. For example, the State is entering into an agreement with the Harris County Housing Authority to set up these temporary housing units in large numbers in a rural subdivision to house Hurricane Katrina evacuees. This is undesirable from the standpoint of the evacuees themselves however.

These are families who have been living in Houston since being evacuated two and 1/2 years ago. The need, as I discussed earlier in my testimony is to move these families out of low-opportunity, high crime census tracts and out of multifamily housing where large concentrations of low-income Katrina evacuees live into higher opportunity areas in desegregated housing opportunities.

Yet this demonstration program is doing exactly the opposite.

It is creating an isolated, segregated compound of temporary housing outside of the city and populating the community with only low-income Katrina evacuees. The goal of finding a way to use the housing resource has taken precedence over the interest of the Katrina survivors.

The other use of the houses, providing a permanent alternative for existing homeowners to a mobile home for residents in rural areas seems to us to be a more appropriate use provided that the Heston models can be shown to be of as good or better quality to new manufactured housing that would otherwise be provided under the Round 2 program.

Recommendations

1. Waive duplication of benefits prohibition

As discussed previously, a problem has emerged in the owner occupied rehabilitation program: "duplication of benefits" (DOB). Federal law requires that subsequent benefits for housing assistance, such as the CDBG owner-occupied repair program, be reduced by the amount of previously provided emergency assistance. It also requires homeowners to present documentation that previous small grants from FEMA were expended for "allowable" activities.

These “allowable activities” include repairs to the structure, debris removal, and the cost of interim housing rent or hotel payments. Significant problems arise when, as has happened often in Texas, FEMA does not communicate documentation requirements clearly at the time initial grants were provided. The homeowners have thus been inadequately informed of the restrictions governing the use of the grants. Now, over the ensuing two years many Hurricane Rita survivors have lost their documentation.

This is a particularly pressing issue for a program like the Round 2 homeowner rehabilitation program operated by the State of Texas in which the amount of grant funds provided are barely sufficient to cover the costs of rehabilitation or reconstruction.

In administering the Round 1 program it was determined that about 75% of applicants had Duplication of Benefit (DOB) issues. About half could not prove how they used the full amount of funding they received from FEMA/SBA, but provided some receipts. Some survivors still have the full amount of funds they received from FEMA, but it is rare. We found that most had to spend it on necessities. At least 75% of Hurricane Rita survivors won’t be able to be assisted under the Round 2 program due to onerous duplication of benefits restrictions.

Texas Housing Trust Fund dollars—not federal funds—are what allowed the Round 1 program to move forward. The state set aside $1 million in these funds to be used for "gap funding" to pay back the small grants for which the homeowners could provide no documentation. Prior to the availability of the Texas housing trust funds for this purpose, the Round 1 program came to a halt over this issue.

We have since learned that Louisiana has successfully applied for a waiver of the duplication of benefits restriction. Because there are no additional state housing trust funds that can readily be used as they were in Round 1, we urgently request that Congress extend the waiver to cover Texas so that hurricane recovery can proceed unhindered.

2. Allocate new Housing Choice Vouchers to Texas cities with large numbers of relocated survivors

The one third of Katrina evacuees who are elderly and disabled and living in Texas cities cannot reasonably be expected to be able to afford to pay market rents after the conclusion of the DHAP program. Further, many of the single mothers with children cannot be expected to pay such rents.

As cited earlier the 2007 Zogby International poll of Katrina and Rita evacuees in Texas found that:

• 86 percent have household incomes of less than $25,000 a year;
• 69 percent have incomes of less than $15,000 a year;
• Prior to their evacuation, 72 percent were employed. Now only 38 percent are employed;
• 58 percent were seeking a job; and
• 24 percent are 55 years of age or older and 6 percent of the under 55 evacuees are disabled.

These families will, without a doubt end up having to apply for public housing or Section 8. Most already have applied which accounts for the 42,000 families on the Houston Housing Authority's waiting list. This number would take decades to go through even if an additional 200-300 families were not seeking help at the housing authority every day.

This is taking place in a city with one of the lowest ratios of subsidized housing per families in poverty among all the major cities.

Major Texas cities desperate ned an additional allocation of Section 8 Housing Choice Vouchers. It is a matter of justice that the burden of housing the evacuees not fall unevenly of the cities that agreed to take them in.

3. Provide a supplemental appropriation of CDBG funds

Congress needs to appropriate a supplemental allocation of $1.2 billion in CDBG funds to Texas to address the long term housing needs of hurricane survivors.

Texas needs an additional $500 million to provide housing assistance to Hurricane Rita survivors. These funds would provide the resources assist 75% of the families who homes FEMA reports were destroyed or suffered major damage, increase the maximum level of housing rehabilitation assistance from $40,000 to $60,000, increase the maximum available to rebuild a home from $60,000 to $75,000, and provide for one-to-one outreach and case management assistance with home assistance applications for all elderly and disabled households.

Texas also needs $700 million (including new permanent Section 8 Housing Choice Vouchers) to provide long-term housing to the Hurricane Katrina survivors who have settled in Texas for the long term.

Even with these additional funds Texas hurricane victims will be eligible for substantially lower levels of public assistance that survivors in Mississippi and Louisiana and unlike survivors in our neighboring states not all eligible survivors will receive assistance.

Increase rehabilitation assistance per households

The State of Texas has made a decision that in order to serve a larger number of households it will significantly constrain the amount of assistance provided to any one household. As I described earlier housing rehabilitation will only be undertaken on homes that can be brought into full code compliance for no more than $40,000. When homes are to be rebuilt, the maximum level of assistance to be provided for a two-bedroom home will be $60,000.

Many of the homes which suffered significant damage in Hurricane Rita were small bungalows that were constructed in the 1930s through the 1940s. Most of these homes were well-built and generally provided ample space for their occupants. Many were of an architectural style that the Texas historical commission now deems to be historic. A very large percentage of the homeowners in these houses prefer them to be rehabilitated rather than demolished and rebuilt.

Because the homes were built prior to 1970 the great majority contain lead based paint. CDBG regulations require the abatement of lead based paint anytime rehabilitation is undertaken. The cost of this abatement in these larger older homes is significant. In a number of cases lead paint abatement will cost $20,000 or more. This represents one half of the maximum allowable rehabilitation cost under the State's hurricane rebuilding program.

A very large number of the homes that were damaged by Hurricane Rita suffered significant roof damage and as a result water entered the homes. This water damage is quite different than that experienced along the Mississippi Gulf Coast and in the Lower

Ninth Ward. In Texas most flood damage stems from water infiltration through the roof. This type of water damage, unlike flooding is not necessarily catastrophic to the house.

But the problem has been made more serious by the delays in securing rehabilitation. In the ensuing 2 1/2 years since the hurricane many of the homes have experienced continual roof leaks due to the failure of the aging FEMA blue tarps. The result has been a significant and widespread problem with mold within the homes.

Mold abatement, a costly and time-consuming job, will have the effect of dramatically increasing the rehabilitation costs of the homes.

Because of a desire to help as many families as possible with the inadequate funds available, the State of Texas has established benefit limits for reconstruction under Round 2 at $40,000. This level is set so low most homes will not qualify for rehabilitation.

If Congress were to provide additional funds to the State of Texas the State would be able to increase the amount of funds allocated to individual houses for rehabilitation. This would preserve from destruction thousands of historically significant homes and would allow families to remain in homes that are larger than the replacement housing that will be constructed if existing units must be demolished and rebuilt.

Increase funding for rebuilding each household

In order to serve more families, the State used an extremely low cost model to be used as a replacement house. The total budget for a two bedroom, one bath home is $60,000. While the State's decision to constrain its budget is understandable given the overwhelming need, this will likely produce serious negative consequences to the hurricane survivors and to the communities in which these new houses are rebuilt.

The houses that will be rebuilt will be extremely modest and will lack many of the modern amenities that most homeowners have come to expect. Bedroom sizes will be extremely tight. Architecturally, there will be only minimum variation. This will potentially produce a monotonous repetition of house type within older historic neighborhoods, negatively affecting both property values and quality of life. We fear that the introduction of large numbers of similarly designed low cost housing units in close proximity to one another will result in the public's labeling these houses as "FEMA housing" or "government housing".

It would be far better socially and economically for both the hurricane survivors and the communities in which their homes are located if additional funding could be provided so that the homes could be constructed at a higher quality level and so that there could be variation in the architectural style.

An additional $20,000 per household should be sufficient to produce a much higher quality product.

More money to allow individual outreach to victims and individual help with applications

There is another area of concern prompted by the inadequate levels of funding provided by Congress. There is inadequate funding available to provide in person case management service to Hurricane Rita's survivors through the home rebuilding or renovation process.

In developing the agreement with the private contractor to administer the program the State of Texas has sought to drastically reduce administrative costs in order to retain the maximum amount of funding to provide direct housing assistance to the survivors. The practical effects of this cost-cutting mean that most of the administration of the program will take place from telephone call centers.

Of the 4,000 households intended to be assisted with housing rehabilitation or reconstruction the State has only budgeted for 800 in person assistance meetings with Hurricane Rita survivors. The State, overly optimistically in our opinion, is counting on the contractor to be able to take applications, obtain all of the necessary documentation and paperwork, discuss and decide on options with the homeowners, resolve all problems, and execute all legal documents either by phone or by mail.

Based on our experience with low-income populations in the area we believe that elderly, disabled and extremely low income households which are the predominant population to be assisted will not be adequately served without significant one on one in person assistance by the contractor. Our fear is that as a result of the emphasis on requiring hurricane survivors to reply in a timely manner to requests mailed to them of a highly technical and legal nature many of the low income people will fail to meet deadlines imposed by the program and as a result will be passed over for assistance.

I would like to emphasize that this cost-cutting decision by the State has a rational basis. The State desires to serve as many low income households as possible. Yet the end result may be that many extremely needy elderly and low income people will end up without receiving any assistance.

More funding is needed to help more victims

Finally, it is important to reiterate that unlike the situation in Mississippi and Louisiana assistance to hurricane survivors in Texas who lost their homes will only be provided to an extremely small fraction of all of the eligible and needy families due to the failure of Congress to appropriate sufficient funding.

Admittedly, no one knows precisely how many households in Texas qualify for assistance. The most conservative estimates by FEMA are that 9,274 households suffered major to severe damage while the estimates of the Texas governor's office are that 75,000 households fall into this category.

Using the funds that are available the State of Texas will be able to assist a maximum of 4,000 households. The remaining 57% to 94% of the qualified Texas households will receive no assistance.

4. Plan how to do low-income housing rebuilding better next time

Hurricanes Katrina and Rita were not the first time that a low income communities suffered a significant loss of housing stock to natural disaster. Because the previous disasters were of a smaller scale policy makers and the public quickly lost focus on these disasters. Yet the low income people who are affected on a continuing basis with housing loss suffered no less than the survivors of hurricanes Katrina and Rita.

For example, in my state of Texas a tornado recently struck a community of extremely low income farmworkers in South Texas. Beyond the provision of temporary FEMA trailers little to nothing has been done to provide for the housing needs of these impoverished families.

The truth of the matter is that we have always been unprepared to provide meaningful assistance to low-income survivors of disasters. The difference in the case of hurricanes Rita and Katrina is the magnitude of our failure and the fact that the public for once effectively had its attention drawn to these failures. No one had thought through how to deal with home rebuilding for low-income survivors. We now have available to us tremendous knowledge based on experience. That experience needs to be captured before it is lost.

Develop a federal policy for dealing with low-income housing in the wake of disaster

Congress needs a national policy for how to address future disasters that cause large losses of low-income housing.

We are attempting to jump start that policy discussion by publicly suggesting the elements of such a policy and inviting all those who are interested to join in a discussion. We are announcing today the establishment of a web-based wiki to facilitate collaboration of persons concerned with the development of this policy. The web site is located at: www.rebuilding.wikispaces.com

The initial proposals that will serve as a basis for the discussion were developed by a group of graduate students and professors from the University of Texas at Austin. They include: Tamar Greenspan, Holly Bell, Jenny McKay, Jeong-Il Park, Colleen Flynn, Michelle Ng, Marianna Salazar, John Henneberger

The goal is to produce a policy document that details a federal housing policy in three areas: pre-disaster preparation, emergency housing response and providing assistance in rebuilding permanent housing.

5. Develop an "on the shelf" state low-income housing rebuilding program

We should develop an "on the shelf" program to provide assistance in future disasters.

A federally funded planning grant should be provided to develop the program and an agreement should be developed with FEMA to provide funding to implement the approach and test it out in the next small scale disaster that affects a low income population in Texas.

We suggest the following outline could form the basis for such a plan.

1 In the immediate wake of a disaster be prepared to quickly conduct accurate damage assessments.

2 Identify and collect household economic and demographic data needed to determine the type of financial assistance that will be required. Develop a protocol with FEMA to get them to collect useful data about survivors needs.

3 Establish a housing delivery infrastructure, including program administrators and construction contractors who are prepared to go to work quickly. Develop pre-need contractual relations with private program managers and modular housing providers to allow them to deliver housing very quickly in the wake of a disaster.

4 Work out in advance the type and terms of housing financial assistance that the State will make available.

5 Design a program to minimize temporary housing costs. Use funds that would be spent for temporary housing to provide housing equity to disaster survivors. Secure authorization from Congress to carry out a pilot program that modifies the federal Stafford Act to use savings from temporary housing for permanent housing.

6 Be prepared to quickly inform disaster survivors about what long-term housing options they have and how they can apply for assistance. Prepare public information materials including web, printed and video presentations that can be quickly modified to provide survivors immediate access to information about how to obtain housing help.

7 Establish relationships and protocols with faith-based organizations that will be providing housing assistance to prioritize the effective use of their volunteer resources and prevent duplication of effort. Integrate their efforts into public long-term recovery programs by conducting joint work write-ups and directing volunteer efforts into emergency rehabilitation that can be preserved as part of comprehensive home rehabilitation.

8 Conduct war game type disaster scenarios with government agencies, FEMA, faith-based groups and housing contractors to prepare for real disasters.

9 Build support among members of Congress to work quickly with the State in the wake of disasters to identify and secure funding for needs and break through federal logjams.

10 Establish, train and place under contract a rapid response team of state and private organizations to prepare damage and needs assessments. Agree upon the data

to be collected and the standards to be consistently applied in arriving at damage estimates.

6. Develop cost effective architectural models for rebuilding low-income owner-occupied housing

The FEMA disaster recovery program is designed around the provision of temporary housing. While the program provides modest amount of long-term rebuilding assistance, primarily through SBA loans, the program has come up short in providing any longer-term housing stability to low-income families whose homes were destroyed, or who were permanently displaced from their communities. Hurricanes Katrina and Rita have taught us that temporary housing alone is an inadequate response to the physical, economic, and emotional devastation that lasts far longer than the few months in which emergency housing relief is provided.

Congress has looked to state government to develop and administer supplemental long-term housing recovery programs to help families recovery who need more help that FEMA and SBA can provide. Two models for state assistance have emerged: direct payments to individuals as implemented by Louisiana and Mississippi and a program to repair or reconstruct homes using contractors hired by the State as implemented in Texas.

We believe that when the affected population is largely very low-income, elderly and disabled, as was the case in Texas with the homeowners suffering losses from Hurricane Rita, the State contracting model is the appropriate model. The difficulty of managing contractors and subcontractors coupled with labor and supply shortages make it extremely difficult for low-income populations to manage reconstruction contracting on their own.

A problem Texas is confronting is how to cost effectively provide large numbers of home reconstructions, in close proximity to one another in a timely and cost effective manner. A secondary problem is how to design the structures to avoid a similarity of design that gets the houses labeled "government housing" and how to architecturally integrate the homes into the fabric of existing communities.

The dictates of the Round 2 timeline means that Texas will probably not implement a good solution to these problems through this program, but TDHCA and the Texas housing community are aware of the challenges and are working together to devise a future solution. We call the pilot program the Texas Grow Home Project.

The Texas Low Income Housing Information Service (TxLIHIS), in partnership with TDHCA, the Texas Society of Architects and Covenant Community Capital (Covenant) decided to develop and model a new way to respond to the growing need for a post-disaster, long-term housing solution: the Texas Grow Homes project. Through this project, are modeling a whole new approach to responding to the housing needs of low-income, disaster-impacted populations.

The Texas Grow Home project is unique because it takes on both temporary and long-term housing needs at once. By culling the best architectural talent from across the state, it seeks to promote and build modular homes that are simple, well designed, efficient, affordable, and can be delivered immediately following a disaster. Most importantly, the Texas Grow Home can evolve into a permanent home.

In what is estimated to be the largest statewide affordable housing design competition in Texas history, 160 teams of architects competed to design the four Texas Grow Homes that are now being built into model prototypes. These 1,100 square foot prototypes will include one "core" and one "add on" module, so that the "core" can be used as emergency housing and the add-on can transform it into a permanent residence.

Since the hurricanes, a number of organizations have proposed brilliant and inspiring new designs for post-disaster replacement housing, beginning with the highly acclaimed "Katrina Cottage." Yet the Texas Grow Home project doesn't just end with good design. In a way, good design is just where it begins.

Based on model prototypes, we are modeling a whole new programmatic approach to providing housing to low-income disaster survivors and other low-income Texas families. It is a program that values long-term over short-term, and quality and efficiency over waste. It is also a program that engages the desire of volunteers and faith-based organizations to contribute to long-term—not just short-term— recovery.

Department of Homeland Security (DHS) Secretary Michael Chertoff told the Senate Homeland Security and Governmental Affairs Committee in February 2008 that DHS was going to get out of "the trailer business." Yet clearly, a new post-disaster solution must be developed to replace the failed one.

The ultimate goal of Texas Grow Homes demonstration project is to make substandard, overpriced FEMA trailers a thing of the past. By modeling four low-cost, sustainable, modular prototype houses in hurricane-impacted areas, TxLIHIS and our partners will show that “temporary” post-disaster housing can be two things it rarely is: a quality permanent home and a home embraced by local communities.

The Texas Grow Home initiative draws upon the best architectural talent in Texas, the passion and production capabilities of Texas’ nonprofit community development corporations, the demonstrated needs of low-income hurricane survivors, and the willingness of survivors to contribute the labor toward building their own home.

TxLIHIS is currently partnering with Houston-based Covenant Community Capital to build the three 1,100 square foot Grow Home prototypes, consisting of a core 700 square foot module and an add-on 400 square foot module.

These prototypes will demonstrate to the public and to hurricane survivors that Texas Grow Homes are functional, flexible, affordable and fast.

Functional

The four winning Texas Grow Homes are designed first and foremost to resolve the array of post-disaster housing problems facing survivors. During the competition, architects were charged with developing a simple, functional solution to a very complex problem of poverty, social vulnerability and government neglect.

Each of the winning Grow Home designs meets survivors’ essential needs, including a quality, efficient living space and the capability to be transformed into a long-term home. As envisioned, the Texas Grow Homes meet the practical goals of providing a healthy living environment and protecting against future natural disasters. However, this project is also a response to the failed status quo of housing low-income survivors in small, institutional, toxic travel trailers. Thus, during the Grow Home planning and design competition process, architects, policy makers, advocates, and low-income people worked together through design *charettes* and the judging process to agree upon sound, long-term planning as well as design elements that provide hurricane survivors with dignity in their home.

“The three day judging of the 84 entries was very challenging in that many judges favored traditional bungalow designs, while others thought the victims of Rita deserved a wider range of design options," said Tom Hatch, competition judge from Hatch + Ulland Owen Architects. "After lengthy deliberations, the judges selected four very different and unique solutions, giving Port Arthur and the state of Texas a bouquet of architectural solutions, celebrating the talents of the architects."

Flexible

One of the key criteria of the Texas Grow Homes competition was to design a home that can be delivered under a variety of scenarios. This includes CDC sponsored urban in-fill, voluntary charitable home construction, self-help housing, and post-disaster housing replacement. While the Grow Homes are a response to an unjust and inhumane way of housing low-income people following a natural disaster, it can and should also be a response to affordable housing crises beyond the Gulf Coast. Texas' segregated and impoverished inner cities and under served border colonias are disasters of another kind. Yet the Texas Grow Home should be flexible enough to respond to an array of housing needs.

The Grow Home itself is flexible. The two-module approach will demonstrate how the core can be transformed from emergency housing into a long-term home, allowing the value of the emergency housing to be retained as the core of a larger permanent home.

Affordable

At a cost of no more than $54,000, the Texas Grow Home is affordable to people earning as little as $15,000 a year. Compared to the cost to taxpayers of a single FEMA trailer during its 18-month life cycle — $59,800 — the Texas Grow Home is a far more fiscally prudent option. Moreover, the Grow Home is designed to last a lifetime, rather than be a throw-away temporary solution.

In May 2007 the Texas Department of Housing and Community Affairs (TDHCA) agreed to provide $250,000 in State funds to fund Grow Home prototype construction costs and 0 percent, 30-year mortgages with monthly principal and interest of $200 for three families who will eventually live in the completed models. This sets the groundwork for a more expansive State-supported Grow Home housing program.

Additionally, energy efficiency and the use of green building techniques were among the key design criteria in the competition. The winning designs have features including: rainwater harvesting, utilization of natural light, locally-produced recycled glass countertops, and sustainable construction materials such as bamboo that will reduce energy costs and improve air quality.

The Texas Grow Homes project is thus part of a growing trend to merge two concepts that once seemed diametrically opposed: "green" building and affordability. In cities across the country, decision makers are recognizing that energy efficient buildings, while they can cost more to build, are more affordable than traditional housing—they cost less to maintain and they provide a healthier atmosphere that in the long term will save on healthcare costs.

Fast

The White House admits that "Moving evacuees into trailers was delayed because of FEMA's failure to plan for the provision of delivery transportation and infrastructure support such as water and electrical hook-up." In recognition of this failure and of the importance of an expedient delivery of emergency housing, each Grow Home should be deliverable in the immediate wake of a disaster. The modular approach supports this goal, allowing homes to be installed on-site.

Feasibility of mass production also topped the list of Texas Grow Home design criteria. During the Texas Grow Home prototype construction process, TxLIHIS and Covenant will monitor construction to ensure that each home will be able to be reproduced at a fixed cost. TxLIHIS and partnering organizations will widely promote the models as a template Community Development Corporations (CDCs) can use to build quality houses quickly and to meet the unprecedented need for affordable housing in hurricane-impacted cities.

6. Pass the National Affordable Housing Trust Fund to expand the supply of rental housing available to extremely low income households

All of the Texas cities where Hurricane Rita and Katrina evacuees relocated had a severe, preexisting shortage of affordable housing. This shortage has reached a crisis level from the infusion of tens of thousands of additional extremely low-income families. Evidence of this can be found in the swelling of public housing and Section 8 waiting lists in the affected cities.

As we have noted in an earlier recommendation, one part of the solution is the provision of additional Section 8 Housing Choice Vouchers to these impacted cities. But tenant-based assistance alone will not fully address the need. There needs to be an effort to increase the overall supply of housing affordable to extremely low-income families. The National Housing Trust Fund is the correct program by which to finance the production of these housing units. We thus recommend that Congress enact and fully fund the National Housing Trust Fund and target the financial resources for the first two years of the program's operation to providing funding to cities that received substantial numbers of evacuees. This funding for evacuee housing should be for the specific purpose of funding construction of affordable housing in desegregated, high opportunity neighborhoods.

7. Authorize waivers in LIHTC statutes and additional LIHTC allocation to produce more rental housing

Texas needs an allocation of an addition $30 million in Low Income Housing Tax Credits coupled with special waivers.

Following Hurricanes Rita and Katrina, the greatest demand for affordable rental housing in the region most impacted was overwhelmingly among very poor families, according to a report released by TDHCA in 2006. The report evaluates government subsidized rental housing financed by the Low Income Housing Tax Credit program in the Houston metropolitan statistical area. The tax credit program is Texas' largest producer of subsidized housing, providing apartments to families earning less than about $40,000 a year. The program as currently structured does not generally house very low-income families who earn roughly less than $26,000 a year. In 2005, when the hurricanes struck, about 400,000 households in the Houston area fell into this "very low-income" category, constituting about 20 percent of all Houston area households.

It is perhaps not all that surprising then that according to the study, there is a need for about 14,000 more apartments affordable to very low-income families in the Houston metro area, and a surplus of 2,685 apartments for families in the higher income group served by the tax credit program. Study after study indicates that Katrina evacuees in Houston are predominantly extremely poor, given that seven in 10 that arrived in the city did not even have a savings or checking account. The evacuees' presence has dramatically heightened the need for rental housing affordable to families earning less than $26,000 a year.

Congress allocated $3.5 million in special tax credits to Texas for housing hurricane evacuees, yet this has done little to address the real crisis of very poor evacuees in need of a place to live. Congress needs to give hurricane impacted states the flexibility to award additional tax credits (a 160 percent increase) to developers who agree to rent up to one-third of their apartments to very low-income families. This way, the State can adjust the credits to produce apartments with deeper subsidies that rent to families earning between roughly $18,000 and $26,000 a year.

8. Establish a fair housing counseling and "Moving to Opportunity" program in Houston to overcome the segregated housing patterns of Katrina evacuees created by the temporary housing program

We have identified three areas of fair housing concern with the State's ongoing program.

1) The requirement under Round 2 that rebuilding or rehabilitation must occur on the homeowner's property prevents families from moving from existing segregated neighborhoods into higher opportunity, integrated neighborhoods.

2) The City of Houston's poorly designed program not only offers no opportunities for Katrina survivors to move out of the intensively segregated housing they were placed in under the Temporary Housing Program, but it also uses CDBG disaster relief funds to rehabilitate and enhance the existing segregated housing opportunities while providing no housing assistance outside of these neighborhoods.

3) The State's proposed partnership between the FEMA Affordable Housing Pilot Program and the Harris County Housing Authority will create a subdivision of Katrina Cottage Demonstration units in a remote rural area of the county and will restrict occupancy to Katrina evacuees

Each of these areas merits close examination for their negative effects on fair housing opportunities. We feel that it is incumbent upon Congress to provide financial resources and program guidance to ensure that hurricane evacuees are not consigned to live in low-opportunity, segregated communities simply because the Temporary Housing Program resettled them into such communities. These families lacked the local housing market knowledge and financial resources to find alternatives and should not be permanently segregated as a result.

«Organization»

We propose that Congress establish a "Moving to Opportunity" program to provide Housing Choice Vouchers, counseling and support services to help Katrina survivors in major cities move to higher opportunity areas.

Testimony of Bill Johnson to the Subcommittee on Housing and Community Opportunity on "Emergency CDBG Funds in the Gulf Coast: Uses, Challenges, and Lessons for the Future"

May 8, 2008

May 8, 2008

The Honorable Maxine Waters
Chairwoman, Subcommittee on
Housing and Community Opportunity
U.S. House of Representatives
2344 Rayburn House Office Building
Washington, DC 20515

Dear Congresswoman Waters:

On behalf of Governor Bob Riley, I bring greetings. I want to thank you and the Subcommittee for providing the State an opportunity to testify at the hearing on Emergency CDBG Funds in the Gulf Coast: Uses, Challenges and Lessons for the Future.

First, the State of Alabama is extremely grateful to the President and Congress for providing disaster assistance to Gulf Coast states in the wake of Hurricane Katrina and other destructive storms. This assistance has allowed the State to accomplish much in terms of recovery.

Many infrastructure projects have been completed, many more are underway, and the remaining few will soon begin construction. While results are generally positive, there are some disappointments, as well—primarily the slow rate of progress in certain areas. Housing recovery remains puzzling. Although a significant number of damaged or destroyed housing units have been repaired or replaced, largely as a result of federal assistance, insurance payments and hard work by dedicated volunteer groups such as the Volunteers of America, Volunteer Mobile, Catholic Charities USA, Lutheran Disaster Response, United Methodist Committee on Relief, Mennonite Disaster Service and Habitat for Humanity, nonetheless, many families still live in FEMA trailers and damaged homes as recovery work continues. Unfortunately, when we reach a point where the damaged or destroyed housing has been repaired or replaced or all of the funds have been expended, a large contingency of pre-disaster housing needs will continue to exist in the State of Alabama. These housing needs, which number in the thousands within our 22-county federally declared disaster area, are the result of a substantial number of low income households, deferred maintenance and a general lack of affordable housing.

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The Gulf Coast states utilized different strategies to address recovery needs. In Alabama, CDBG disaster funds were competitively distributed to units of local government based on the extent of damage and unmet needs. Immediately following the disasters, Governor Riley appointed a Long-term Recovery Team whose task was to interact with city, county and other local leaders on a regular basis and develop a list of projects needed for recovery. Additionally, through the services of a market research firm, the State obtained a Post-Katrina Housing and Needs Analysis for our two most heavily damaged coastal counties—Mobile and Baldwin. We believe this process aided local governments in identifying recovery projects which would be appropriate for CDBG assistance. Funding decisions also took into consideration the fact that Mobile County and the City of Mobile are both entitlement communities with many years of experience implementing CDBG projects. The entire award process was supervised by the Governor's Housing Advisory Committee composed of representatives from the U.S. Department of Housing and Urban Development, the U.S. Department of Agriculture, the Alabama Department of Economic and Community Affairs and the Alabama Housing Finance Authority. The Committee was chaired by the Director of the State Banking Department.

Below is a discussion of specific issues important to the Subcommittee:

1. According to the Post-Katrina Housing and Needs Analysis conducted by Woods Research, Inc., in the coastal counties of Mobile and Baldwin, over 45,000 occupied housing units suffered minor damage (under $5,200), over 3,000 suffered major damage (between $5,200 and $30,000), and approximately 400 suffered severe damage (over $30,000). Of these, rental units accounted for approximately 30 percent of units with minor damage and approximately 21 percent of units with major to severe damage. FEMA conducted over 95,000 housing inspections and, at the highest point of assistance, approximately 7,542 individuals were living in 2,514 travel trailers. Organized volunteer groups have repaired 925 units, with renters comprising only a small portion of this number. In the incorporated community of Bayou La Batre in Mobile County, 500 of the 769 houses were badly damaged or completely destroyed. To date, organized volunteer groups have repaired approximately 250 units, the City has rebuilt 40 homes, and within the next few months, 80 families currently living in FEMA travel trailers will move into the newly installed units being built under FEMA's Alternative Housing Pilot Program. In the eleven Go Zone eligible counties, a total of 54 developments with 3,259 units are complete or underway and proposals for another 47 projects with approximately 2,800 units are currently under review.

In Mobile County, of the 1,167 requests received by the application deadline, approximately 1,020 are estimated to qualify for assistance. An additional 359 who missed the initial deadline have requested to be placed on a waiting list in the event additional funds are made available. To date, inspections have been completed on 827 homes with the remaining targeted to be completed within the next 4-6 weeks. The County has approximately $17 million available for distribution which will most likely assist less than 300 households. It is estimated that Mobile County will need an additional $80 to $85 million to meet its disaster recovery housing needs for homeowners.

According to the Woods Research analysis, both Mobile and Baldwin Counties have significant rental housing needs. However, these needs primarily stem from conditions existing prior to Katrina. The housing recovery program in Mobile County has not seen a significant need for assistance for renters. Of the 1,167 requests for assistance filed in Mobile County, only 107 were from renters. The housing recovery program in Bayou La Batre has advised the State of the need for approximately 80 additional homes to accommodate renters currently residing in the flood zone as well as overflow applicants for the FEMA Alternative Housing Pilot Program. As the housing situation was still fluctuating significantly at the time of the 2006 Supplemental Disaster Recovery Funds allocation, the State received only minimal interest in its $4.1 million targeted for affordable rental housing. It appears that between the affordable low income tax credit projects and the active rental market, disaster recovery housing needs are primarily concentrated within the owner occupied sector. However, as minimal as the rental numbers may appear, it is estimated that approximately 185 rental households in Mobile County and Bayou La Batre will qualify for assistance at an anticipated cost of $20 to $25 million.

2. Based on available information, we believe an additional $100 to $110 million will enable the State of Alabama to adequately address its disaster recovery housing needs. This estimate is based on our assumption that Congress intended disaster assistance to address only housing damaged or destroyed by storm events. The housing programs in Alabama have restricted housing assistance only to those households that suffered housing damage as a result of Hurricane Katrina. The State's overall unmet non-disaster housing needs will run into the billions of dollars and require different approaches from those suitable for disaster housing needs.

3. As Alabama awarded its funds to local governments for implementation of their housing and infrastructure recovery programs, the State is not directly involved in the implementation of activities. Therefore, the State passed down its requirement to affirmatively further fair housing to the units of local government. The State does provide guidance to local governments and monitors them to ensure fair housing compliance. Among the methods used by local governments to promote fair housing are advertisements in large and small newspapers and neighborhood flyers; public service announcements on radio and television; and involvement and coordination of activities with nonprofit groups such as Volunteers of America, Volunteer Mobile, Boat People SOS, Mobile Fair Housing Center, Legal Services Alabama, Area Agency on Aging, Alabama Disability Advocacy Program, Independent Living Center, and other faith-based and community organizations. In the Mobile County program, several of these organizations are represented on the Housing Committee which has oversight of the housing program. In Bayou La Batre, informational posters translated into four languages were hand delivered to every house, and translators were available at meetings to ensure necessary information was communicated to all people. Mobile

County's Housing Committee prioritized applicants for assistance based on various criteria, such as families with minor children, elderly persons, persons with disabilities and condition of the housing unit. These groups of people are most vulnerable and least likely to be able to recover on their own. Of the households qualified to date, 58 percent in Mobile County are minorities. In Bayou La Batre, approximately one-third are minorities and another one-third are of Asian descent such as Vietnamese, Cambodian and Laotian.

4. The State of Alabama received and is appreciative of the waiver from HUD allowing the reduction in total low and moderate income benefit from 70 percent to 50 percent for disaster funds. In many areas along the Gulf Coast, State recipients of disaster funding would have been greatly challenged to achieve the 70 percent LMI requirement due to the higher incomes of hurricane victims living on or near the coast. However, Hurricane Katrina's most devastating impacts in Alabama were mainly received in extremely poor fishing villages along the bayous and rivers in south Mobile County. Most of the homes in these areas were poorly constructed, not elevated and were under-insured, if insured at all. As would be expected, there are exceptions. The Town of Dauphin Island, a high income area located on a barrier island, received significant damage to its housing stock. Due to the mostly vacation and/or second home nature of these housing structures, most were not eligible to participate in the housing recovery program. The loss of any home is traumatic for the owner, but with affluent homeowners whose income along with insurance benefits will allow rebuilding, Dauphin Island should recover its housing stock without need for any grant funds. As such, the State of Alabama has concluded that its housing programs will achieve close to, if not 100 percent low and moderate income benefit.

5. Inspection of hurricane damage is one of the most important aspects of the disaster recovery process. Without this step, no determination can be made as to the actual hurricane-related damage to the structures, the amount of funds needed for recovery and the feasibility of rehabilitation of housing units versus the cost of replacement. The disaster funds in Alabama were passed through to units of local government in the disaster areas. As such, the State has not directly inspected housing units. At the time applications for disaster funding were submitted to the State, local governments had done only a cursory review of needs and relied mostly on information gathered immediately after the storms by FEMA. The post-grant award inspections by local governments have proceeded slowly. The lack of timely inspections has caused the State to self examine its policies and procedures to determine what actions could have been taken to speed up the process and to be better prepared in the event of another disaster.

6. Since Alabama awarded full grant amounts to units of local government, our experience related to problems and challenges in implementing housing activities are not only those of the State, but also of the local governments, as well. Foremost among these is the absence of credible needs data. As we near the three-year anniversary of Hurricane Katrina, the true and full extent of need is still unknown. Part of the problem

results from the reluctance of federal agencies to share data, probably due to privacy concerns. Another is false claims and contrived needs. While federal funds through programs such as CDBG are slow in coming and even slower to disburse due to compliance with a myriad of rules (such as Fair Housing & Equal Opportunity, Environmental, Labor, Acquisition, Relocation, and Bidding and Contracting), non-profit and faith-based groups, as well as insurance-covered work, begins immediately. As a result, needs data continuously shifts and is difficult to crystallize. For example, in Bayou La Batre, two years after the storm, FEMA conducted an inspection and is now requiring elevation of 100 homes rehabilitated by volunteer groups at an estimated cost to the City of $6 million.

In Alabama, our principal target group is comprised of low and moderate income households. Each housing case presents its own challenge. These challenges include, but are not limited to, lack of a septic system, absence of clear title, inability of low-income homeowners to afford adequate insurance (including flood, wind, etc.), difficulties encountered by elderly persons trying to maneuver required elevations, lead and mold remediation, bankruptcies, persons with disabilities, language barriers, pet issues, extremely low rent payments and code compliance. Fear of lawsuits on one hand and running afoul of federal compliance requirements on the other hand makes resolution of each situation extremely time consuming and expensive. Sadly, in many instances, these issues prevent households from receiving much needed assistance.

Often media, advocacy groups and public officials are driven by different philosophies and objectives. For example, while sound public policy might dictate relocation of households out of flood prone areas, implementation of this policy is seldom practiced. People, particularly those who are elderly or have a disability and who have lived at a particular location for many years, are simply reluctant to move away from that location, even though in most cases it would serve their best interest. To the media and many advocacy groups, this is tantamount to the government telling individuals where to live.

First and foremost, Congress should recognize that disaster recovery requires a multi-faceted, coordinated approach wherein Congress not only allocates funds, but makes crucial decisions which will determine the long-term direction of how disaster areas develop or redevelop, especially when it relates to expenditure of public funds. For example, should public funds be used to rebuild homes in flood prone areas just because they will be elevated and carry flood insurance? With rising insurance costs, is it prudent to assume that many of these homeowners, especially those with low incomes, can afford such costs?

There appears to be a consensus among administrators of disaster funds that compliance with federal rules accounts for significant delays and added expense. While most, if not all rules are well intended and serve an important purpose, bureaucratic underpinnings make their application difficult. In cases of compliance with environmental laws and concurrences from agencies such as U.S. Fish and Wildlife, U.S. Army Corps of Engineers and our State Historical Commission, the simplest of projects often require cultural assessments, endangered species surveys and endless engineering justification. Likewise, while the regulatory oversight by federal agencies, the Office of Inspector General and others is necessary and important, the fear of this level of scrutiny causes administrators to create and maintain endless documentation and paperwork. Lawsuits and increased fear of lawsuits impedes progress and results in a massive amount of paperwork. Congress alone has the ability to bring a balance to regulations, legal burdens and oversight.

To summarize, the State of Alabama is well underway in implementing its disaster recovery program, although much remains to be done. It will take an additional $100 to $110 million for the State to adequately address its disaster housing needs. Since disasters of a large magnitude appear to have become more prevalent, Congress will need to address regulatory, legal and oversight issues so they are complementary to national interests and do not hinder progress. Additionally, Congress should define national policies related to the development or redevelopment of areas which have been impacted or are prone to be impacted by a disaster.

Finally, on behalf of Governor Bob Riley, I want to again thank you and the Subcommittee for giving the State of Alabama an opportunity to present its views related to disaster recovery.

Sincerely,

Bill Johnson
Director

BJ:SAO:md

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STATE OF ALABAMA
KATRINA 2006 DISASTER RECOVERY FUNDS

GRANTEE	ACTIVITIES	AWARD
Baldwin County	Water Improvements	$4,200,000
Bayou La Batre	Housing/New Wastewater Treatment Plant/ New Water Tank/Sewer & Water Repairs/Debris Removal/Demolition & Clearance	$36,993,864
Chickasaw	Sewer Repairs	$1,844,000
Grove Hill	Sewer Repairs	$381,000
City of Mobile	Salvation Army Women & Children's Homeless Shelter/Sewer Repairs	$7,610,268
Mobile County	Housing/Coastal Response Center/Debris Removal	$12,112,488
Mount Vernon	Water Repairs	$680,000
Prichard	Drainage Improvements/Demolition & Clearance	$1,000,000
Robertsdale	Sewer Repairs	$632,100
Saraland	Sewer Repairs	$1,899,000
Silverhill	Water Repairs	$300,000
Washington County	Housing/Water & Street Improvements	$3,015,880
	State Administration	$3,719,400
TOTAL		**$74,388,000**

The Honorable Maxine Waters
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STATE OF ALABAMA
KATRINA 2006 SUPPLEMENTAL DISASTER RECOVERY FUNDS

GRANTEE	ACTIVITIES	AWARD
Bayou La Batre	Residential Demolition & Clearance	$650,000
Chickasaw	Sewer Repairs	$1,749,750
Dauphin Island	Drainage Improvements	$1,600,000
City of Mobile	Affordable Rental Housing	$4,103,146
Mobile County	Housing	$8,464,678
Mobile County	Grand Bay School Reconstruction	$3,200,000
Prichard	Drainage Improvements	$1,458,000
TOTAL		**$21,225,574**

Background on Bill Johnson

After serving as Assistant Director (2003-04) and Interim Director (2004-05) for the Alabama Department of Economic and Community Affairs (ADECA), Bill Johnson was appointed by Governor Riley to serve as the agency's Director in December 2005. ADECA is one of the State's primary grant-managing organizations, distributing and overseeing more than $220 million annually in dozens of federal programs.

Johnson serves as the Governor's alternate on the Appalachian Regional Commission, the Delta Regional Authority and the Southern Growth Policies Board.

During his tenure as ADECA Director, Johnson also served as Executive Director for Governor Riley's Black Belt Action Commission. In that capacity, he led the coordinated efforts of some 13 committees and over 800 volunteers to implement measurable change in one of Alabama's most challenged areas.

Relevant to this testimony, Johnson previously served as City Councilor in Birmingham, Alabama, representing one of that city's most diverse districts. In his term on the council, Johnson was involved in FEMA buyouts in a flood-prone area of his district and in federal buyouts for noise mitigation around Birmingham's International Airport.

Johnson graduated cum laude from Spring Hill College (Mobile, AL) with a BS in chemistry. He furthered his education as a graduate of the John F. Kennedy School of Government's Senior Executives in State and Local Government program. Additionally, he has lived and traveled in more than 25 second and third-world countries in Africa, the Middle East and Central and South America.

HOUSE SUBCOMMITTEE ON HOUSING & COMMUNITY OPPORTUNITY

TESTIMONY SUBMITTED BY:
DERRICK JOHNSON, STATE PRESIDENT
MISSISSIPPI STATE CONFERENCE NAACP

MAY 8, 2008

To Chairwoman Maxine Waters, Ranking Member Capito and members of the committee, good morning and thank you for the opportunity for us to participate in today's hearing. My name is Derrick Johnson and I am the State President of Mississippi NAACP.

Founded in 1909, the National Association for the Advancement of Colored People (NAACP) is the nation's oldest and largest civil rights organization. The Mississippi State Conference of the NAACP has been active in providing civil rights advocacy for over 63 years with a mission to ensure the political, educational, social, and economic equality of rights of all persons and to eliminate racial hatred and discrimination.

After surveying the Mississippi Gulf Coast and rural communities affected by Hurricane Katrina immediately after the storm, we identified a pattern where African-American and low-income communities were not receiving aid from FEMA, the American Red Cross, and other relief agencies. As a result, Mississippi NAACP began actively monitoring State and Federal recovery programs and advocating to ensure that the recovery process is equal for all communities affected by the Hurricane. All communities affected by the storm have a right to a full recovery. But in reality, discriminatory and inequitable governmental policies are impeding full recovery for many Katrina survivors.

Mississippi has received $5.481 billion in Federal CDBG funds for disaster recovery. Congress required Mississippi to spend at least 50% of the CDBG funds

HOUSE SUBCOMMITTEE ON HOUSING & COMMUNITY OPPORTUNITY

TESTIMONY SUBMITTED BY:
DERRICK JOHNSON, STATE PRESIDENT
MISSISSIPPI STATE CONFERENCE NAACP

received on persons of low and moderate income. However, Mississippi requested $4 billion in waivers from this requirement. We are the only state in the country to have requested and received such extraordinary waivers. It is beyond outrageous that the federal government allowed the poorest state in the country to abdicate its responsibility to assist the citizens most affected by Hurricane Katrina.

These waivers have had a very real impact on Mississippi's poor communities. For example, to date, the Governor's office has not implemented a single plan to assist home renters. Today, almost 10,000 families representing 27,000 Mississippians are still living in FEMA housing of which 56% of them were renters before the storm. Unfortunately, for many of these families, there are no affordable rental units currently available.

Two and a half years after the storm, affordable rental units that were damaged or destroyed have not been rebuilt and the rent cost for rental units that were not damaged have double or tripled, putting them out of reach for the poorest households. For example, the fair market value of rent increased for an apartment on the Mississippi Gulf Coast from $592 before Hurricane Katrina to $811 after the storm. In comparison, Mississippi has paid out over $1.2 billion to homeowners, but has not opened a single CDBG-financed rental unit.

Several factors contributed to Mississippi's failure to address affordable housing needs. First, the amount of CDBG funds provided was greater than Mississippi's total state budget. These funds are completely administered by the executive branch with no provision under state or federal law for state legislative input or oversight. Without meaningful checks and balances, contracts were awarded to private companies to administer CDBG funds including questions about lucrative contracts awarded to sitting state legislatures[1].

Accountability includes assuring that decisions are made fairly about who receives CDBG funds on a level playing field. Many of the waivers requested and received were for private industries or economic development. For example, Mississippi Development Authority (MDA) who is charged with the responsibility of overseeing CDBG funds requested and received a waiver to transfer $600 million to the State Port of Gulfport. This waiver is highly questionable—particularly because MDA itself has an ownership and operational role with the State Port at Gulfport. MDA also requested and received a waiver to award a private south Mississippi utility company in the amount $300 million.

What is most troubling about MDA's decisions to request waivers for the Port of Gulfport and the Power Company is the fact that all three entities (MDA, State Port of Gulfport, and the Power Company) are all represented by the same law firm. Even if the members of that firm act in full compliance with legal ethical standards, without any legislative oversight, input or the necessary checks and balance in place the needs of low and moderate families was never fully considered

[1] The Mississippi Press "Ethics complaint filed against lawmakers" Thursday, October 05, 2006
By NATALIE CHANDLER
http://www.gulflive.com/news/mississippipress/index.ssf?/base/news/1160043321204390.xml

HOUSE SUBCOMMITTEE ON HOUSING & COMMUNITY OPPORTUNITY

TESTIMONY SUBMITTED BY:
DERRICK JOHNSON, STATE PRESIDENT
MISSISSIPPI STATE CONFERENCE NAACP

Second, the general public is left in the dark regarding the state's recovery process. In the first legislative session following the landfall of Hurricane Katrina, the legislature passed a bill to require the public reporting of key information regarding the implementation the CDBG funds received. In response, the Governor vetoed the bill stating that "MDA will exceed [the] level of disclosure by publishing on the internet the average grant award by income range and geographic area". However, the Governor has failed to release any significant disclosures regarding how funds are spent. As a result, the public has been denied access to accurate and timely information on how the federal funds are being spent to benefit low- and moderate-income families.

In closing, in response to the questioned raised in the invitation for this hearing, the State's affordable housing need have not been a priority as evidenced by the fact the there have not been any funds available to assist renters or to repair and rebuilt rental units to pre-Katrina levels. Mississippi is at a greater disadvantage than many other state because we have not enacted a State Fair Housing Act. This reality makes it difficult to comprehensively evaluate the needs of low-=income communities of color, the barriers to housing and how to overcome them. One of the first steps should be updating the jurisdiction's Analysis of Impediments to Fair Housing Choice. Mississippi updated its AI last year, but HUD has rejected it and its current status is unclear.

Recommendations:

1. Federal CDBG allocations should require (state??) legislative input and oversight to ensure proper checks and balance. All State should be required to track

expenditures of CDBG by zip code and data collected should be made public so the success of CDBG funding can be measured in timely manner.

TESTIMONY OF REILLY MORSE
SENIOR ATTORNEY, KATRINA RECOVERY OFFICE
MISSISSIPPI CENTER FOR JUSTICE

UNITED STATES HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY
"EMERGENCY CDBG FUNDS IN THE GULF COAST:
USES, CHALLENGES, AND LESSONS FOR THE FUTURE"

May 8, 2008

INTRODUCTION

Good morning, I am Reilly Morse, a senior attorney in the Katrina Recovery Office of the Mississippi Center for Justice in Biloxi, Mississippi. I thank Madam Chairwoman Waters, Ranking Member Capito, and the members of the subcommittee for holding this hearing to assess the use of emergency Community Development Block Grant ("CDBG") funds in the Gulf Coast.

The Mississippi Center for Justice ("MCJ") is a nonpartisan, nonprofit, civil rights legal organization that was founded in 2003 in Jackson, Mississippi. It was formed to provide a home-grown and home-owned legal capacity to advance racial and economic justice in the state of Mississippi. In 2005, MCJ became the deep south affiliate of the Lawyers' Committee for Civil Rights Under Law, a national civil rights legal organization formed in 1963 at the request of President John F. Kennedy to involve the private bar in providing legal services to address racial discrimination. Shortly after Hurricane Katrina struck the region, MCJ opened a Katrina Recovery office in Biloxi, from which we have partnered with the Lawyers' Committee and a wide variety of pro bono volunteers to provide free legal representation to individuals and community groups who are seeking disaster recovery assistance. MCJ and the Lawyers' Committee also have provided research and policy advocacy support on behalf of lower-income and minority hurricane victims and communities in the region.

I am a third-generation Mississippi coast lawyer, a former municipal judge and municipal prosecutor for the city of Gulfport. Three major hurricanes -the 1947 storm, Camille, and Katrina- have struck each of the generations of my family, but the damage from Hurricane Katrina was of a higher order of magnitude. My family and I rode out Katrina, and although it obliterated my business, my home was safe, so I am fortunate compared to the clients I represent here today. On behalf of those clients, I am here to tell you that, in too many respects, the state of Mississippi has fallen short of restoring an adequate supply of affordable housing.

EXECUTIVE SUMMARY

Hurricane Katrina "had a particularly devastating impact on low-wealth residents who lacked an economic safety net" but the disaster also "presented a unique opportunity to correct decades of inequitable development," according to the Mississippi Governor's Commission.[1] Sharing these concerns, Congress required the states to spend at least 50% of the $11.5 billion in CDBG disaster recovery funds to benefit primarily persons of low and moderate income (LMI).[2] The U. S. Department of Housing and Urban Development (HUD) adopted regulations implementing the LMI requirement.[3] Yet Mississippi, the lowest-income state in the nation, was the only state to request and receive waivers from this requirement. All told, HUD carved $4 billion out of the $5.481 billion allocated to Mississippi for uses other than to assist LMI households. As a result, Mississippi now has turned its back on the opportunity to broadly uplift the housing conditions of its most vulnerable storm victims in favor of other priorities.[4]

Overall, 241,283 housing units received some damage from Hurricane Katrina. 90,271 dwellings (owner-occupied or rental) suffered major damage or were destroyed, and another 151,012 suffered lesser damage, according to direct inspections by FEMA.[5] In its first application for CDBG funds, Mississippi Development Authority ("MDA") wrote, "The sheer number of homes damaged or destroyed is one reason **the Governor considers the replacement of housing as a number one priority** in rebuilding the Mississippi Gulf Coast."[6] (emphasis added) However, using conservative estimates, all of Mississippi's programs combined (home grants, LIHTC, small rental, long term workforce housing, and HOME mortgage) would rebuild

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[1] Governor's Commission on Recovery, Rebuilding, and Renewal, "After Katrina: Building Back Better Than Ever", pp. 60-61.

[2] Department of Defense Appropriations Act, 2006, Public Law 109-148, December 30, 2005, 119 Stat. 2680, 2780.

[3] "[T]he aggregate use of CDBG Disaster Recovery funds shall principally benefit low and moderate income families in a manner that insures that at least 50% of the amount is expended for activities that benefit such persons." U. S. Department of Housing and Urban Development, February 13, 2006, 71 FR at 7671.

[4] "More Housing Woes for Mississippi," New York Times editorial, September 27, 2007, http://www.nytimes.com/2007/09/27/opinion/27thur2.html?_r=1&ref=opinion&oref=slogin

[5] Housing Unit Damage Report, July 12, 2006, FEMA ("FEMA July 2006 Report"). A copy is attached to this testimony as Exhibit "A." It also is available at the following link. http://www.stepscoalition.org/downloads/news/reports/HUD_MDA_FEMAdamage_estimates.pdf Less than 24 hours before the deadline to file this testimony, the Governor's Office notified Congressional Staff that it did not consider this data reliable. Given the late notice, I request permission to amend my written testimony depending upon the comments from the Governor's Office at the hearing.

[6] Mississippi Development Authority Homeowner Assistance Program Partial Action Plan, September 11, 1006, p. 3.

little better than half (47,458) of the total housing with major to severe damage, and none of the 151,012 with lesser damage.[7]

So far, Mississippi has devoted only about $3 billion dollars or 55 percent of CDBG funds to programs for direct housing recovery.[8] Mississippi has obligated or disbursed $513 million in homeowner assistance grants for persons of low and moderate income, and spent $10 million towards public housing as of February 28, 2008.[9] Adding in programs that Mississippi claims are exclusively housing, but which in fact benefit commercial and residential customers,[10] Mississippi's total is $741 million, which amounts to a 16.9 percent overall low and moderate benefit out of the $5.481 billion allocated by Congress to Mississippi. According to Mississippi's latest Disaster Recovery Grant Report, however, Mississippi's cumulative overall benefit percentage is only 13.2 percent.[11]

Two and half years after Katrina, Mississippi has paid out over $1.2 billion to homeowners, but has not opened a single CDBG-financed rental unit.

Mississippi's programs, if ultimately completed, will not address much more than half the needs of small rental, very-low-income rental, or homeowners who suffered moderate to severe damage from Hurricane Katrina.

- MDA's Small Rental plan will restore 6,000 small rental units, leaving 7,798 unrepaired[12]
- GO Zone and regular tax-credit funded developments will restore 1,023 very-low-income apartment units, leaving 10,891 unrepaired. In the six coastal counties, these programs will restore 5,632 low-income units, leaving 9,825 unrepaired.[13]

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[7] Mississippi Disaster Recovery Program Summary, February 28, 2008, p. 3. Exhibit "B." Mississippi's higher estimate of 58,107 units likely overstates the total number of units restored and therefore is not used. For example, the aggregate totals for small rental and long term work force housing do not break out the number of units rented to LMI households. Also, there is a likelihood of double counting, such as counting 500-1,000 units of public housing under CDBG public housing units and counting the same number again under low income housing tax credits used to partially finance some of the public housing conversions.

[8] Mississippi Center for Justice Analysis of MDA CDBG Programs, attached as Exhibit "C."

[9] Mississippi Center for Justice analysis of Mississippi Development Authority, Low/Mod Summary as of February 28, 2008, attached as Exhibit "D".

[10] These include ratepayer/windpool subsidies, building code inspectors, economic development, community revitalization, and fraud investigation. ***Id.***

[11] MDA Disaster Recovery Grant Report, 4th Quarter 2007, http://www.mississippi.org/UserFiles/File/Home_Owners_Assistance_Program/DRGR-12-2007.pdf

[12] "Current Housing Unit Damage Estimates - Hurricanes Katrina, Rita and Wilma," FEMA/HUD, February 12, 2006, p. 12.

[13] Mississippi Home Corp LIHTC-finance report, On file with author, available upon request; FEMA July 2006 report, p. 5.

- Phase I and II homeowner assistance grants will restore about 25,000 storm surge damaged houses, leaving 33,885 wind-damaged units (estimated 16,942 LMI households) unrepaired. [14]

The prospects for financing the remainder of these housing needs have worsened as a result of HUD Secretary Alphonso Jackson's authorization of Mississippi's diversion of $600 million in housing funds into a costly and non-hurricane-recovery related expansion of the State Port at Gulfport. Secretary Jackson's rationale for this decision was that HUD had little or no discretion to question the State of Mississippi's decision to divert this money from housing needs. In fact, he testified before this Committee on March 11 that had he concluded that if he had discretion to reject this proposal, he would have done so. A careful analysis of the legislation and requirements of the CDBG program indicates that HUD's conclusion that it had no discretion to review the State's submitted proposals is in error. Without discretionary authority, there would be no oversight and no assurance that Congressional intent was being implemented or subverted. We respectfully believe Congress meant what it said -- and that low and moderate income families would be at the front, not the back of the line for federal aid.

Mississippi Center for Justice urges this subcommittee to require the incoming HUD Secretary to re-evaluate Secretary Jackson's decision; to re-examine the other waivers on their second anniversary, as required by Public Law109-148; to institute appropriate reforms to strengthen current and future emergency CDBG appropriations against excessive use of waivers of important federal requirements; to increase public accountability and transparency in both policy development and implementation stages of programs funded with CDBG dollars; to require greater federal uniformity in disaster recovery programs between states; and to condition access to emergency CDBG funds offered to municipalities and counties upon their undertaking to affirmatively remove barriers to affordable housing, including public, subsidized, and transitional housing after natural disasters.

I. How have the affordable housing needs of Mississippi been addressed or not addressed with emergency CDBG funding?

A. Overview of Mississippi's use of CDBG funding

Overall, Mississippi's housing programs, particularly in their implementation, have placed undue priorities on homeowners and unduly neglected renters. As of the end of 2007, Mississippi had paid out over $1 billion in CDBG funds to homeowners, but not one one-tenth of one percent of that amount to fund actual construction of affordable rental housing. Mississippi's overall priorities have shunned lower income housing needs. The vast majority of programs targeted for lower income housing were not even submitted by the state until 18 months or more after the hurricane, and MDA had to be pressured heavily to increase the size of these programs, despite clear evidence of the inadequacy of the size of the programs.

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[14] FEMA July 2006 report, p. 5.

Housing programs in Mississippi account for about 55% of the overall emergency CDBG expenditure,[15] up from about 49% in the summer of 2007, but still substantially below Louisiana's 72% funding of housing programs.[16] Mississippi has actually spent only about $500 million out of $2 billion so far on lower income housing, virtually all on homeowner grants.[17] MDA cannot legitimately score general programs such as windpool and ratepayer subsidies, infrastructure, and building grants as housing programs, because they benefit commercial and industrial customers as well as residential customers.[18] Mississippi's latest overall low-moderate income percentage is only 13.2 percent, well below Louisiana.[19]

Mississippi has strayed from housing and Katrina recovery as the remaining funds are spent down and surpluses appear. As described in Section III, the State Port at Gulfport expansion is not a Katrina recovery activity. A less well known but similar example was the diversion of Katrina related Medicaid funds to build a road to a Toyota plant in North Mississippi. [20]

B. Review of Programs

1. Renters Have Been Ignored and Under-Resourced

Lower-income households faced difficulty finding affordable housing before Hurricane Katrina arrived. A recent report by the Rand Gulf States Policy Institute very conservatively estimates that the pre-Katrina demand for affordable housing in the three coastal counties was close to 38,000 units, the supply was 25,000 units, and the loss of units from the Hurricane was 6,000 units.[21] Rand concedes that these estimates "almost certainly underestimate the scale of the

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[15] See footnote 8.

[16] Reilly Morse, Environmental Justice Through the Eye of Hurricane Katrina, Joint Center on Political and Economic Studies, May, 2008, p 20, Figure 14. A copy of this table is attached as Exhibit "E"

[17] See footnote 9.

[18] For example, the Mississippi Ratepayer program included $50 million for residential rates and $30 million for commercial rates. Mississippi Development Authority Ratepayer and Windpool Mitigation Program Recovery Action Plan Amendment 3 - Modification 1, p. 2, February 12, 2007. MDA must subtract the commercial coverage and adjust the residential by a representative percentage.

[19] Mississippi Development Authority DRGR Report, December 31, 2007, p. 1, http://www.mississippi.org/content.aspx?url=/page/3707&

[20] Mike Stuckey, "Mississippi Wants to Divert More Hurricane Funds," MSNBC, February 13, 2008, http://www.msnbc.msn.com/id/23072024/

[21] Kevin McCarthy and Mark Hanson, "Post-Katrina Recovery of the Housing Market Along the Mississippi Gulf Coast," Rand Gulf States Policy Institute, 2008 ("Rand 2008 Report"), pp. 19, 30-31. http://www.rand.org/pubs/technical_reports/TR511/

affordability problem post-Katrina."[22] MCJ asserts that the Rand figures substantially understate the actual losses of affordable housing in the area, and considers the HUD-FEMA figures from February and July, 2006 to be more nearly representative of the actual losses.

A 2005 report by the Mississippi Regional Housing Authority VIII counted 3,054 households on a Section 8 voucher waiting list, of which 2,446 were extremely low income.[23] This is an income level for clients MCJ routinely has seen since Hurricane Katrina, such as a full time fast food preparation worker, a veterinary assistant with one child, and a pharmacy aide with spouse and one child.[24]

Katrina damaged 2,534 out of 2,695 units of public housing in South Mississippi, according to direct inspections by HUD representatives.[25] Mississippi's CDBG public housing plan proposes to restore 2,000 to 3,200 units, but this will not absorb the pre-Katrina backlog.

Excluding public housing, Katrina damaged over 34,000 HUD-assisted and very-low-income (VLI) market rate rental units in Mississippi, and severely damaged or destroyed about 11,500 units, according to direct inspections by FEMA.[26] For over a year and a half, Mississippi maintained that low income housing tax credit ("LIHTC") financed construction would restore these segments of the rental housing market without the use of CDBG funds. But Mississippi's 1,981 units offered at VLI rates will restore only 7 percent of VLI losses and only 20 percent of those with major to severe damage. Mississippi's 9,168 LIHTC-financed units will not restore the 11,500 HUD-assisted and VLI units with major to severe damage.[27] Only 5,915 of the LIHTC-funded tax credits are located in the 6 coastal counties.[28]

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22 Id., p. 61. Rand's data is based upon correlations and extrapolations of several sets of damage and demographic data at the census block level. ***Id.***, at 76-77. MCJ considers to be more reliable the data gathered by direct inspection of housing units, such as the FEMA and HUD reports cited elsewhere in this testimony. MCJ considers the Rand data to underestimate the actual damage done to the Mississippi coast housing stock.

23 Mississippi Regional Housing Authority VIII FY 2005 Annual Plan, p. 7.

24 Back Bay Mission, "Who Lives in Affordable Housing?" Affordable Housing Conference, 2007, Biloxi, MS.

25 Mississippi Development Authority Public Housing Program CDBG Disaster Recovery Action Plan, Amendment 1 approved August 31, 2007, p. 3.

26 FEMA July, 2006 Report, p. 5. Persons earning no more than 50% of area median income are considered "very low income." In south Mississippi, this would include a single fire fighter, a medical assistant with one child, and two child care workers with one child. Back Bay Mission "Who Lives in Affordable Housing?" Affordable Housing Conference 2007, Biloxi, MS.

27 Mississippi Home Corporation Report on LIHTC-funded awards, September 12, 2007, on file with author, copy available upon request.

28 Mississippi Home Corporation data on LIHTC-funded awards, April 1, 2008, on file with author, copy available upon request.

Deeply affordable rental units are returning significantly more slowly than the remaining segments of the housing market, according to a recent Rand report.[29] Only one GO Zone LIHTC-financed development with 165 low income units open for occupancy is situated in one of the lower three counties. The remaining apartment complexes available for occupancy are located away from the areas of greatest need. Persistent local objections upheld by local governments have blocked reconstruction of most low-income apartment complexes.

Mississippi should augment its Tax Credit programs with CDBG funds in a similar manner to the so-called "piggyback" formula used in Louisiana. Over 11,000 units affordable to populations earning under 60% AMI will be funded as a result of Louisiana's program. Using LIHTC and CDBG funds together could enable Mississippi to reduce the gap between supply and demand for low and very low income rental property. This solution also could help bridge the financing gap for developers whose tax credits have fallen 20 percent[30] in value in recent months due to financial market turmoil.

Hurricane Katrina damaged 47,013 units in small rental sites (less than 10 units), and inflicted major to severe damage upon almost 13,800 units, with over 12,170 single family units.[31] But Mississippi's small rental program will restore only 6,300 to 7,500 units, or 45 to 54 percent of those with major to severe damage, and only 13 to 16 percent of damaged small rentals overall.

The Small Rental program has almost exclusively attracted new construction by professional real estate developers, who find the combination of forgivable loans, GO Zone tax credits, and accelerated depreciation to be "one helluva investment."[32] Permitting and construction will delay the availability of new units, and zoning disputes can delay or even block new development. An approach MDA so far has not pursued is to repair small rental units owned by non-professional local landlords with limited damage. Such a program will have less cost per unit and no zoning delays. Non-professional landlords also may qualify for volunteer labor assistance. This alternative will leverage MDA support, reopen small rental units to LMI persons, and repair the fabric of existing residential communities more quickly than new construction.

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[29] Kevin McCarthy, Mark Hanson ***Post Katrina Recovery of the Housing Market Along the Mississippi Gulf Coast***, Rand Gulf States Policy Institute, p. 72 (finding affordable housing will be "particularly severe for lower-income renters")

[30] Source for drop in value of tax credit is personal communication with Dr. Ben Mokry, Senior Vice President of Research and Development, Mississippi Home Corporation, May 2, 2008.

[31] Current Housing Unit Damage Estimates - Hurricanes Katrina, Rita and Wilma," FEMA/HUD, February 12, 2006, p. 12.

[32] Scott Allen, "MDA Small Rental Assistance Program - Second Round," E-Zine, http://ezinearticles.com/?MDA-Small-Rental-Assistance-Program---Second-Round&id=944891

MDA should develop or else provide funding to non-profits who have case-managed a Small Rental program targeting non-professional landlords. One example is the Rental Relief Program operated by Lutheran Episcopal Services in Mississippi with support from the Mississippi Association of Realtors. In return for a cash payment of up to $10,000 from LESM to cover materials, the landlord entered into an agreement to rent the apartment at pre-Katrina rates for one year. MDA should provide flexibility in the grant amounts and affordability term to match the landlord's needs. The estimated cost will depend upon the grant size and participation, but an additional $250 million in $20,000 grants could repair and reopen 12,500 units. MDA should consult with housing advocates about solutions that would enable non-professional landlords whose damaged units are currently occupied to qualify for the grant.

2. Wind-damaged Homeowners Arbitrarily Excluded from Recovery

Like many communities across America, the railroad tracks function as a racial line of demarcation in coastal Mississippi. Due to decades of inequitable development, many established minority enclaves remain immediately north of the rail bed, including Soria City, the Quarters, and Gaston Point, to name a few in Gulfport, the coast's largest city. Hurricane Katrina's category 3 velocity winds struck these communities with virtually identical intensity as the predominantly white residential beach-front areas. But these communities, and thousands of other households with major to severe damage, both white and black, were denied housing disaster assistance grants because the rail bed held back the tidal surge, or they were on higher ground.[33] Looking to the lower 10 counties who experienced Katrina's most intense winds, the number of households with major to severe damage is 11,951[34]. Inadequate insurance settlements have left these households at the mercy of long term recovery organizations, as described below.

Louisiana offered a single program that covered both flood- and wind-damaged homeowners, with a single $150,000 cap. Mississippi has denied all grant support to those with only wind damage and has created a two-tier system in which lower-income households are eligible for a smaller grant than those who were eligible under Phase I. These illogical and arbitrary disparities in relief programs between United States citizens struck by the nation's worst natural disaster should not be permitted to exist. If federal funds are used to help these citizens recover, then the basic eligibility and amount of recovery ought not to depend on one's state citizenship.

Mississippi's county long term recovery organizations (LTRs) currently have 8,956 open files statewide, with another 6,638 on waiting lists for services.[35] Two thirds are working poor

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[33] Reilly Morse, "Environmental Justice Through the Eye of Hurricane Katrina," p. 8, Joint Center for Political and Economic Studies, May, 2008.

[34] Table of wind-damaged households in lower 10 counties compiled from FEMA February, 2007 report, attached as Exhibit "F."

[35] Mississippi Long Term Recovery Case Management Survey Results, January, 2008, http://www.msidtf.org/index.php?option=com_docman&task=cat_view&gid=40&Itemid=16

who are homeowners; one third are renters. They include homeowners with uncompensated wind damage. Another segment will be renters seeking assistance with furnishings and personal effects. The LTRs also have 5,778 closed files, which include households who received no relief due to budget constraints. Currently, the LTRs are publicly seeking to raise $300 million in additional funds to "Finish The Job."[36]

If Mississippi does not expand Phase II to include wind-damaged low-income homeowners, Mississippi should substantially fund the county LTRs to enable them to cover uncompensated losses to hurricane-damaged homeowners, regardless of the cause of the loss. Mississippi has an opportunity to leverage the millions of dollars of volunteer funds, materials, and labor brought into our community by faith-based and civic groups. Both funds and labor flow through the LTRs. However charitable funds and volunteers are dwindling, putting at risk of loss this important partner in recovery. The need for funding for many who had no insurance on their homes is so great that LTROs have taken the initiative to raise $300 million to be used at the LTROs.

Mississippi's Long Term Work Force Housing (LTWF) program tilts more heavily towards providing owner-occupied housing and cannot be counted on to produce a significant number of rental housing units. For example, the largest grant in the first round went to an employer-assisted housing program that will allocate the majority of its funds to employees who wish to purchase housing.[37] Another large development funded by the LTWF program is the redevelopment of the east bank of the Pascagoula River. The majority of the units proposed for this location are owner-occupied.

3. Temporary and Transitional Housing

As of April 18, 2008. Mississippi has 7,574 households (20,450 individuals) currently in FEMA direct housing assistance and 1,680 households (4,536 individuals) receiving rental assistance. All told, 81 percent of individuals still receiving assistance are in FEMA trailers. These figures cumulatively represent approximately 24,986 displaced individuals.[38] Eighty-two percent of households in FEMA trailers or receiving other direct assistance are LMI households, yet only 1.1 percent of those who still remain in trailers ever received federal housing assistance prior to Katrina. Nearly half (48 percent) of those receiving direct housing assistance were renters before the storm and 34 percent of these residents are over the age of 60 and/or have a disability.

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[36] See www.finishthejobfund.org .

[37] Gulf Coast Renaissance Corporation, Response to Request for Proposal to Provide Long Term Work Force Housing provides that the program is limited to owner-occupied primary residences, with a small set aside for rental programs. p. 7.

[38] FEMA, Mississippi 1604, GCRO, IA Global Report No. 37 : http://www.fema.gov/pdf/hazard/hurricane/2005katrina/ms_iag.pdf . See Statistical Highlights compiled by Steps Coalition, http://www.stepscoalition.org/downloads/news/reports/April_08_FEMA_Stats.pdf

Ninety-three percent of the 1,680 households receiving rental subsidy assistance are LMI households. Eighty-eight percent of households receiving subsidies were renters before Katrina, but only seven percent received any federal housing assistance before Katrina. Eleven percent of these households include elderly and/or persons with disabilities.

Mississippi's MEMA cottage pilot program, which was supported by a special allocation of CDBG funds expects to produce a total of 3,250 small cottages to eligible applicants by June, 2008. At present, nearly 2,400 households have been moved from temporary FEMA housing into MEMA cottages.[39] In general, these cottages are a positive and beneficial addition to the affordable housing needs of the area, but local governments resist the permanent placement of these cottages. This opposition is preventing access to a useful, healthy, and strong form of transitional housing that may in the future be purchased by the occupant.

4. Special Needs Populations Are Badly Neglected

The 2000 Census population for persons with disabilities is 607,570 statewide in Mississippi and 76,650 in the three coastal counties. In addition to being the state with the greatest poverty rate in the nation, Mississippi has the largest per capita population of people with disabilities, the majority of whose incomes fall below the 80% area median income (AMI) category. Persons with disabilities tend to have less income because many are on fixed income, but most also have substantial disability-related expenses not borne by the non-disabled population on fixed income.[40] Only 413 of the LIHTC-funded rental units in the 6 coastal counties are elderly disabled compatible.[41]

II. Mississippi's use or distribution of emergency CDBG funds did not affirmatively further fair housing.

Public Law 109-148 prohibits the Secretary of HUD from waiving compliance with requirements relating to fair housing and non-discrimination.[42] Title VIII of the Civil Rights Act of 1968 prohibits housing discrimination on the basis of race, color, religion, sex, national origin, familial status and disability. There are widely accepted correlations of lower income to race, sex, familial status and disability. For example, 24% of African-Americans live in poverty in

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[39] FEMA Hurricane Katrina Mississippi Recovery Update: April 2008 http://www.fema.gov/news/newsrelease.fema?id=43367

[40] Statistical analysis supplied by Mississippi Coalition for Citizens With Disabilities and Living Independently For Everyone, two Mississippi non-profit disability rights organizations.

[41] Mississippi Home Corporation, April 1, 2008, LIHTC-funded data, on file with author, available upon request.

[42] Department of Defense Appropriations Act, 109 Public Law 148, 119 Stat. at 2780.

Harrison County, Mississippi compared to 11.2% of whites.[43] By ignoring or underemphasizing the needs of low to moderate income individuals, Mississippi's overall disaster recovery plan fails to affirmatively further fair housing. For example, Mississippi's Phase I homeowner's assistance program has paid out over $1 billion in grants, but a disproportionately low $255 million to about 5,835 LMI applicants, who are statistically more likely to be African American.[44]

Mississippi's handling of emergency CDBG funds did not affirmatively further fair housing in the following respects.

Mississippi sought excessive waivers of the low-moderate income benefit requirement, covering $4 billion out of $5.481 billion of disaster recovery funds. The result of this misallocation is that fewer CDBG dollars are available to restore critically-needed affordable rental and owner-occupied housing than otherwise would have been the case without the waivers. As of the last Disaster Recovery Grant Report filed by the State of Mississippi, only 13.2 percent of the $5.058 billion in emergency CDBG funds was spent on programs that adhere to the LMI benefit requirement.[45]

Apart from its public housing proposal, Mississippi has delayed for eighteen months or more after Katrina in proposing and implementing any broad programs to restore low-income rental housing.[46] This delay has disproportionately adversely affected members of classes protected under the Fair Housing Act, who were more likely to be renters than their white counterparts. These include racial minorities, female-headed households, and families with children.[47]

Mississippi's Phase I housing grant program failed to require applicants to provide their race and ethnicity in the Phase I Homeowners Assistance program, thereby thwarting a specific

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[43] 2006 American Community Survey, Poverty Status, African Americans in Poverty to Total African American Population (9,117/37,839) Whites in Poverty To Total White Population (13,385/118,577).

[44] Mississippi Development Authority DRGR Report, December 31, 2007, Grantee Activity ID 05R-Homeowner L/M Phase I, http://www.mississippi.org/content.aspx?url=/page/3707&

[45] Mississippi Development Authority, Disaster Recovery Grant Report, December 31, 2007. Until three days before this Oversight Hearing, Mississippi was three quarters behind in filing applicable quarterly reporting requirements. At present, there are no approved filings posted for the third quarter of 2007 or the first quarter of 2008. See 71 Federal Register 7666, at 7670. *Reporting 14.b.* "Each grantee must submit a quarterly performance report, as HUD prescribes no later than 30 days following each calendar quarter... . Each quarterly report will include... performance measures such as numbers of low-and moderate- income persons or households benefitting." MCJ believes that HUD has in fact made a finding of non-compliance for Mississippi's failure to file reports as described above, or for late filings. HUD appears unwilling to impose any sanction upon Mississippi for its delayed and inaccurate filings.

[46] Mississippi's Public Housing action plan was proposed in the spring of 2006 and approved on August 31, 2006. The small rental and work force housing programs were not published for comment until the spring and fall of 2007, respectively.

[47] Memorandum from Debby Goldberg, Hurricane Relief Project, National Fair Housing Alliance, to Gail Laster, House Financial Services Committee, February 19, 2008, attached as Exhibit "G", Tables 1-5, pp. 3-5.

record-keeping mandate intended to track compliance with the Fair Housing Act.[48] Furthermore, to our knowledge Mississippi has made no funding available to fair housing organizations in Mississippi. Finally, it is our understanding that HUD's most recent review of the Mississippi's actions to affirmatively further fair housing at the end of February resulted in a continuation of earlier conclusions that there were serious shortcomings in the Mississippi program in meeting this requirement.

The Fair Housing Act requires more than that HUD or its grantees "do more than simply not discriminate itself; it reflects the desire to have HUD use its grant programs to assist in ending discrimination and segregation, to the point where the supply of genuinely open housing increases." ***NAACP v. HUD,*** 817 F.2d 149, 155 (1st Cir. 1987). Entrenched areas of racial segregation remain on the Mississippi Gulf Coast, reinforced by generations of inequitable development. Mississippi's decision to build back bridges, sewage and water systems, roads, public structures, and a state-owned port better than before, continues rather than corrects a decades-long pattern of inequitable development, and is at odds with the letter and spirit of the Fair Housing Law.

III. Mississippi's transfer of $600 million to the restoration of the port of Gulfport will make it even more difficult to provide affordable housing.

On January 25, 2008, Mississippi received approval from HUD Secretary Alphonso Jackson for a controversial proposal to divert $600 million in housing funds into the repair and vast expansion of the State Port at Gulfport.[49] HUD Secretary Alphonso Jackson took the unusual step of personally writing Governor Barbour about the approval to explain that he had "little discretion" in the matter, and to voice concerns that "this expansion does indeed divert emergency federal funding from other, more pressing recovery needs, most notably affordable housing."[50]

In testimony before the House Financial Services Committee on March 11, 2008, Secretary Jackson explained his position, stating "I don't think that everything has been provided to low and moderate income people that should be provided for housing or infrastructure, ... but

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[48] See 71 Federal Register 7666, at 7670. *Recordkeeping* "For fair housing and equal opportunity purposes, and as applicable, such records shall include data on the racial, ethnic, and gender characteristics of persons who are applicants form, participants in, or beneficiaries of the program." MCJ requested public records on these data and were told that MDA understood that HUD did not require record keeping on racial and ethnic characteristics, and so MDA failed to require applicants to report race and ethnicity. See letter from Melissa Medley to Reilly Morse, September 6, 2007, attached as Exhibit "H."

[49] Mike Stuckey, "Feds OK Mississippi's Katrina Grant Diversion," January 25, 2008, http://today.msnbc.msn.com/id/22805282/

[50] Letter from HUD Secretary Alphonso Jackson to Mississippi Governor Haley Barbour, January 25, 2008, attached as Exhibit "I."

had I had my druthers, I probably would have said, 'Sir, I don't think we should be using this money and I would not approve it, but I didn't have that kind of authority.'"[51]

The reasons for the controversy are straightforward. The planned expansion, which was conceived two years before Hurricane Katrina,[52] would be the single largest expenditure of taxpayer funds on any state enterprise in the history of Mississippi. The amount is more than ten times that necessary to pay for hurricane related damages[53] – which are already largely covered by insurance and other sources.[54] The funds would expand not only commercial port facilities but provide the infrastructure for a luxury condominium and casino development to be known as the "Village at Gulfport."[55] This extraordinary and unprecedented expenditure[56] diverts critical funds from dire housing recovery needs on the Gulf Coast.

On March 7, 2006, three months after Congress had voted to give Mississippi $5.05 billion in emergency CDBG funds, Governor Barbour returned to Congress and testified in a hearing on Gulf Coast Hurricane Recovery before the Senate Appropriations committee:

> **There were three projects for which we did not request funding last fall**, simply because they weren't ready and our policy is we're not going ask you to give us money for something what we're not prepared to do, and show you exactly how we're going to do it and how we're going to be accountable for it. Since then two of those projects have further developed and I ask Congress and the committee to consider them. Both are integral transportation projects dealing with hazard mitigation, safety, and economic and community development. **The first is for the rebuilding and the redevelopment of the**

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[51] House Financial Services Committee, Oversight Hearing of the Department of Housing and Urban Development, March 11, 2008, examination by Rep. Capuano. http://www.house.gov/apps/list/hearing/financialsvcs_dem/hr031108.shtml

[52] JWD Group, Mississippi State Port Authority at Gulfport, Master Plan Update, 2003. This report runs to 123 pages, with appendices and will be submitted electronically.

[53] The State Port at Gulfport's asset value prior to Hurricane Katrina was $127,573,778, and its damage assessment from the storm was $50,556,175. Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER) Report #487, "The Impact of Hurricane Katrina on Mississippi's Commercial Public Ports and Opportunities for Expansion of the Ports, June 20, 2006, p. 23.

[54] Janet Nodar, "Cloudy Forecast-Skies Still Not Clear Over Gulfport," Gulf Shipper, July 7, 2007, (reporting the port was insured for $108 million, including business interruption, received almost $60 million so far, settlement still under way); FEMA July 2007 Summary of PA Funding and Project Worksheet Data, http://www.fema.gov/pdf/media/2007/ms_global_report.pdf

[55] DMJM Harris, Gulfport Master Plan Update 2007, Mississippi State Port Authority, pp. 30-37. This report runs to 134 pages and will be submitted electronically.

56 MCJ has prepared a financial analysis of the State Port at Gulfport's proposal and submits it as Exhibit "J"

> **Port of Gulfport,** the entire infrastructure of which was devastated. The second is to move a railroad from right on the coast to move it farther inland.[57] (emphasis added)

Mississippi's efforts to win additional funds failed after budget-conscious lawmakers derided the relocation of the rail line as wasteful.[58] In July, 2006, HUD awarded nearly all of the second disaster recovery allocation to Louisiana, and left Mississippi without funds for the reconstruction of the port.[59] Two years after Katrina, Governor Barbour proposed to redirect $600 million of Phase I housing recovery funds into the expansion of the State Port at Gulfport.

Almost two years later, on February 20, 2008, in response to public outcry over the diversion of housing funds to expansion of the State Port at Gulfport, Governor Haley Barbour was interviewed on videotape at the Biloxi Sun Herald and told a very different story than in his Congressional testimony:

> We immediately went to work on a Mississippi proposal which we gave to Congress on November 1, 2005. And in that proposal was $600 million for the port, $500 million for the port itself and another $100 million for channel improvements. **The Port of Gulfport has been in our plan from the very, very beginning.**[60] (emphasis added)

Mississippi's decision to redirect $600 million from housing to a massive expansion of the State Port at Gulfport removes any hope for thousands of low-income homeowners and renters displaced by Hurricane Katrina of return to safe and affordable housing.

Between 6,300 and 7,500 households who occupied small rental sites that suffered major to severe damage from Katrina no longer may expect that their landlord will repair or rebuild the residences they occupied. The cost to cover this unmet need is $250 million.

Very-low-income households whose market rate or voucher-subsidized rental housing had major to severe damage from Katrina will face an even longer wait for the return of deeply affordable rental housing without CDBG support for LIHTC-financed apartment complexes.

Lower-income wind-damaged homeowners, who might otherwise benefit from an extension of the Homeowners Assistance Grant Phase II, will have to seek charitable assistance to repair or rebuild their dwellings.

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[57] Senate Appropriations Committee hearing, March 7, 2006, Gulf Coast Hurricane Recovery, C-SPAN link, http://www.c-spanarchives.org/library/index.php?main_page=product_video_info&products_id=191498-1&highlight=recovery

[58] Jonathan Weisman, "Mississippi Senators' Rail Plan Challenged," Washington Post, April 26, 2006, http://www.washingtonpost.com/wp-dyn/content/article/2006/04/17/AR2006041701551.html

[59] Ana Radelat, "Mississippi Still Without Funds to Fix Port," Jackson, Mississippi, Clarion Ledger, A-1, July 12, 2006.

[60] Governor Barbour at the Sun Herald, February 20, 2008, http://videos.sunherald.com/vmix_hosted_apps/p/media?id=1729323

IV. Mississippi's programs have problems and challenges in providing affordable housing but legislative and regulatory reforms can redress these inequities.

The program has been weakened in Mississippi by the excessive grant of waivers of the low-moderate income benefit requirement. The piecemeal granting of waivers has substantially accomplished indirectly what HUD refused to do directly, namely grant Mississippi a blanket waiver for all $5.085 billion of the first installment of emergency CDBG funds.

Reliable data on the damage to the affordable housing stock is a prerequisite to determine whether Mississippi's use of emergency CDBG funds has met the needs created by Hurricane Katrina. Regrettably, Governor Barbour and MDA have published no single comprehensive housing damage assessment, despite having been urged to accomplish this task first,[61] and despite having ample resources to fund it.[62] This has hampered policy development, public debate, and accountability.[63]

Instead, advocates struggle with lack of accountability from the Governor's Office and MDA. For example, the Governor's Office and MDA provided MCJ with the July, 2006 HUD-FEMA damage estimate and affirmed its reliability, even citing figures from that report in their Small Rental Program Action Program Final Plan.[64] Yet, one day before the deadline to file testimony for this hearing, the Governor's Office notified Congressional Staff that MDA does not work off the July, 2006 HUD-FEMA information and that HUD had reportedly retracted these estimates.[65]

Mississippi also delayed for almost a year the posting of Disaster Recovery Grant Reports and, until mid-day on May 5, 2008, only hours before Congressional Oversight hearing testimony was due to be filed, Mississippi had failed to make publicly available three quarters' worth of disaster recovery grant reports, from September 2007 through March 2008. At present, the State has filed one report, the December, 2007 report.

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[61] Governor's Commission on Recovery, Rebuilding, and Renewal, "After Katrina: Building Back Better Than Ever," December 30, 2005,("After Katrina") p. 55.

[62] The Governor's Commission estimated the cost of a housing needs assessment, including residential demographics at $1 million. ***Id.*** Mississippi has allocated $112 million for state administrative activity, but has only spent $5.4 million as of September 30, 2007. Mississippi Development Authority, September 30, 2007 Federal Disaster Grant Recovery Expenditure Overview, http://www.mississippi.org/UserFiles/File/Home_Owners_Assistance_Program/093007%20DRGR%20Summary%20Report.pdf

[63] Editorial, Biloxi Sun Herald, "We Need Housing Numbers We Can Crunch With Confidence," December 19, 2007, p C-4. Attached as Exhibit "A."

[64] Mississippi Development Authority Small Rental Program Action Plan, p. 3, states that 71,116 renter-occupied housing units statewide were damaged or destroyed by Hurricane Katrina. The July, 2006 report shows a total of 71,616 damaged rental units statewide.

[65] Email from Jack Norris to Charla Ouertatani May 5, 2008, 12:25 pm. This retraction has never been made public.

Mississippi's strategy of submitting a series of partial action plans also thwarted effective public debate over policy development. Mississippi never publicly laid out a global plan for use of its emergency CDBG funds, and so there was no framework for assessing whether the Governor's Office and MDA were identifying and prioritizing correctly the competing needs. As programs evolved, and funds began to be shifted from one program to another, the lack of transparency thwarted the public's ability to track and assess the overall recovery plan.

For low-income homeowners displaced by Katrina, the home grant programs have generally been viewed as excessively complex, difficult to access due to extremely centralized service centers, poorly publicized through media that do not target the community in need of assistance, and fundamentally inadequate in provision of funds. There is a sense among many of MCJ's clients who have sought homeowners' assistance that Reznick, the MDA service contractor is unresponsive, arbitrary, staffed with non-lawyers who take excessively legalistic approaches to all problems, and fundamentally disinterested in providing adequate assistance.

For low-income renters, the viewpoint is that Mississippi considers renters to be inferior citizens, less economically responsible, and less deserving of assistance. These views arise from the pronounced delays by Mississippi in developing and implementing any programs to restore affordable rental housing, while hundreds of millions, if not billions, of dollars are paid out to homeowners, utilities, insurance companies, and local governments.

These perceptions fuel the unwillingness of housing-challenged storm victims to participate and continue in programs that seem indifferent or even hostile to their needs, and result in persons needing housing assistance simply giving up. So the problems and challenges for Mississippi and its contractors going forward are to accelerate the progress in restoring affordable housing and to treat with greater respect those storm victims still without repaired or rebuilt housing.

Municipal and county governments have abused their zoning power to prevent the lawful construction of affordable rental housing. The City of Gulfport in particular refused a long line of applications for LIHTC-financed apartment complexes in 2007, and triggered a formal complaint by the Mississippi Regional Housing Authority VIII charging the City with discrimination. Gulfport and other municipalities have modified their zoning to discourage new construction of duplexes under the small rental program. And several cities have resisted the permanent placement of MEMA cottages.

Mississippi also placed excessive reliance upon market based solutions even though these same markets have failed to fairly treat minority and low-income communities, whether in the realm of credit, land sales, insurance, or business opportunity. Mississippi needs to place greater dependence upon non-profit organizations capable of working in harmony with these communities and secure fair commercial treatment of protected classes in housing matters.

Mississippi Center for Justice recommends the following actions and reforms:

1. Carefully review the language and requirements of the Emergerncy CDBG legislation Public Law 109-148, passed on December 30, 2005. Such a review will demonstrate that HUD has adequate discretion to reject the State's proposals for use of these emergency grants. **Congress should require the incoming HUD Secretary to reconsider its approval of the diversion of $600 million from housing programs to expansion of the Port of Gulfport.** HUD should reject the proposal for the reasons stated in former Secretary Jackson's January 25, 2008 letter and in his March 11, 2008 testimony.
2. **For future emergency CDBG allocations, provide both Congressional and HUD discretion to veto a state's action plan** if the state's overall use of CDBG funds has strayed from the Congressional purposes and requirements.
3. **Eliminate or more severely restrict the use of waivers** of federal low-moderate income requirements or CDBG dollars per job created requirements that was done in the last Disaster Recovery legislation.
4. **Require states to present for public comment a comprehensive, global plan for use of emergency CDBG funds.** This will ensure a fairer and more balanced effort in designing the recovery, and will prevent situations such as Mississippi's in which homeowner recovery was the exclusive focus of emergency CDBG programs for two years.
5. **Tie municipal and county receipt of CDBG or FEMA funds to requirements to affirmatively remove barriers to affordable housing** and discourage NIMBYism during the disaster recovery period. Include "clawback" provisions to ensure compliance.
6. **Require greater federal substantive uniformity in design and use of emergency CDBG funds** that affect more than one state, such as per-capita funding, basic minimum standards for disaster relief eligibility, uniformity in non-duplication of benefit rules.
7. **Require states early in the planning process to prepare, publicly release, and provide updates of housing damage assessments by county and city, with sufficient demographic information to assess the impact of the disaster and recovery efforts on members of protected classes.** A disaster the magnitude of Katrina completely disrupts the housing market in the area. In order to affirmatively further fair housing in such a situation, it is critical to know how members of protected classes were affected. Without such an analysis, a jurisdiction cannot know what their needs are, what barriers they face, and how to overcome them.
    (a) One of the first steps should be updating the jurisdiction's Analysis of Impediments to Fair Housing Choice ("AI"). Louisiana is just doing this now. Mississippi updated its AI last year, but HUD has rejected it and its current status is unclear. It does not appear that Alabama has even thought about this obligation.
    (b) It is important to look at all the protected classes. Families with children and people with disabilities have not gotten much attention in this process.
    (c) Do not confuse race (or membership in another protected class) and income. Providing assistance to low and moderate income people is not

sufficient to meet fair housing obligations because race, etc. and income are not always synonymous.

(d) Prepare a housing damage assessment that counts damaged houses by direct inspection, and categorizes the housing losses by tenure, type of structure, and income level.

8. **Conduct aggressive outreach.** Once they know who the members of protected classes are and what kind of assistance they need, jurisdictions must reach out aggressively to make sure residents know about the assistance available and have a meaningful opportunity to apply. In Mississippi, the State did little outreach for its Phase II homeowner assistance program, despite persistent demands by the Steps Coalition, MCJ and others to decentralize the intake process. Mississippi's complex eligibility criteria, which changed over time, left many protected classes confused and discouraged about participation. MCJ spent considerable effort to dispel numerous false assumptions about eligibility, but MDA did not do anything to address this sort of dilemma.
9. **Design recovery in ways that eliminates or reduces legacy of discrimination**. In Missisippi, one consideration in the formula for homeowner assistance is the pre-storm value of the home, since this is the basis on which the insured value is set. A comparable home is worth much less in a community of color than in a white community, even though the repair costs are the same, so this formula disadvantages owners in communities of color. In Mississippi, racial segregation led to communities of color being located north of the railroad tracks in Harrison County. They experienced the same hurricane force winds as their more southerly neighbors, but were protected from some of the storm surge (flood). Mississippi's assistance program is limited to homes that experienced damage from storm surge and unfairly excludes those communities of color. Find ways to reverse the legacy of inequitable development in these communities, using land trusts, MEMA cottages, and other targeted solutions.
10. **Make rebuilding rental housing as high a priority as assisting homeowners.** A higher percentage of members of protected classes live in rental housing than their non-protected counterparts. Yet, it appears that all across the region, the rebuilding of affordable rental housing is lagging behind other parts of the housing market. More funding should have been allocated for this purpose. Another problem is that many rental units, including units that were affordable but not subsidized, were in single family homes or duplexes owned by small landlords. To be effective, rental housing rebuilding programs must be tailored to the needs of these landlords, which may be very different from those of large, sophisticated owners. Do not repeat the experience of Mississippi in which only homeowners are the beneficiaries of emergency CDBG funds for two or more years.

11. **Monitor and Prevent NIMBYism more aggressively using HUD and the Department of Justice.** All across the Gulf, communities have tried to block the rebuilding of affordable rental housing through zoning restrictions and other means. HUD and DOJ should be monitoring this situation and intervening to prevent such actions, which prevent members of protected classes from returning to the region or relegate them to substandard housing. Where jurisdictions are violating the law through these actions, appropriate sanctions should be applied, including rescinding federal assistance if necessary.
12. **Provide More transparency and accountability in the rebuilding process.** The current reporting system has not worked well. As a result, the public has not had access to accurate and timely information on how the federal funds are being spent to benefit low- and moderate-income people. In addition, Congress should require that CDBG grantees collect information on the extent to which the funds are benefitting members of all protected classes under the Fair Housing Act. This information should also be readily available to the public. Currently, grantees only have to collect information on some protected classes for HUD's benefit alone, but do not have to disclose it to the public.
13. **Congress should make sure that federally-funded elevation programs promote accessibility.** Neither the National Flood Insurance Program nor (in our understanding) FEMA's Hazard Mitigation Grant Program allows funds to be used to build ramps or provide other means of access to elevated properties for homeowners in wheelchairs or with limited mobility. This appears inconsistent with the requirements of Section 504 of the Rehabilitation Act of 1973, and should be changed. This is a particular problem in the Gulf, where the rate of disability in the population is higher than the national average. (For example, before the storm, the disability rate in Mississippi was 25% compared to the national average of 20%.)

EXHIBITS
REILLY MORSE
MISSISSIPPI CENTER FOR JUSTICE

A. Methodology for assessing Housing Unit Damage Due to Katrina, Rita, and Wilma

B. Mississippi Disaster Recovery: Program Summary

C. MCJ Analysis

D. Low/Mod Summary as of February 28, 2008

E. Environmental Justice Through the Eye of Hurricane Katrina

F. Table 1: Lower Ten Counties Owner Occupied with Windstorm Damage

G. Memorandum from Debbie Goldberg to Gail Lester

H. Letter dated August 27, 2007 from Reilly Morse to Melissa Medley

I. HUD letter to Mississippi Governor Haley Barbour

J. The state of Mississippi's Plan to Divert Federal Hurricane Recovery Housing Funds for the Expansion of the State Port at Gulfport

Exhibit A

Methodology for Assessing Housing Unit Damage due to Katrina, Rita, and Wilma
July 12, 2006

The estimates of housing unit damage in the attached tables are based on inspection data conducted by FEMA in support of its Individual Assistance program and the Small Business Administration in support of its disaster loan program.

Definitions

FEMA Level of Damage

The FEMA inspections used for this analysis were conducted between the time of each of the three Hurricanes and March 30, 2006. Only occupants of housing units are eligible for FEMA housing assistance. As such, these data do not reflect other types of damaged housing units, such as pre-disaster vacant units and summer or second homes.

In addition, because it is possible for multiple individuals to register for FEMA housing assistance for the same housing unit, these data reflect a complicated set of procedures to identify individual housing units. For example, if a husband and wife both registered, or if an owner and their boarder both registered for the housing unit, we attempted to only count the housing unit once.

For most properties, FEMA contract inspectors make a direct assessment of housing unit damage. For some of the units impacted by Hurricane Katrina, FEMA did not do direct inspections, but made some assumed level of damage based on the flood depth of a housing unit in some portions of Orleans, St. Bernard, and Jefferson Parishes and to a much lesser extent in some of the flood inundated areas of Mississippi.

FEMA inspects properties to determine eligibility for real property and personal property assistance. FEMA real property assistance is determined as the cost to make repairs to make the home habitable. If a home is less than 50 percent damaged, FEMA will provide up to $5,200 in repair assistance for damage not covered by insurance. If damage is greater than 50 percent FEMA will provide $10,500 in repair assistance for damage not covered by insurance. FEMA will make similar assessments for personal property damage.

Because FEMA only provides reimbursement at three levels, less than $5,200, $5,200, and $10,500, this analysis categorizes the inspection results into three categories:

Minor Damage:

- Property inspection finds damage less than $5,200; or
- If no real property inspection, personal property damage of less than $5,195.76; or
- If no direct inspection, remote sensing finds water depth of 6 inches to 1 foot (for portions of Orleans, St. Bernard, and Jefferson Parish).

Major Damage:

- Property inspection finds damage greater than or equal to $5,200 and less than $30,000; or
- If real property inspection used the inspection default of $5,200; or
- If no real property inspection, personal property damage of greater than or equal to $5,195.76 but less than $30,000; or
- If no real property inspection and personal property used the inspection default of $5,195.76; or
- If no direct inspection, remote sensing finds water depth of 1 foot to 2 feet (for portions of Orleans, St. Bernard, and Jefferson Parish).

Severe Damage:

- Property inspection finds damage greater than or equal to $30,000; or
- If real property inspection used the inspection default of $10,500; or
- If no real property inspection, personal property damage of greater than or equal to $30,000; or
- If no real property inspection and personal property used the inspection default of $10,391.51; or
- If no direct inspection, remote sensing finds water depth of 2 feet or greater (for portions of Orleans, St. Bernard, and Jefferson Parish).

As a result of Hurricanes Katrina, Rita, and Wilma, FEMA's inspection data show that over 1.3 million housing units received some damage.

Small Business Administration (SBA) Verified Loss

A subset of FEMA registrants with real property damage applied to the Small Business Administration for a loan to assist with repairing their property. If the applicant meets some income and credit thresholds, SBA will have a contract inspector make a detailed assessment of the real property loss due to the disaster (referred to as "verified loss"). This is usually a more precise estimate than FEMA of what it would actually cost to repair the housing unit.

Following Hurricanes Katrina, Rita, and Wilma, SBA conducted 184,361 inspections as of May 31, 2006. Since the FEMA data are more comprehensive in coverage - over 1.3 million inspections - and the SBA data are more specific on dollar damage, they are linked together for this analysis. The units with both a FEMA and SBA inspection are used to develop an estimate of the dollar damage for units inspected by FEMA but with no SBA inspection.

Basically this estimation works as follows. At the Census Block level, the average SBA damage amount for a FEMA designated "Severe" damage property is applied to all of the properties in the block with a "Severe" damage rating from FEMA. The same process is repeated for properties with "Major" damage. The assumption here is that properties in the same block with the same type of FEMA inspection are likely to be of a similar structure type, value, and damage to allow an assumption that their cost to repair would be similar. If there is not an SBA inspection in the Block, then the next level of geography average is used (first Census Tract followed by County).

In the tables provided, both the total number of units damaged in each category and the SBA average verified loss for each category are presented. This allows the reader to know the context of a "major" or "severe" damaged unit within the category or geography of interest. In some areas, the dollar amount for "major" damage might be twice that of "severe" damage in another geographic area. This can be due to different home values, structure type, and type of damage. Generally, storm surge caused much more monetary damage per "severely damaged" unit than did wind.

Tenure

Owner-Occupied Housing Units & Renter-Occupied Housing Units. When individuals registered for FEMA assistance, they were asked if they were a renter or an owner. In approximately 10 percent of cases, there was no tenure indicated. These tables assume those individuals not indicating tenure were owner-occupants.

Type of Damage

These tables break out damage into two categories, homes with any flood damage, and homes with no flood damage. If a home had flood damage as well as other types of damage, it is categorized as having flood damage. Most homes without flood damage had damage related to wind. Flood damage was determined if FEMA inspectors indicated damage was due to flooding or if the damage estimate was from remote sensing (which based damage on flood depth).

Flood Plain Status

Each housing unit was geocoded to determine if it was inside or outside of a FEMA 100-year flood zone, as determined using Q3 flood maps with flood zone designations of "A" or "V".

Insurance Status

Insurance status was determined by FEMA data if the registrant indicated having hazard or flood insurance. For a very few cases, there was no information on insurance status and "no insurance" was assumed.

Income Level

Income level was calculated by comparing the income and household size reported to FEMA at time of registration to HUD's published income limits for the county of the damaged property.

Assisted Housing

Assisted Housing information is based on matching the FEMA registrants to HUD data on program participants in its Public Housing, Voucher, and Project Based Section 8 programs.

Double Counting

There is risk for double counting in these data. A number of procedures were implemented to reduce this double counting but some double counting may remain. Those procedures were as follows:

- Only include records with a FEMA inspection. If remote sensing inspection, only include cases where a grant was provided or the FEMA data indicate that the owner or renter had flood insurance.
- If there were duplicate registrant numbers with the same address, then the record with highest FEMA damage rating is retained
- If there were multiple registrants for the same address of a single-family property, then the record with highest FEMA damage rating was retained. If one registrant was owner and other was renter, the owner was retained. Single-family records were considered to be duplicate for the same property if USPS zip9 plus DPBC were the same.
- If there were multiple registrants for the same multifamily or mobile home unit, then the record with the highest damage rating was retained. Multifamily and mobile home records were considered to be duplicate if the last name and address were the same.
- If a unit identified as a duplicate had an SBA Inspection, it was retained.

Even with these procedures, double-counting units likely remains in the file.

Undercounting

There is also a risk for undercounting. These data do not count vacant homes or second homes. They also will not include properties that have not yet had a FEMA inspection or re-inspection. If an individual did not register with FEMA, their damage would not be counted. Our procedures to reduce multiple registrants for a single unit to one record, may eliminate cases where there are actually more than one unit represented.

Explanation f r th Attached Tables
July 12, 2006

Three tables are attached:

Estimated Number of Housing Units Damaged as of March 30, 2006.

This table provides a count of total housing units damaged, distinguishing by:

(1) Tenure (owner and renter occupied units)
(2) Insurance Status of Owners
- Hazard and Flood = Had both hazard and flood insurance
- Hazard = Had hazard insurance only, no flood insurance
- No Insurance

(3) Assisted/Income Characteristics of occupant of damaged rental unit
- Assisted = Assisted by HUD (Public Housing, Project Based Section 8, or Housing Voucher)
- Very Low-Income = Unassisted renter households with incomes less than 50 percent of local area median
- Other Renters = The remaining unassisted renter households

(4) Type of Damage
- Flood Damage. Units with flood damage. They may also have other types of damage.
- No Flood Damage. Units without flood damage. Most of these units had wind damage or damage from wind driven rain.

(5) In or out of FEMA designated 100-year flood plain
(6) Level of damage (Minor, Major, Severe)

Estimated Per Unit Cost to Repair as of March 30, 2006.

This table provides the same breaks as the above table, but instead of a unit count it provides the estimated average dollar amount of damage for units in the category of interest. For major and severe damage, the dollar amount estimate is based on SBA inspection data (see methodology). For the minor damage units, the dollar amount estimate is based on FEMA inspection data. To estimate the total cost to repair, one can simply multiply the cell of interest in the first table by the same cell of interest in the second table. These estimates are of repair costs only. They do not reflect mitigation costs such as elevation or buyouts to relocate families to a safer location.

Extent of Damage from Hurricanes Katrina, Rita, and Wilma: Counties with over 10 units with major or severe damage, Places with over 100 units with severe damage.

This table provides summary information for each county in the state with 10 or more units having major or severe damage. For select counties with substantial damage, places within the county with over 100 units with severe damage are also provided.

The table has six columns:

(1) A count of units with major damage
(2) A count of units with severe damage
(3) An estimate of the per unit cost to repair units with major damage
(4) An estimate of the per unit cost to repair units with severe damage
(5) A count of the total number of occupied housing units based on the 2000 Census
(6) The percent of total number of occupied housing units with severe damage.

Note that in some places, the sum of major damage and severe damage exceeds the total Census 2000 count. This is indicative of the multiple registrant problem in the FEMA data that HUD's routine of eliminating multiple registrants for a single unit does not totally resolve.

Estimated Number of Housing Units Damaged as of March 30, 2006*
Mississippi Total Housing Unit Damage

	Owner-Occupied Housing Units				Renter-Occupied Housing Units				
	Insurance Status				Type of Structure Unit Located				
	Hazard & Flood	Hazard Only	No Insurance	Owner Subtotal	Assisted (Project Based and Voucher)	Very Low-Income (LT 50% median)	Other Renter	Renter Subtotal	TOTAL
Homes with flood damage									
Homes in FEMA 100 yr. fl plain									
Minor Damage	55	85	43	183	47	139	228	414	597
Major Damage	1623	1228	620	3471	262	1282	2153	3697	7168
Severe/Destroyed	3660	1835	1105	6600	156	1109	2069	3334	9934
Subtotal	*5338*	*3148*	*1768*	*10254*	*465*	*2530*	*4450*	*7445*	*17699*
Homes outside 100 yr. fl plain									
Minor Damage	106	986	328	1420	445	846	1078	2369	3789
Major Damage	1692	6662	1384	9738	936	3441	5493	9870	19608
Severe/Destroyed	1941	5461	1227	8629	137	1147	1890	3174	11803
Subtotal	*3739*	*13109*	*2939*	*19787*	*1518*	*5434*	*8461*	*15413*	*35200*
Homes with no flood damage (generally wind damage)									
Minor Damage	1847	64475	39419	105741	4834	18880	17172	40886	146627
Major Damage	815	17531	6611	24957	368	2246	3161	5775	30732
Severe/Destroyed	939	4301	3688	8928	51	779	1267	2097	11025
Subtotal	*3601*	*86307*	*49718*	*139626*	*5253*	*21905*	*21600*	*48758*	*188384*
TOTAL	**12678**	**102564**	**54425**	**169667**	**7236**	**29869**	**34511**	**71616**	**241283**
Census 2000 Occupied Housing Units:				756967				289467	1046434
Damaged Units as Percent of Occupied Housing Units:				22%				25%	23%
Min r	2008	65546	39790	107344	5326	19865	18478	43669	151013
Major	4130	25421	8615	38166	1566	6969	10807	19342	57508
S vere	6540	11597	6020	24157	344	3035	5226	8605	32762

Estimated Per Unit Cost to Repair as of March 30, 2006*

Mississippi

	Owner-Occupied Housing Units				Renter-Occupied Housing Units				
	Insurance Status				Type of Structure Unit Located				
	Hazard & Flood	Hazard Only	No Insurance	Owner Subtotal	Assisted (Project Based and Voucher)	Very Low-Income (LT 50% median)	Other Renter	Renter Subtotal	TOTAL
Homes with flood damage									
Homes in FEMA 100 yr. fl plain									
Minor Damage	$2519	$2314	$2796	$2489	$2511	$2527	$2253	$2374	$2410
Major Damage	$111384	$87112	$87971	$98615	$88309	$97798	$102763	$100017	$99338
Severe/Destroyed	$192889	$153517	$120386	$169804	$133199	$140021	$147744	$144494	$161309
Subtotal	*$166146*	*$123531*	*$106159*	*$142720*	*$94697*	*$111072*	*$118527*	*$114505*	*$130852*
Homes outside 100 yr. fl plain									
Minor Damage	$2392	$2250	$2433	$2303	$2200	$2427	$2595	$2461	$2402
Major Damage	$95494	$69857	$68755	$74155	$69221	$79346	$82611	$80203	$77199
Severe/Destroyed	$185660	$120551	$104958	$132979	$115472	$147175	$152210	$148805	$137235
Subtotal	*$139662*	*$85890*	*$76468*	*$94651*	*$53748*	*$81688*	*$87963*	*$82381*	*$89279*
Homes with no flood damage (generally wind damage)									
Minor Damage	$1121	$1114	$1144	$1125	$1323	$1185	$1221	$1217	$1151
Major Damage	$53415	$34676	$31948	$34566	$53524	$48616	$50571	$49999	$37466
Severe/Destroyed	$201187	$91756	$70275	$94392	$89947	$98631	$106515	$103184	$96064
Subtotal	*$65126*	*$12448*	*$10368*	*$13066*	*$5841*	*$9514*	*$14619*	*$11380*	*$12630*
TOTAL	**$129642**	**$25244**	**$17050**	**$30417**	**$21601**	**$31247**	**$45999**	**$37381**	**$32484**

Minor	$1226	$1132	$1157	$1143	$1407	$1247	$1314	$1295	$1187
Major	$93435	$46429	$41893	$50492	$68726	$72837	$77254	$74972	$58725
Sev re	$191935	$115088	$86542	$128779	$119727	$132101	$139364	$136017	$130680

Extent of Damage from Hurricanes Katrina, Rita, and Wilma
Counties with over 10 units with major or severe damage, Places with over 100 units with severe damag

	FEMA Inspections		SBA Inspections		Concentration of Severe Damage	
	Major Damage	Severe Damage	Average Verified Loss Major Damage	Average Verified Loss Severe Damage	Census 2000 Occupied Units	Percent Occupied Units with Severe Damage
MISSISSIPPI						
Adams County	88	16	$25038	$54401	13677	0.1%
Amite County	45	23	$17035	$40096	5271	0.4%
Attala County	19	6	$20527	$47314	7567	0.1%
Choctaw County	10	2	$29915	$119830	3686	0.1%
Claiborne County	42	18	$18701	$39958	3685	0.5%
Clarke County	183	57	$16670	$58890	6978	0.8%
Copiah County	134	34	$17733	$62150	10142	0.3%
Covington County	346	110	$22031	$48788	7126	1.5%
Forrest County						
Hattiesburg city	772	188	$34320	$74669	16251	1.2%
Forrest County Balance	900	286	$31909	$71324	10932	2.6%
TOTAL FORREST COUNTY	1672	474	$33022	$72651	27183	1.7%
Franklin County	16	10	$12304	$38681	3211	0.3%
George County	652	258	$33932	$60807	6742	3.8%
Greene County	193	69	$25666	$58527	4148	1.7%
Hancock County						
Waveland city	1947	2434	$103808	$161152	2731	89.1%
Shoreline Park CDP	679	1286	$107751	$136067	1649	78.0%
Pearlington CDP	221	550	$120903	$143855	648	84.9%
Kiln CDP	254	178	$92181	$135396	782	22.8%
Diamondhead CDP	768	396	$58680	$206740	2559	15.5%
Bay St. Louis city	1737	1249	$86911	$169563	3271	38.2%
Hancock County Balance	1569	1994	$78117	$123193	5257	37.9%
TOTAL HANCOCK COUNTY	7175	8087	$89757	$149591	16897	47.9%
Harrison County						
Pass Christian city	1126	2287	$132303	$182739	2687	85.1%
Long Beach city	1780	1862	$75065	$176551	6560	28.4%
Gulfport city	7848	3366	$63035	$142592	26943	12.5%
Biloxi city	6099	3619	$73751	$130825	19588	18.5%
Harrison County Balance	4107	2431	$57046	$109960	15760	15.4%
TOTAL HARRISON COUNTY	20960	13565	$69722	$145035	71538	19.0%
Hinds County	532	50	$16474	$79893	91030	0.1%
Holmes County	36	7	$5668	$40680	7314	0.1%
Humphreys County	11	3	$16559	$21823	3765	0.1%

Extent of Damage from Hurricanes Katrina, Rita, and Wilma

Jackson County						
St. Martin CDP	478	740	$75861	$170492	2387	31.0%
Pascagoula city	5067	2138	$60458	$106106	9878	21.6%
Ocean Springs city	1933	571	$64677	$184998	6650	8.6%
Moss Point city	1822	609	$46711	$85095	5714	10.7%
Gulf Park Estates CDP	736	359	$55852	$107358	1537	23.4%
Gulf Hills CDP	540	178	$62892	$213891	2199	8.1%
Gautier city	1631	676	$54857	$112201	4260	15.9%
Escatawpa CDP	428	157	$42678	$68548	1310	12.0%
Jackson County Balance	2859	1344	$48013	$106816	13741	9.8%
TOTAL JACKSON COUNTY	15494	6772	$56332	$120682	47676	14.2%
Jasper County	419	88	$16683	$54800	6708	1.3%
Jefferson County	45	18	$20737	$46076	3308	0.5%
Jefferson Davis County	157	40	$16263	$51585	5177	0.8%
Jones County	1391	446	$27823	$62251	24275	1.8%
Kemper County	37	9	$17879	$32300	3909	0.2%
Lamar County	1079	225	$33262	$66384	14396	1.6%
Lauderdale County	427	106	$17458	$49298	29990	0.4%
Lawrence County	187	50	$20518	$49227	5040	1.0%
Leake County	15	7	$8282	$192393	7611	0.1%
Lincoln County	236	65	$25474	$50626	12538	0.5%
Lowndes County	41	2	$19496	$17605	22849	0.0%
Madison County	58	13	$18450	$33165	27219	0.0%
Marion County	500	218	$29270	$54119	9336	2.3%
Neshoba County	35	16	$40257	$30377	10694	0.1%
Newton County	127	38	$17006	$42164	8221	0.5%
Noxubee County	46	13	$19329	$58008	4470	0.3%
Oktibbeha County	25	18	$25829	$48392	15945	0.1%
Pearl River County						
Picayune city	450	132	$36715	$72754	4100	3.2%
Pearl River County Balance	1921	772	$42231	$77633	13978	5.5%
TOTAL PEARL RIVER COUNTY	2371	904	$41184	$76921	18078	5.0%
Perry County	234	85	$23242	$65424	4420	1.9%
Pike County	293	108	$24440	$160303	14792	0.7%
Rankin County	154	44	$14145	$57609	42089	0.1%
Scott County	74	27	$16757	$56559	10183	0.3%
Simpson County	198	54	$21672	$52378	10076	0.5%
Smith County	67	22	$16818	$51512	6046	0.4%
Stone County	773	282	$28694	$65813	4747	5.9%
Walthall County	415	156	$31116	$57209	5571	2.8%
Warren County	84	12	$13889	$38434	18756	0.1%
Wayne County	290	97	$23854	$52751	7857	1.2%
Wilkinson County	48	7	$18147	$46092	3578	0.2%
Winston County	34	5	$21320	$35478	7578	0.1%

Mississippi 8

Extent of Damage from Hurricanes Katrina, Rita, and Wilma

Yazoo County	28	17	$29803	$41969	9178	0.2%

Exhibit B

MISSISSIPPI DEVELOPMENT AUTHORITY
MISSISSIPPI

MISSISSIPPI
DISASTER RECOVERY

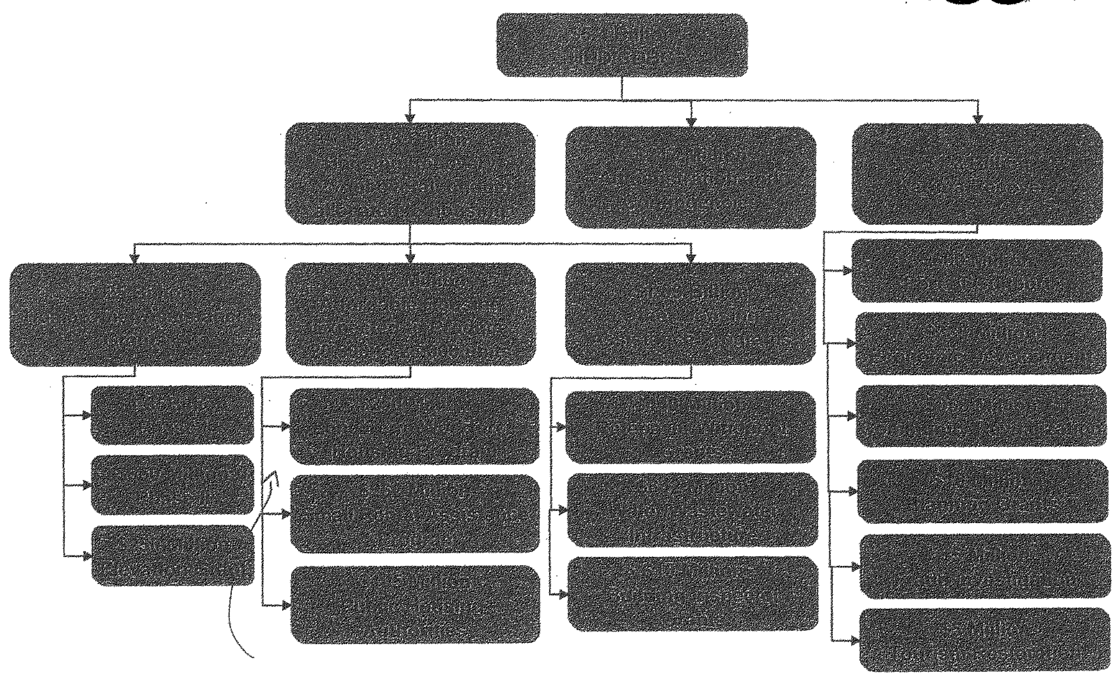
Program Summary

February 28, 2008

Jon Mabry
COO, Disaster Recovery
601-359-2379

Hurricane Katrina Dollars as of February 28, 2008

MISSISSIPPI DEVELOPMENT AUTHORITY



Housing Initiatives

MISSISSIPPI DEVELOPMENT AUTHORITY
MISSISSIPPI

		Dollars		Targeted Units Low	Targeted Units High
[redacted]					
	Phase I	$1,350,000,000		15,578	18,157
	Phase II	$650,000,000		3,380	6,400
		$2,000,000,000		18,958	24,557
[redacted]					
	Round 1	$150,000,000		3,4[redacted]	4,300
X	Round 2 (NEW)	$112,000,000		2,800	3,200
		$262,000,000		6,200	7,500
[redacted]					
[redacted]					
	Round 1	$150,000,000		5,000	5,850
	Round 2 Phase II	$100,000,000		3,000	3,500
*	Round 3 (NEW)	$100,000,000		3,000	3,500
		$350,000,000		11,000	12,850
[redacted]					
	CDBG SUB-TOTAL	$2,897,000,000		41,958	52,607
[redacted]					
	GRAND TOTAL	$3,003,000,000		47,458	58,107

15,800 so far

new funds from?

28 - 32k affordable

new construction 40k/unit

GoZone

MDA Disaster Recovery - Housing

MISSISSIPPI

- **Phase I**
  - Target – Homeowners outside the established flood zones receiving flood damage.
  - Compensation program that provided one-time payments up to 150k. No environmental required.
  - Mitigated future risk by placing covenants on the damaged property.
- **Phase II**
  - Target – Homeowners with 120% or less of AMI in or out of the flood zone with uncompensated losses.
  - Compensation program up to 100k or a max of 150k if combined with Phase I proceeds.
  - Mitigated future risk by placing covenants on the damaged property.

Elevation
  - Target – Homeowners who received awards under Phase I or II and have an increased cost to comply with new elevation requirements.
  - Site specific action that requires environmental review before the funds can be distributed.
  - Grant award is 30k per applicant.
- **Small Rental**
  - Target – Owners of Small Rental Properties in the counties most effected. Repair and new construction are included and Environmental Reviews are required.
  - Program includes Options for rental subsidy and forgivable loans if applicants meet program terms for 5 years including Low/Mod rental rates.
- **Public Housing**
  - Target – 5 Public Housing Authorities to repair, replace or construct units for tenants with less than 60% AMI.
  - 100 million is allocated and each project must complete an Environmental Review.
- **Long Term Work Force Housing**
  - Target – Affordable workforce housing in the impacted areas. 150 million allocated.
  - Projects have been selected from developers and non-profits and an Action Plan is under development.

MDA Disaster Recovery - Housing

MISSISSIPPI DEVELOPMENT AUTHORITY
MISSISSIPPI

- **Waste Water Infrastructure**
  - Target – To provide for the infrastructure in local areas effected by Katrina(lower 6) and areas impacted by population shifts from the damaged areas.
  - 641 million allocated and MDEQ providing management and execution of the plan.
- **Rate Payer/Windpool**
  - Target – Rate Payer -Protect business and residential customers from the entire cost of the utility infrastructure restoration.
  - Target - Windpool – One time grant provided to the MS Windstorm Underwriting Assoc to defray the additional cost to the consumer of wind insurance.
  - Program is complete with 420 million paid.

Inspector Grants

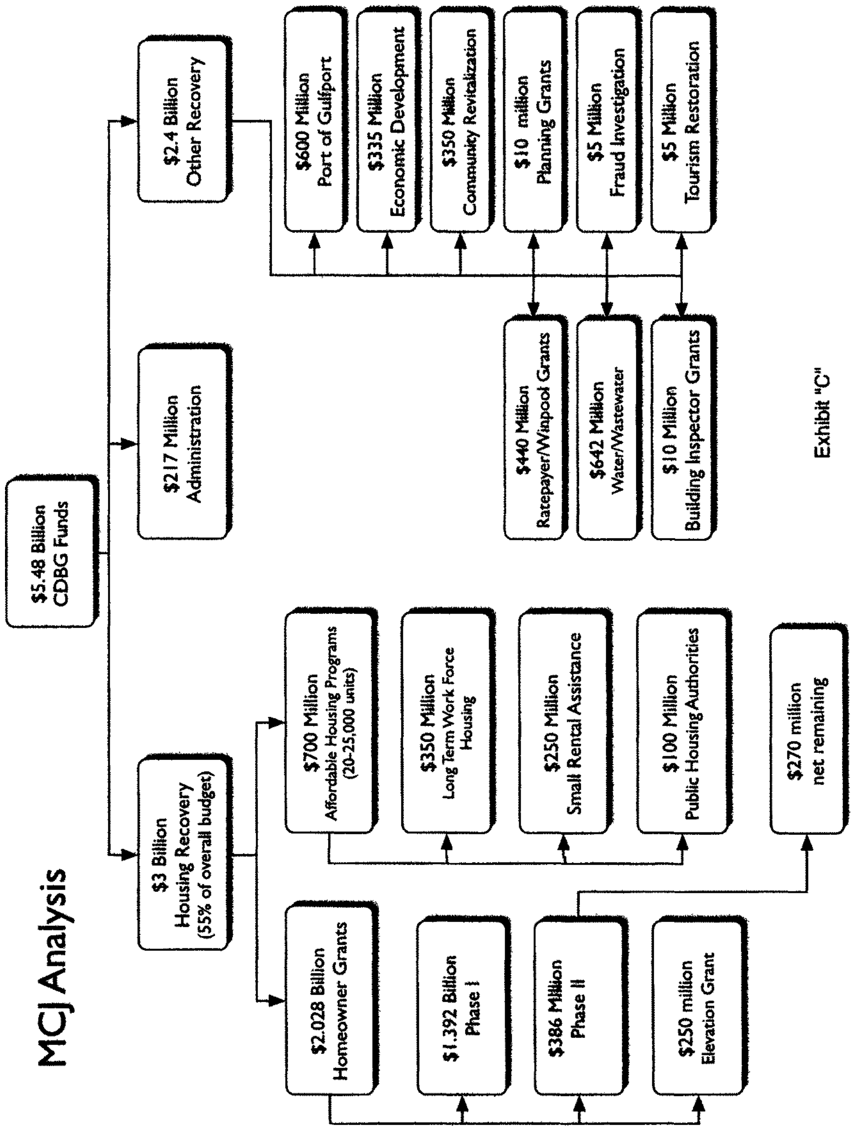
- Target – Assistance provided to local governments to cover the cost of addition inspectors required for the rebuilding efforts in the effected areas.
- 5 million allocated to fund approx 86 inspectors.

Program Summary
as of February 28, 2008

MISSISSIPPI DEVELOPMENT AUTHORITY
MISSISSIPPI

	Allocated	Obligated	Disbursed	Remaining
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Phase I	$1,350,000,000	$0	$1,099,008,701	$250,991,299
Phase II	$650,000,000	$0	$217,566,862	$432,433,138
Elevation Grants Phases I and II	$250,000,000	$0	$0	$250,000,000
Long Term Workforce Housing	$250,000,000	$0	$0	$250,000,000
Small Rental	$262,000,000	$0	$0	$262,000,000
Water/Wastewater Infrastructure (DEQ)	$642,000,000	$0	$0	$642,000,000
Public Housing	$105,000,000	$9,941,231	$0	$95,058,769
Ratepayer/Windpool	$440,000,000	$0	$440,000,000	$0
Building/Code Inspector Grants	$10,000,000	$3,351,313	$1,210,617	$5,438,070
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Port of Gulfport	$600,000,000	$0	$0	$600,000,000
Economic Development Grants/Loans	$340,000,000	$20,007,183	$4,604,755	$315,388,062
Community Revitalization Grants	$350,000,000	$277,074,573	$0	$72,925,427
Planning Grants	$10,000,000	$9,942,900	$0	$57,100
Fraud Investigation/Contractor Fraud	$5,000,000	$4,151,118	$848,882	$0
Administration	$217,221,059			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Exhibit C



MCJ Analysis
$5.48 Billion CDBG Funds
$3 Billion Housing Recovery (55% of overall budget)
$217 Million Administration
$2.4 Billion Other Recovery
$2.028 Billion Homeowner Grants
$1.392 Billion Phase I
$386 Million Phase II
$250 million Elevation Grant
$700 Million Affordable Housing Programs (20-25,000 units)
$350 Million Long Term Work Force Housing
$250 Million Small Rental Assistance
$100 Million Public Housing Authorities
$270 million net remaining
$440 Million Ratepayer/Winpool Grants
$642 Million Water/Wastewater
$10 Million Building Inspector Grants
$600 Million Port of Gulfport
$335 Million Economic Development
$350 Million Community Revitalization
$10 million Planning Grants
$5 Million Fraud Investigation
$5 Million Tourism Restoration
Exhibit "C"

Exhibit D

Low/Mod Summary
as of February 28, 2008

MISSISSIPPI DEVELOPMENT AUTHORITY
MISSISSIPPI

$39 Median
$52 Average

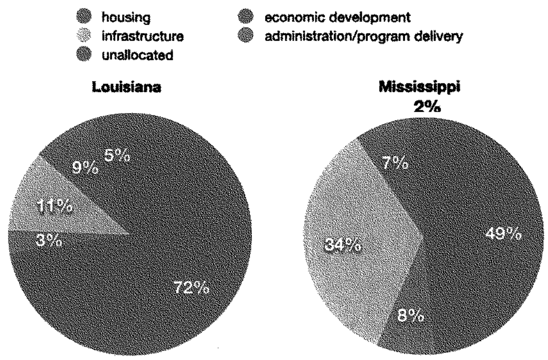
	Allocated	Obligated	Disbursed	Remaining	% Allocated for Low/Mod	$ Allocated for Low/Mod	% Actual or Anticipated Low/Mod	$ Actual or Anticipated Low/Mod	Actual or Anticipated
HOUSING									
Phase I no low/mod	$1,350,000,000	$0	$1,099,008,701	$250,991,299	0.0%	$0	30.4%	$334,098,645.10	Actual
Phase II	$650,000,000	$0	$217,566,862	$432,433,138	51.0%	$331,500,000	82.4%	$179,275,094.29	Actual
Elevation Grants Phases I and II	$250,000,000	$0	$0	$250,000,000	34.0%	$85,000,000	55.9%	$139,750,000.00	Anticipated
Long Term Workforce Housing	$250,000,000	$0	$0	$250,000,000	~~51.0%~~	$127,500,000	51.0%	$127,500,000.00	Anticipated
Small Rental	$262,000,000	$0	$0	$262,000,000	51.0%	$133,620,000	51.0%	$133,620,000.00	Anticipated
Water/Wastewater Infrastructure (DEQ)	$642,000,000	$0	$0	$642,000,000	~~39.9%~~	$256,365,797	39.9%	$256,158,000.00	Anticipated
Public Housing	$105,000,000	$9,941,231	$0	$95,058,769	100.0%	$105,000,000	100.0%	$9,941,231.00	Actual
Ratepayer/Windpool	$440,000,000	$0	$440,000,000	$0	39.9%	$175,702,415	39.9%	$175,560,000.00	Actual
Building/Code Inspector Grants	$10,000,000	$3,351,313	$1,210,617	$5,438,070	39.9%	$3,993,237	39.9%	$1,820,210.07	Actual
TOTAL HOUSING	$3,959,000,000	$13,292,544	$1,757,786,180	$2,187,921,276					
Port of Gulfport	$600,000,000			$600,000,000	51.0%	$306,000,000	51.0%	$306,000,000.00	Anticipated
Economic Development Grants/Loans	$340,000,000	$20,007,183	$4,604,755	$315,388,062	51.0%	$173,400,000	51.0%	$12,552,088.38	Actual
Community Revitalization Grants	$350,000,000	$277,074,573	$0	$72,925,427	5.0%	$17,500,000	9.5%	$26,322,084.44	Actual
Planning Grants	$10,000,000	$9,942,900	$0	$57,100	0.0%	$0	0.0%	$0.00	Actual
Fraud Investigation/Contractor Fraud	$5,000,000	$4,151,118	$848,882	$0	39.9%	$1,996,618	39.9%	$1,995,000.00	Actual
Administration	$217,221,059								
TOTAL	$5,481,221,059	[illegible]	$1,763,239,817	[illegible]					

$1.7B disbursed

7000 homes low/mod

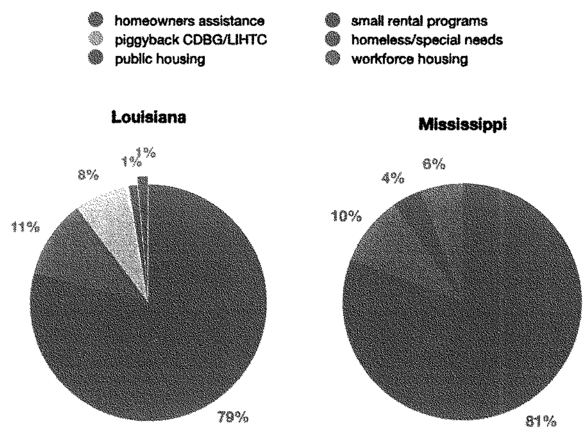
Exhibit E

Figure 14: CDBG Expenditure Prioriti s



Sourc : HUD Disaster Recovery Grant Reports for Louisiana (June 20, 2007) and Mississippi (September, 2007), graphs by author.

Figure 15: CDBG Housing Priorities



Source: HUD Disaster Recovery Grant Reports for Louisiana (June 20, 2007) and Mississippi (September, 2007), graphs by author.

Exhibit F

Table 1. Lower 10 Counties Owner Occupied with Windstorm Damage.

	census 2000 occupied units	minor	major	Severe	total damage	total major/severe damage	percent major/severe damage
Upper Tier C unties							
Pearl River	**18,078**	9,857	1,272	218	11,347	1,490	8.2%
St ne	**4,747**	2,681	432	101	3,214	533	11.2%
G rge	**6,742**	3,433	365	76	3,874	441	6.5%
Lamar	**14,396**	6,625	674	70	7,369	744	5.2%
F rrest	**27,183**	10,503	997	131	11,631	1,128	4.1%
Perry	**4,420**	1,997	134	36	2,167	170	3.8%
Greene	**4,148**	1,383	128	15	1,526	143	3.4%
subt tal	**79,714**	**36,479**	**4,002**	**647**	**41,128**	**4,649**	**6.1%**
C ast Counties							
Hanc ck	**16,897**	2,560	746	460	11,017	1,206	90.0%
Harrison	**71,538**	18,615	3,804	621	48,651	4,425	68.0%
Jackson	**47,676**	8,482	1,497	174	30,514	1,671	64.0%
subt tal	**136,111**	**29,657**	**6,047**	**1,255**	**90,182**	**7,302**	74.0%
t tal wind claims major/severe						11,951	
means test	**estimate 50%**					5976	

source: February, 2006 FEMA/HUD damage estimate
http://www.gnocdc.org/reports/Katrina_Rita_Wilma_Damage_2_12_06____revised.pdf

Exhibit "F"

Exhibit G

MEMORANDUM

2/8/08, revised 2/19/08

TO: Gail Laster, House Financial Services Committee
FR: Debby Goldberg, Hurricane Relief Project, National Fair Housing Alliance
Dgoldberg@nationalfairhousing.org; (202) 898-1661
RE: Fair housing issues in Mississippi

Summary

The National Fair Housing Alliance (NFHA) believes that Mississippi is not meeting its obligation to affirmatively further fair housing with the Community Development Block Grant (CDBG) disaster recovery funds it received after Hurricanes Katrina and Rita.

From the beginning, in the Action Plans submitted to HUD, Mississippi stated that housing was the number one need for the recovery. Given the fair housing mandates of CDBG, part of the State's analysis should have been how it would meet the housing needs of members of classes protected under the Fair Housing Act. These fall into two categories: the rebuilding assistance needs of homeowners who are members of protected classes; and, since so many members of protected classes were renters, the rebuilding and restoration of rental housing, particularly affordable rental housing.

For a significant share of its CDBG disaster recovery funds, Mississippi has requested, and HUD has granted, a waiver from the requirement that at least 50% of the funds benefit low and moderate-income people. This is already a reduction from the usual standard of 70% of the funds benefiting low and moderate-income benefit. Mississippi is the only state to have requested such a waiver. ***According to the reports the State has filed with HUD, approximately 23% of its CDBG disaster recovery funds are allocated to programs targeted to meet the low and moderate-income benefit.*** Because of the distribution of protected classes under the Fair Housing Act in the affected areas, we believe the State is violating the fair housing portion of the statute.

In addition, the disaster recovery program to which Mississippi has allocated the largest amount of funding is the Phase I Homeowner Assistance Program. This program was designed to compensate the uninsured losses of homeowners who lived outside the flood plain and had homeowners insurance but not flood insurance. We have requested from the State detailed information on the applications filed for this program – including information on the race and ethnicity of the homeowners – but have not yet been able to obtain this information.

This memo summarizes information about coastal Mississippi with respect to members of protected classes who lived there before Hurricane Katrina, and examines the fair housing implications of the State's plans for expending its federal Community Development Block Grant (CDBG) funds. The statute requires jurisdictions receiving CDBG funds to use these funds to "affirmatively further fair housing." In the case of the funds appropriated for recovery from

Exhibit H

MISSISSIPPI CENTER FOR JUSTICE

736 N. CONGRESS ST. (39202)
P. O. BOX 1023
JACKSON, MS 39215-1023
601-352-2269
fax 601-352-4769
www.mscenterforjustice.org

A Mississippi Nonprofit Corporation

KATRINA RECOVERY OFFICE
974 Division Street
Biloxi, MS 39530-2960
228-435-7284
fax 228-435-7285

August 27, 2007

Melissa Medley, CME
Mississippi Development Authority
Post Office Box 849
Jackson, Mississippi 39205-0849

Re: Public Records Request : Phase I and II of Homeowner Assistance Program

Dear Ms. Medley:

With respect to the first request, I will have a check delivered tomorrow in the sum of $46.25. Please call me at (228) 435-7284 when the materials are ready for pick-up. I will have someone in my Jackson office come by to get it.

With respect to the second request, I would like clarification about the form in which the data would be provided. Would you please describe for me the way in which the end product would be presented?

Sincerely,

Reilly Morse

Reilly Morse
Equal Justice Works Katrina Legal Fellow
Mississippi Center for Justice

Exhibit I

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D C 20410-0001

THE SECRETARY JAN 25 2008

The Honorable Haley Barbour
Governor of Mississippi
P.O. Box 139
Jackson, MS 39205-0139

Dear Governor Barbour:

On December 12, 2007, the Department of Housing and Urban Development received the State of Mississippi's Amendment 5, Port of Gulfport Restoration Program. In accordance with our regulations, the plan has been reviewed for completeness and consistency with the purposes of the Cranston-Gonzales National Affordable Housing Act (NAHA) 42 U.S.C. 12708. HUD's acceptance of this amendment is in keeping with the nature of the disaster recovery supplemental Community Development Block Grant (CDBG) program for the hurricane-ravaged Gulf Coast. As designed by Congress, the statute relegates decision-making for setting priorities and specific program design for these CDBG dollars to the States themselves. The Congressional language associated with these CDBG funds allows me little discretion and, therefore, the Mississippi Development Authority (MDA) may reprogram the $600 million originally intended for the Homeowners Assistance Program to be used for the Port Restoration Program.

Although economic development is important and the Port expansion will create jobs and serve as a significant regional economic driver, I remain concerned that this expansion does indeed divert emergency federal funding from other more pressing recovery needs, most notably affordable housing. To that end, I was pleased to learn that just this week you announced an additional $100 million to be reprogrammed to address the critical housing needs of low- and moderate-income households in the Gulf region of Mississippi. This additional $100 million brings the State of Mississippi's total financial obligation to affordable housing to over $615 million. I consider this $100 million commitment a responsible and prudent expense of prioritizing federal funds to meet the most pressing hurricane-related needs. I'm sure that you share my concern that there may still be significant unmet needs for affordable housing, and I strongly encourage you to prioritize Gulf Coast housing as you move forward.

Exhibit J

MISSISSIPPI CENTER FOR JUSTICE

Summary

The State of Mississippi's Plan to Divert Federal Hurricane Recovery Housing Funds For the Expansion of the State Port at Gulfport

ISSUE

The State of Mississippi, through the Mississippi Development Authority, intends to divert $600 million of federal hurricane recovery housing funds to finance a massive expansion of the State Port at Gulfport. The planned expansion, which was conceived two years before Hurricane Katrina, would be the single largest expenditure of taxpayer funds on any state enterprise in the history of Mississippi. The amount is more than ten times that necessary to pay for hurricane related damages – which are already largely covered by insurance and other sources. The funds would expand not only commercial port facilities but provide the infrastructure for a luxury condominium and casino development to be known as the "Village at Gulfport." This extraordinary and unprecedented expenditure would divert critical funds from dire housing recovery needs on the Gulf Coast.

BACKGROUND

Damage to the Port from Hurricane Katrina. The State of Mississippi has fifteen commercial ports: three on the Gulf Coast, six on the Mississippi River, and six on the Tennessee-Tombigbee Waterway. The three Gulf Coast ports – the Port of Pascagoula, the Port of Gulfport and the Port of Bienville – suffered approximately $100

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million in assessed value as a result of Hurricane Katrina.[1] According to a June 20, 2006 report from the State's Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER report), the Port of Gulfport had an asset value of $127,573,778 prior to the hurricane. The Port of Gulfport had a total damage assessment of $50,556,175 from the hurricane, which loss was covered by a combination of Port funds, FEMA grants and insurance.[2]

Although the Port was severely damaged by the hurricane, it has recovered significant amounts of its pre-hurricane maritime activity. In 2004, the total tonnage shipped through the Port was 2.4 million. In 2007, the total tonnage was 1.7 million, and the estimated tonnage for 2008 is 1.8 million.[3] (Total tonnage is made up of bulk cargo and containers.) Container operations, however, "have returned to Pre-Katrina throughput levels despite the damage to the port."[4] Prior to Hurricane Katrina, the Port of Gulfport received significant non-maritime revenue in its role as landlord to two casinos: the Copa Casino and the Grand Casino. About one-half of the Port's annual operating revenue came from the casinos.[5] After Katrina, the Port received revenues from one casino: Island View Casino, which bought out the Grand Casino.

Background on the Port of Gulfport. Founded in 1902, the Port of Gulfport was transferred from ownership of the City of Gulfport to the State of Mississippi in 1960.[6]

---

[1] Joint Legislative Committee on Performance Evaluation and Expenditure Review (PEER), June 20, 2006 (hereinafter, the "PEER Report"), Introduction at 1.
[2] PEER Report at x, Ex. B.
[3] Mississippi State Port Authority at Gulfport, Budget Request for Fiscal Year Ending June 30, 2009 ("2009 Budget Request") at 1.
[4] Gulfport Master Plan Update 2007, Mississippi State Port Authority, June 2007 ("2007 Master Plan Update") at 6, 63.
[5] PEER Report at 53.
[6] PEER Report at viii; 94.

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The other two Mississippi Gulf ports – Pascagoula and Bienville – are owned and governed by local authorities.

The Port of Gulfport is governed jointly by the Mississippi Development Authority ("MDA") and the Mississippi State Port Authority ("MSPA"), a five-member Board of Port Commissioners made up of local and gubernatorial appointees who serve staggered five-year terms.[7] Three members are appointed by the Governor, one member by the Harrison County Board of Supervisors, and one by the City of Gulfport.

As a State Enterprise Agency, the Port of Gulfport is intended to be self-sufficient. "The port's mission is to be a profitable, self-sufficient port providing world-class maritime terminal services to present and future customers and to facilitate the economic growth of Mississippi through the promotion of international trade and creation of employment." [8]

The Port of Gulfport comprises two maritime terminals. The East Terminal (or east pier) has three berths that are used for bulk and breakbulk operations, including Dole Fresh Fruit. The West Terminal (or west pier) has seven berths and is used primarily for containerized cargo, including Crowley Liner Services.[9]

As an Enterprise Agency, the Port of Gulfport receives no annual general fund allocation from the Mississippi Legislature. The Port of Gulfport operates from revenues generated by license and user fees and tenant rents, including rents from its two casino lessees. In addition, the Port receives from Harrison County a portion of *ad valorem* tax

[7] PEER Report at 3.
[8] PEER Report at 94.
[9] PEER Report at 93.

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collections and earns interest on excess revenues. At the beginning of the 2007 fiscal year, the Port had $81,756,822 in unencumbered cash.[10]

For fiscal 2007, the Port's total expenditures – including operations, contractual services, capital outlays and bond principal and interest payments – equaled $28,165.728. These expenditures were paid for through port operations (both maritime and non-maritime), *ad valorem* tax payments from Harrison County, interest on excess revenues, and insurance and grants. Because these funds exceed expenditures, the Port began fiscal 2008 with an unencumbered cash balance of $82,353,592.

Capital expansion at the Port of Gulfport has been generally financed through bonds and loans and internal funds. The most recent debt issued was $40 million in fiscal 1999 for the expansion and addition of terminal facilities.[11] At the end of fiscal 2004, the State Port Authority at Gulfport had $31,850,000 in general obligation bond balances.[12] By the end of fiscal 2007, the bonded indebtedness had been reduced to $28,545,000.[13] For fiscal 2007, the Port's total debt service was $3,134,589.

The State of Mississippi, through MDA and the Mississippi Department of Transportation (MDOT) has also provided loans and grants to the Port of Gulfport as well as the other commercial ports. From fiscal year 2000 through 2006, the state awarded at total of $26,095,120 in grants and loans to all of Mississippi's commercial ports.[14]

---

[10] Mississippi State Port Authority at Gulfport, Budget Request for Fiscal Year Ending June 30, 2009 ("2009 Budget Request") at 1.
[11] 2009 Budget Request at 17.
[12] PEER Report at 6.
[13]
[14] PEER Report at 36.

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The U.S. Army Corps of Engineers provides equipment, assistance and funding for Congressionally approved channel dredging projects at public ports. Dredging at dock and mooring areas is generally paid for by the ports.[15]

In 1998, MDOT commissioned the consulting firm of Parsons, Brinckerhoff, Quade and Douglas to conduct a study of the capabilities of Mississippi's 15 public ports and develop a strategy for expansion and development. The study recommended the expenditure of $65 million for critical capital and infrastructure development for all public ports from calendar year 2000 through 2005. As noted above, during this period the State actually expended $26 million, less than half the recommended amount.[16]

The 2003 Master Plan. In 2002, the Mississippi State Port Authority (MSPA) commissioned several private consulting firms led by the JWD Group, a division of DMJM Harris, to create a "Master Plan" for the Port of Gulfport (the "2003 Master Plan").[17] The 2003 Master Plan included a "Twenty-Year Vision Plan" that contemplated a dramatic development of the port facilities. The "Twenty-Year Vision Plan" included a new truck road from I-10 to the east and west piers, the relocation of Highway US 90, a "total of four gaming facilities including support areas with hotels, parking, etc., a total of two cruise terminals and berths" and expanded east and west piers. The east pier would be expanded with approximately 60 acres of landfill; the west pier with approximately 24 acres of landfill.[18]

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[15] PEER Report at 6.
[16] PEER Report at 34, 46.
[17] Mississippi State Port Authority at Gulfport Master Plan Update, March 2003 ("2003 Master Plan") at 2.
[18] 2003 Master Plan at 6, 13-14.

Mississippi Center for Justice

The 2003 Master Plan, which ran to 123 pages including appendices, assessed certain environmental and economic impacts of the projected expansion. It estimated increased future demand for exports and imports, cruise ships and casino gambling. The Plan, however, did not address how the MSPA would raise the funds necessary to finance the expansion. But the 2003 Master Plan did contemplate that the development would proceed in stages over a 20-year period, presumably so that the economic benefits could be measured and adjustments made as the project proceeded. The clear implication is that the Port at Gulfport would realize increase revenues from the expansion that could, in turn, be used to finance the development. Indeed, in its fiscal 2009 budget request, the MSPA expected to expend $57,650,000 in capital outlays, other than for equipment. The budget request describes these expenditures as a "continuation of Hurricane Katrina recovery and projects planned in accordance with the Strategic Master Plan. Capital Outlay projects for Fiscal Year 2009 utilize reserve funds and excess FY 08 revenues. The projects do not include anticipated FEMA, or other grant funds."[19] In short, nothing in the 2003 Master Plan contemplated that the expansion would be financed through federal funds, and Master Plan projects have, in fact, been financed through other sources.

The 2007 Master Plan Update. In September 2005, the MSPA commissioned the JWD group – which prepared the 2003 Master Plan – to create an update of the 2003 Master Plan following Hurricane Katrina. The result, entitled "Gulfport Master Plan Update 2007, Mississippi State Port Authority," (the "2007 Master Plan Update") was adopted by the MSPA in June 2007. The 2007 Master Plan Update saw the results of the

[19] 2009 Budget Request at 13.

storm as an opportunity to advance the goals of the 2003 Master Plan. According to the 2007 Master Plan Update, "Although the storm damaged much of the existing port facilities, it also accelerated redevelopment of port areas and opened new opportunities for growth of the maritime and gaming markets."[20]

The 2007 Master Plan Update largely adopts and confirms the goals of the 2003 Master Plan, but accelerates some into a five year "work plan." The Update estimates the costs of the 10-year Vision Plan, discussed below, at $541,772,566.

The 10-year Vision Plan includes the creation of water access, landforms and wharf construction. The dredging includes deepening and widening the ship channel from 36 feet to 42 feet. The total estimated costs for the dredging and wharf construction is $231,203,514. The 10-year Vision Plan also contemplates spending $119,157,000 on the creation of an "inland port" to serve as a rail yard and distribution center. Another $104,000,000 would be spend on improvements to the east and west piers.[21] The total of $541,772,566 did not include the costs of rerouting Highway 90 or the creation of a new connector road to I-10, which are under the jurisdiction of MDOT.

The relocation of Port facilities is intended to permit the development of a condominium and casino complex in the North Harbor area. This "village" concept, referred to in the Update as the "North Harbor Village," is envisioned to include 2 casinos with hotels, three "boutique" hotels, 60 retail establishments and 400 upscale condominiums.[22]

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[20] 2007 Master Plan Update at 2.
[21] 2007 Master Plan Update at 125-26.
[22] 2007 Master Plan Update at 94-97.

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Federal Funds for Hurricane Recovery in Mississippi. Congress appropriated approximately $5.4 billion in federal funds for disaster relief and recovery in Mississippi. These funds are administered as Community Development Block Grants (CDBG) through the U.S. Department of Housing and Urban Development (HUD). The statute authorizing the appropriation specifies that at least 50% of the funds should be used to benefit low and moderate income people. The Secretary of HUD, however, can waive the requirement upon a "finding of compelling need."

On September 7, 2007, MDA announced its proposed Port of Gulfport Restoration Program that would divert $600 million from the $2.15 billion previously allocated by the State of Mississippi for homeowner assistance. On January 25, 2008, HUD Secretary Jackson approved the port expansion proposal, despite his concern that there may still be significant unmet needs for affordable housing.

In its request to Secretary Jackson – formally entitled "Mississippi Development Authority Amendment 5 Port of Gulfport Restoration Program, September 7, 2007" – MDA described the proposed "redirection" of funds to "facilitate the restoration of public infrastructure and publicly owned facilities that were destroyed by Hurricane Katrina and to provide for the long term recovery of the operating capacity of the Port."[23] The request does not mention the availability of other funds for reconstruction projects. Without attributing the projects to the "Vision Plan," the request states that "projects may include, but are not limited to," the channel dredging, the expansion of the piers, new roadways, new terminal gates and the development of the inland port facility as described

[23] Mississippi Development Authority Amendment 5 Port of Gulfport Restoration Program – September 7, 2007 ("Port Proposal") at 2.

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in the Master Plan.[24]

ANALYSIS

The Port Expansion Proposal Is Not Disaster Recovery; It Is An Unprecedented Investment In A Self-Sufficient State Enterprise. As noted above, he Port is a self-sufficient state enterprise. It receives no State General Fund reveneues. Like virtually all commercial ports in the United States, the Port of Gulfport has funded its development through borrowing and internal funds. This proposed massive investment of federal tax funds, which would be the single largest investment in any state enterprise in the history of Mississippi, is without precedent.

The proposed expansion is not a response to any hurricane recovery need. Rather, it is an attempt to realize the "20-year Vision Plan" first outlined in the 2003 Master Plan – two years before Hurricane Katrina.

The Expansion Plan Is Not Tied To Storm Damage Or To Critical Capital Needs. Before Katrina, the Port at Gulfport had a total asset value of approximately $127 million. While it suffered approximately $50 million in damages, those costs were covered by insurance, FEMA and Port funds. Thus, the $600 million is not directed at storm damage.

Nor is the $600 million tied to critical capital needs. According to the PEER report, the total capital needs of all 15 Mississippi ports was approximately $65 million, from 2000 until 2005. The funds for the proposed expansion is ten times this capital needs amount. To date, the Port has at least $82 million in unencumbered cash which it

[24] Port Proposal at 3-4.

intends to use for capital development projects, including projects outlined in the Master Plan.

The Proposed Expansion Ignores Other Traditional Sources Of Port Development Funds, Such As Revenue Bonds. Commercial ports typically fund expansion projects by issuing bonds. Publicly owned ports are able to issue tax-free bonds that generally offer attractive returns to investors. The process of funding expansions through private capital markets imposes a critical discipline on expansion projects: underwriters will only support a bond issuance for projects that can repay the bonds.

A typical port development program is illustrated by the experience of Florida, which has several ports that compete with the Port of Gulfport. The State of Florida achieved $458 million in improvements at fourteen ports during a four year period by selling a $220 million state bond issue and then requiring each port to invest its own monies into the port improvements projects funded with state bond proceeds at a match rate of 25% to 50%.[25]

There are many examples of United States ports using bond funds, or a combination of bond proceeds and internal revenues, to fund major expansions. The Port of Houston, which claims to be the "the largest foreign waterborne tonnage port in the United States and second in overall tonnage," recently passed a $250 million revenue bond to fund a major expansion.[26] The Port of Tacoma recently announced a $300 million container facility expansion funded by industrial revenue bonds, which are retired

[25] PEER Report at 46.
[26] Houston Chronicle, October 18, 2007.

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through leasing proceeds.[27] The Port of Freeport, Texas, which competes with the Port of Gulfport, is funding an expansion program with $45 million in industrial development revenue bonds.[28]

The State of Mississippi's expansion program for the Port of Gulfport completely ignores the availability of other funding sources but instead relies entirely on CDBG funds intended for housing and other hurricane recovery needs. This marks a dramatic, uprecedented shift in funding plans for the Port's development.

As noted above, the Port of Gulfport has relied on internal funds and bond proceeds for capital projects. A December 19, 2005 article in the Journal of Commerce explained that the 2003 Master Plan contemplated funding through these traditional sources. "Three years ago, the port adopted a 20-year, $250 million master plan that included expanding the port's 200 acres of property by filing in 60 acres of Mississippi Sound and reconfiguring several facilities to include an intermodal terminal and more space for banana cargos. *The work was to be financed on a pay-as-you-go basis from the port's casino-aided revenue."*[29] (emphasis added.) When asked about funding expansion after Katrina, the Port's Executive Director and CEO, Donald Allee, pointed to the bond market: *"I think we will be looking at revenue bonds in 2006."*[30]

The State of Mississippi does not explain why revenue bond financing is not available today to cover all or a substantial part of a reasonable Port expansion. The Port's last bond issue was nine years ago, a $40 million bond for terminal expansion. Currently, the Port's debt service is approximately $3.1 million, and the Port has $82

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[27] The News Tribune, July 27, 2007.
[28] Houston Chronicle
[29] The Journal of Commerce, 12/19/05, 2005 WLNR 209473727 at 1.
[30] Id. at 3.

million in unencumbered cash. In light of the Port's current financial status, unencumbered cash, low debt service and expected revenues from the expansion, the State should explore alternative funding before committing a wholesale appropriation of scarce housing recovery funds.

The Proposed Expansion Is Predicated On Faulty Assumptions And Relies On Attracting Business From Other Areas That Face Hurricane Recovery Challenges.

Much of the forecasted economic benefit from the port expansion project relies on the development of the "village," complete with two new casinos and high-end condominiums. Neither the MSPA nor the MDA have even identified a potential private developer, much less entered into a letter of intent for this risky development. Indeed, the 2007 Master Plan Update notes that "gaming revenues had been steady since the turn of the 21st century, and had not experienced any significant growth since the year following the opening of the Beau Rivage [in Biloxi] in March 1999." [31] The Update suggest that the proposed additional casinos in Gulfport may have some advantage over those in Biloxi because of their closer vicinity to traffic from western areas, such as New Orleans. The Update concludes, however, that "to the extent that the region's gross gaming revenues are anticipated to once again reach maturity with the redeveloped or new casinos [in the Biloxi area], potential new investors may be reluctant to make substantial capital investments into traditional projects in the Gulfport area." [32] The 2007 Master Plan Update does not explain how Gulfport's competition for gaming customers with

[31] 2007 Master Plan Update at 4.
[32] 2007 Master Plan Update at 4.

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Biloxi – which was ravaged by the hurricane – will assist the overall economic recovery of the region.

Much of the projected analysis of increased shipping revenues comes at the expense of other ports in the region, including New Orleans and Pascagoula, which were both hard hit by the hurricane. Again, the State of Mississippi's proposal to expand the Port of Gulfport does not explain how diverting business from these areas will assist in the economic revitalization of the entire area.

**TESTIMONY OF JACK NORRIS, EXECUTIVE DIRECTOR
STATE OF MISSISSIPPI
GOVERNOR'S OFFICE OF RECOVERY AND RENEWAL
TO THE U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON FINANCIAL SERVICES
MAY 8, 2008**

Good morning. I'd like to thank the members of the Committee for allowing me to tell you about the tremendous recovery that continues to occur in our great state. Thank you very much Chairwoman and Ranking Member and distinguished members of the committee for giving me the opportunity to speak with you today.

On August 29, 2005, Hurricane Katrina struck Mississippi a grievous blow. Although the eye of the storm landed at the Mississippi-Louisiana line, that eye was more than thirty miles wide, and Katrina completely devastated our entire coastline, from Pearlington to Pascagoula. But this hurricane wasn't just a calamity for the Mississippi Gulf Coast. Its impact reached far into our state with hurricane force winds more than 200 miles inland.

The storm claimed the lives of more than 230 Mississippians. The combination of the storm's slow speed and the shallow waters off the Mississippi shoreline created a storm surge in excess of 30 feet in some areas. More than 80 miles of Mississippi coastline were completely destroyed by the mixture of high storm surge and strong winds. In her wake, Katrina left literally tens of thousands of uninhabitable, often obliterated homes; thousands of small businesses in shambles; dozens of schools and public buildings ruined and unusable; highways, ports and railroads, water and sewer systems, all destroyed.

Damage along Mississippi's Gulf Coast was widespread, with estimates totaling more than $125 billion. Eighty percent of the state's three million residents lost electricity. More than 45 million cubic yards of debris was left in Katrina's wake—more debris than was created by Hurricane Andrew. Katrina's effects on Mississippi alone, therefore, would rank as the largest natural disaster ever to strike the United States.

Mississippi and her citizens bore the brunt of a hurricane more devastating than anything this nation had ever seen, and the miles upon miles of utter destruction on the ground was unimaginable—except to those who witnessed it with their own eyes.

Katrina destroyed thousands of businesses and billions of dollars in sales revenue were lost. Beachfronts and hotels were obliterated. Losses in livestock and agriculture hit our state's farming community especially hard. Small businesses—the lifeblood of most local economies—were completely wiped out along the coastline, and many were damaged or destroyed miles inland.

The men and women of our state found themselves having to scramble, adjust, innovate, and make do. However, it was the spirit of our people that pulled us through. Our people are strong, resilient, and self-reliant. From day one after the storm they got to work and did what had to be done. They helped themselves and helped their neighbors. Their spirit has been an inspiration to us all, and that spirit remains the key to our recovery, rebuilding and renewal.

Likewise, our state and citizens continue to realize the tremendous gratitude we owe to you all – the members of Congress who came to our aid after Hurricane Katrina and helped make available the resources needed to rebuild our great state.

The Fiscal Year 2006 Department of Defense Appropriations Act (H.R. 2863) included $29 billion for specific needs arising from Hurricane Katrina 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 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 were to be used for repair, rehabilitation and reconstruction of the affordable rental housing stock in the impacted areas.

Between the two appropriations, Mississippi received $5.481 billion in CDBG funding. The Mississippi Development Authority (MDA), which already administers the state's Community Development Block Grant (CDBG) program, administers Mississippi's share of these funds.

Working with our federal partners, local governments and the private sector, Mississippi is implementing a comprehensive approach utilizing CDBG and other resources to rebuild homes in South Mississippi.

The state's unwavering commitment to housing is directly related to his vision of a Gulf Coast bigger and better than ever. Only by enhancing housing opportunities for all Coastal residents, including low-to-moderate income homeowners and renters, will the workforce and economic engines of the Gulf Coast reach their full potential. In fact, the state's focus on providing housing assistance is evidenced by the more than $3.95 billion of the $5.5 billion—or about 72 percent—of CDBG funds approved by Congress and directed by the state for housing or housing-related programs.

Since August 29, 2005, the state has maintained a commitment to a comprehensive housing recovery strategy which significantly addresses low-to-moderate income homeowners and renters. Housing is and will continue to be the most pressing issue facing Coastal recovery, but total recovery also depends on economic recovery. Cities, infrastructure and jobs must be rebuilt or restored in order for the Coast to fully recover. Therefore, the state's plan addresses these needs through economic development programs, community revitalization, tourism restoration and water/wastewater infrastructure restoration, as well as maintaining a continued focus on providing housing assistance for residents of the Mississippi Gulf Coast.

Housing Recovery Projection (Lower Six Counties)

		Units	
HOUSING INCENTIVES:	Dollars	Low	High
Direct Housing			
Long-term workforce housing	$350,000,000	11,000	12,850
Small rental affordable plan	262,000,000	6,500	7,500
Housing Resource Fund	150,000,000	3,800	4,500
Public Housing	105,000,000	3,200	3,200
Low Income Housing Tax Credits	69,316,637	5,823	5,823
USDA Loans and Grants	45,400,000	822	822
LIHTC Backstop Fund	30,000,000		
Mortgage Revenue Bond Program	45,000,000	1,255	1,255
Sub total Affordable Housing	$1,056,716,637	32,400	35,950
Homeowner Assistance Program (HAP)	$1,650,000,000	18,958	24,557
Sub total Direct Housing	$2,706,716,637		
Indirect Housing			
Water/Wastewater Infrastructure	$642,000,000		
Ratepayer Mitigation	440,000,000		
LMI Tap-fee assistance	50,000,000		
Building Inspector Grants	10,000,000		
Sub total Indirect Housing	$1,142,000,000		
Grand Total Government Assistance	$3,848,716,637	51,358	60,507

PRIVATE SOURCES:			
Insurance Payments Including NFIP Payments (Lower Six Counties)	$8,748,438,501	263,744	263,744
Grand Total	$12,512,155,138	315,102	324,251

Statewide FEMA/HUD/SBA Damage Report dated February 12, 2006	
All Unit Types All Damages	220,384
Coastal (Lower Three Counties) FEMA/HUD/SBA Flood Damage Report	
All Unit Types Major and Severe Categories	52,512

***Above numbers indicate the lower six counties contrasted against the damage estimates for the entire State.
***There was an additional $6.8 Billion in claims paid for the counties north of the six coastal.
***There is also an additional $37 Million in LIHTC for the entire Go Zone.
***The above numbers do not include residential SBA loans $2B
***Additional sources of private and/or non-profit investment are not reflected.

Damage Estimates. The inspection data conducted by FEMA and the Small Business Administration (SBA) released on February 12, 2006 is the most reliable source of damage estimates. There are three damage categories listed in this report: (1) Minor Damage, (2) Major Damage and (3) Severe/Destroyed. The estimated housing unit damage for owner-occupied and rental housing for the entire state totaled 220,384 units. This number accounts for any damage reported statewide.

The benchmark number of damage consistently used is the number of owner occupied and rental units in the major damage and severe/destroyed categories. Damaged units under these categories equals 61,386 for the entire state and 52,512 for the lower three counties (Hancock, Harrison and Jackson counties).

It is important to note that HUD's Program Evaluation Division released a report in July 2006 containing higher damage estimates than reported in February 2006. Since that time, HUD has retracting that report on the basis that the data contained a number of duplicate entries.

Housing Data Collection. The state has entered into a contract with two firms who will collect and present data for use in guiding remaining policy decisions concerning housing recovery. The work product will be a comprehensive representation of what has been done, what is in process and what remains to be done with respect to housing recovery of the Gulf Coast. The firms are expected to analyze and make representations of all subsidized housing as either complete, in process, or planned. Included in this study will be a report on the housing situation for the elderly and disabled. This study will aid the state in identifying any remaining unmet needs that may exist. The state solicited input from HUD's Program Evaluation Division in the defining the RFP for this program and continues to maintain communication with HUD regarding this study so as to avoid any duplication of effort in tracking housing information on the federal and state levels.

Private and Public Insurance. Insurance proceeds have been the single largest financial contributor to housing recovery. Most Mississippians made responsible decisions safeguarding their homes, maintaining regular homeowners insurance and purchasing flood insurance as advised by the federal government.

Private homeowner insurance provided the most financial resources for rebuilding. In October 2006, the Mississippi Commissioner of Insurance reported 486,913 claims were made statewide as a result of damage incurred by Hurricane Katrina, resulting in $11.9 billion paid. 235,849 claims were reported for Hancock, Harrison and Jackson Counties, and $8.36 billion has been paid on those. This figure includes over $2.4 billion in flood damage claims to over 17,000 policy holders under the National Flood Insurance Program (NFIP).

To account for uninsured losses, SBA approved disaster loans to 31,100 Mississippi homeowners and renters totaling in excess of $2 billion.

Homeowner Assistance Program. In petitioning Congress for CDBG funding, the major component of the state's comprehensive plan was the Homeowners Assistance Program. This program was created to assist homeowners who made responsible insurance decisions, yet still suffered uncompensated losses. When Katrina's storm surge pushed beyond federally-drawn flood boundaries, many homes not covered by flood insurance suffered extensive flood damage. These homeowners relied to their detriment on federal government policy that their homes did not need NFIP coverage.

HUD approved the $3.423 billion Homeowners Assistance Program Action Plan on April 3, 2006. The release of funds was approved on July 10, 2006. This compensation program targeted homeowners outside the established flood zones who suffered flood damage to their primary residence from Hurricane Katrina. Its purpose was to provide one-time grant payments up to a maximum of $150,000. To be eligible, homeowners located outside the 100-year flood plain in Hancock, Harrison, Jackson, or Pearl River counties must have owned and occupied their primary residence on August 29, 2005, maintained homeowners insurance on the property, and received flood surge damage.

Immediately after releasing the Homeowners Assistance Program, MDA began designing a second phase of the program to assist homeowners not eligible under the first phase. Phase II of the Homeowner Assistance Program differs from the first phase in three major respects: (1) applicants were not required to have carried homeowners insurance, (2) applicants' homes could have been located inside or outside the floodplain, and (3) eligibility was limited to those with incomes of 120 percent Area Median Income or below.

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. This compensation program targeted low-to-moderate homeowners, either in or out of the flood zone, who suffered damage from the hurricane, and who had uncompensated losses due to insufficient insurance. Phase II provided grants up to a maximum of $100,000, or if combined with Phase I proceeds, up to a maximum of $150,000. As in Phase I, to be eligible, homeowners must have owned and occupied their primary residence located in Hancock, Harrison, Jackson, or Pearl River counties on August 29, 2005, and received flood surge damage. Because Phase II was intended for low-to-moderate income homeowners, eligible applicants must have had a household income at or below 120 percent of Area Median Income.

Before closing their grants, Phase II grant recipients also participated in required financial counseling sessions which provided access to vital knowledge and recovery assistance for an otherwise underserved population.

In addition, in exchange for the grant payment, a qualifying homeowner in Phase I or Phase II must agree to a mitigation covenant on their property. The mitigation covenant specifically states that the homeowner will now be required to: obtain and maintain flood insurance; rebuild and repair will be in accordance with the more stringent 2003 international building codes; and, if rebuilding, the home and all future structures will be elevated to the FEMA advisory flood elevations in effect at that time.

Mitigation has taken place by the placement of the covenant irrespective of whether the homeowner has repaired, rebuilt or left the former home site vacant. The mitigation covenant fulfills the legislative intent by significantly lessening the impact of a future storm or flooding event.

To date, the total number of applicants in both phases is 31,104. Of those, 23,698 applications have been approved, and 20,326 applications have been paid. A grand total of $1,450,010,752 in individual grants has been disbursed.

The closing of the Homeowners Assistance Program Phases was announced in February of 2008. The MDA conducted intensive, location-specific outreach campaigns utilizing the three service centers on the Coast as well as mobile application centers in an effort to ensure that any potential program applicant was aware of the programs and of the closeout date of March 15, 2008. Final grant disbursements for the Homeowners Assistance Programs, Phases I and II, will be complete by October 15, 2008. The number of housing units to be rebuilt as a result of these programs is projected to be between 18,958 and 24,557.

In the original Action Plan approved on April 3, 2006 $250 million was allocated to the Elevation Grant Program. This program targets homeowners who received funds from Homeowners Assistance Program Phase I or Phase II, and is used for the specific purpose of defraying the added cost of elevating the applicant's primary residence out of potential danger. Eligible applicants must be located in a flood plain, and are required to elevate to a level at or above the current levels required by FEMA. The maximum grant amount is $30,000, payable upon issuance of the building permit and following successful completion of an environmental review.

To date, 2,915 applications are in process. Of those, 2,301 applications are being actively worked towards completion. One hundred applications have been approved totaling $3 million; 25 have been closed totaling $750,000. Because a multi-step environmental review must be completed prior to the disbursement of funds, the process is somewhat slow.

Small Rental Program. Hurricane Katrina destroyed or severely damaged 6,000 rental units in Mississippi, 95 percent of which were located in Hancock, Harrison and Jackson counties. To address this population, the Small Rental Assistance Program was created with a new Action Plan approved by HUD in July of 2007, allocating $262 million. This forgivable loan program targets owners of small rental properties in Hancock, Harrison, Jackson, and Pearl River counties. Owners include individuals, non-profit groups, corporations and partnerships. Applicants are required to meet program terms for a period of five years. Terms include low-moderate income rental rates, which are directed towards those tenants who are between 80 percent and 120 percent Area Median Income. An environmental review is required. The number of units to be rehabilitated or built is projected to be between 6,200 and 7,500.

Public Housing Program. HUD approved the action plan amendment to address the needs of the Public Housing Authorities on August 31, 2006. This program provides funding totaling $105 million to the five Housing Authorities that suffered damages to their facilities on August 29, 2005. Subject to approval by MDA and satisfaction of the legal requirement that any housing development receiving these funds serve and house persons of low and very low income, the Housing Authorities can use these monies to leverage other available resources in developing affordable housing to serve this population.

Prior to Hurricane Katrina, the Coast had 2,361public housing units, 800 of which were completely destroyed. The Housing Authorities have identified twenty-four projects representing approximately 3,200 units, which will increase the number of units to 4,761, more than twice the number of pre-Katrina public housing units.

Grants are pending final application and completion of environmental assessments. Some of the sites have encountered environmental problems which render them ineligible, meaning the public housing authority must start over with a new site. There are about 500 units that will are being replanned for relocation in the near future because of onerous site-specific regulations.

Long Term Workforce Housing Program. MDA will direct a significant portion of the allocation of CDBG funds for the development of affordable workforce housing in the areas impacted by Hurricane Katrina. The Long Term Workforce Housing Program is designed to incent the housing construction for the workforce, defined as households at or below 120 percent Area Median Income.

A draft Action Plan for $350 million was submitted for HUD approval in April of 2008. For the initial round of the Long Term Workforce Housing Program, $150 million was targeted to provide housing for the low-to-moderate income workforce on the Gulf Coast. In this round, MDA solicited proposals from developers and non-profit organizations specializing in providing affordable housing. Additional applications will be taken in two subsequent rounds. The number of units to be built is projected to be between 11,000 and 12,850.

Low Income Housing Tax Credit Loan Fund. MDA is in the process of finalizing an agreement with the state's housing finance agency, Mississippi Home Corporation, to establish an affordable housing loan fund that will insure prioritized LIHTC developments are built. The tightening credit markets have a ripple effect that extends to LIHTC developments, causing the investors to change the pricing of the tax credits. The state recognized the effect for the affordable housing on the Coast and has recently budgeted $30 million of CDBG as a loan fund for LIHTC developers in the lower six counties. These monies will be repaid and be a renewable source of income for affordable housing initiatives in the years to come.
In addition to CDBG, the State of Mississippi has relied on other resources to help restore housing.

Mortgage Revenue Bonds. To encourage home ownership, the state 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 percent of the mortgage amount. With this authority, more than 2,700 families statewide have received assistance since Katrina (400 families of these are on the Coast). These bonds are not general obligations of the state; rather, they are repaid as homeowners pay their mortgages. The state 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.

Low Income Housing Tax Credits. 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 state. 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 percent of the coastal units damaged by the hurricane. These units are available only to families with incomes of less than 60 percent of the Area Median Income.

To ensure that more of the tax credits are directed to the areas that need them the most, the Mississippi Home Corporation restructured the Qualified Allocation Plan. 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 percent and 80 percent of the Area Median Income and new market rate rental units.

Alternative Housing Pilot Program. Significant headway has been made in rebuilding the thousands of homes destroyed by Katrina. Perhaps most significant are the financial vehicles and grants to families and those especially vulnerable to the ravages of the storm. Yet as numerous studies and community forums have pointed out, it is not enough simply to simply focus on long-term rebuilding. The state recognizes that foresight is needed in the rebuilding effort as well as immediate action.

For example, the state is committed to moving the thousands of Mississippians still living in FEMA-provided travel trailers and mobile homes into improved housing conditions while permanent dwellings are being rebuilt. The state's Alternative Housing Pilot Program is one example of the administration's hands-on approach to ensure no one is left behind, and the needs of all citizens are being met. Immediately after Hurricane Katrina, the State of Mississippi led the movement to find a more suitable replacement for travel trailers. The first alternative housing designs were created at the Mississippi Renewal Forum, convened by the Governor's Commission on Recovery, Rebuilding and Renewal in October 2005. The cottage design produced at the forum generated substantial interest from around the country on the issue of disaster emergency housing.

Since that time, the State of Mississippi has actively pursued the issue of replacing travel trailers for its residents. In June 2006, U.S. Senator Thad Cochran successfully proposed the allocation of funds to support alternative temporary housing solutions. In October

2006, the State of Mississippi made application to FEMA for funding of the Alternative Housing Pilot Program.

FEMA approved Mississippi's application, which sought to replace some FEMA travel trailers and mobile homes with more sustainable, livable units. Specifically, FEMA allocated more than $280 million to fund Mississippi's proposal, which includes three housing models -- Park Models, Mississippi Cottages, and Green Mobile units. The housing models are designed as direct replacements for some FEMA travel trailers and mobile homes.

A panel of experts assembled by the Federal Emergency Management Agency recognized the merits of Mississippi's proposal for alternative ways of meeting emergency housing needs. They recognized that the progress Mississippi has made to date in recovery and our readiness to implement our proposals uniquely qualifies the state for the Alternative Housing Pilot Project. The result has been the development of safer and more livable emergency housing for thousands of Mississippians. As of May 2, 2008 the state has installed 2,496 temporary units on the Gulf Coast.

As homes are rebuilt and temporary cottage units are no longer necessary, Mississippi is planning to refurbish the cottages and donate the units to public housing authorities and private non-profits who will use the units to create safe, sustainable affordable housing communities. These communities will be aimed at Mississippians in the lowest income ranges, and will result in thousands of additional affordable housing units, which will come online within the calendar year.

Mississippi's Alternative Housing Pilot Project is yet another example that the state 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 appreciate FEMA's foresight and cooperation in making improved emergency housing a reality.

Fair Housing. To ensure that we are proactively addressing fair housing the state has a current Analysis of Impediments (AI) to Fair Housing, which was submitted to HUD in July 2004. This study has been updated to include impacts caused by Hurricane Katrina. Many of the identified impediments have been or will be addressed in Housing Action Plans. The State certifies that it will affirmatively further fair housing through conducting and implementing the AI and that it will maintain records reflecting the analysis and actions taken.

The Housing Action Plans are designed to be consistent with the primary objective of providing funds for projects with activities that meet one of the following national objectives of the Housing and Community Development Act of 1974, as amended:

- Benefits to Low/Moderate Income Persons

  Give maximum feasible priority to activities that will benefit low and moderate-income persons
- Slums or Blight

Aid in the prevention or elimination of slums or blight
• Urgent Needs
Meet other community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community and where other financial resources are not available to meet such needs.

CDBG Challenges. As the State of Mississippi works to implement its housing programs, we have encountered some challenges. The most significant challenge is ensuring compliance with HUD environmental regulations. To avoid each individual homeowner having to be responsible for a full environmental assessment that could be complex and lengthy, MDA decided to do a broad review of the entire affected area that would categorically exclude the entire program from undergoing such an extensive environmental assessment. The effort to complete this process began in late July 2007. To accomplish this, HUD regulations required that MDA examine the affected area and develop a strategy for conducting abbreviated environmental reviews of each applicant's site. This strategy included:

Programmatic Agreement: An agreement between MDA, the American Council on Historical Properties, the Mississippi State Historical Preservation Officer, the Mississippi Band of Choctaw Indians and a number of other state and federal agencies. This agreement defined the methods to be used to evaluate applicant sites for historical and archaeological significance and how to mitigate against any damage that might occur to historically or archaeological significant sites.

Unspecified Site Strategy and Broad Review: This articulated MDA's strategy for conducting environmental reviews across a large number of applicant sites and also contained environmental information about the affected area as a whole.

Site Specific Checklist: A checklist that is used to conduct the environmental review individual applicant's site. The items, all required by HUD regulations, looked at include:

1. Historic preservation (including archaeological)
2. Floodplain protection
3. Wetland protection
4. Clean Water Act
5. Coastal zone management
6. Endangered species
7. Farmland protection
8. Hazardous, toxic or radioactive materials and substances
9. Airport hazards

Statutory Worksheet: This document was developed to demonstrate MDA's compliance with all environmental regulations and provide evidence of the myriad of state and federal agencies that were consulted with to ensure the requirements set forth in these regulations were being met.

1. U. S. Environmental Protection Agency
2. Mississippi Department of Environmental Quality
3. U. S. Forest Service
4. Mississippi Department of Wildlife, Fisheries and Parks
5. Mississippi Museum of Natural Science
6. Mississippi State Historic Preservation Officer
7. Mississippi Band of Choctaw Indians
8. Other federal state and local agencies

Lead Based Paint Checklist: This worksheet was also required by HUD regulations and must be completed for most applicant properties.

Once all of these items were completed, the documents were compiled and put out for public comment period of 15 days. Concurrently, MDA filed a required Notice of Intent to Release Funds. The approval from HUD was received on February 15, 2008, roughly seven months after the process started.

Another significant program implementation challenge is adherence to the Stafford Act. The Stafford Act assures that no recipient of assistance receives duplication of benefits from various funding sources. The MDA, in administering CDBG funds, must negotiate separately with each federal funding entity to ensure that funds for any of disaster recovery housing programs are not duplicated. This can lengthen the process by which applicant funds are disbursed. As an example, MDA was granted access via a contact to the National Flood Insurance Program database as part of the eligibility process for Phases I and II of the Homeowners Assistance Program. When the same access to the same database was required for the Small Rental Assistance Program, it took almost two months to reestablish contact for the same source of funds. Legislative direction mandating a single point of contact to access the various databases allowing states to comply with the Act would be extremely helpful. Possibly, convening a high level group of representatives from disaster-affected states to make recommendations for a common template that could be used in the work of disaster recovery would ease this process.

Total Low and Moderate Income Figures. Hurricane Katrina affected all citizens of the Gulf Coast, regardless of income. When Congress approved CDBG funding for the disaster-stricken states, it lowered the amount of funding that must primarily benefit low and moderate income individuals from 70 percent to 50 percent. According to HUD figures, 47 percent of Mississippi Gulf Coast residents were classified as low and moderate income.

Early in the recovery effort, the state's primary goal was getting the resources to our citizens as quickly as possible. Recognizing the importance of distributing funding quickly and not hampering programs with bureaucratic hindrances, HUD waived the income requirement for the Homeowners Assistance Program Phase I, Elevation, Ratepayer/Windpool, Water/Wastewater Infrastructure, Community Revitalization, Planning Grants, Building Code Inspector Grants, and Fraud Grants programs.

The State of Mississippi is committed to meeting and exceeding the CDBG low-and-moderate income requirement for the remaining programs, including Homeowners Assistance Program Phase II, Public Housing, Economic Development, Community Revitalization GO Zone, Tourism, Long Term Workforce Housing, Small Rental Assistance, and Ground Zero. Not counting programs for which HUD has granted waivers, 50 percent of funding must primarily benefit low and moderate income individuals, meaning $1.25B is required to be committed to low-and-moderate income. Assuming the programs are fully subscribed and perform as designed, MDA expects no difficulty in achieving the low-and-moderate income requirement. Currently, the funding projected to meet the requirement is $1.7 billion, or 69 percent.

The state has also guided CDBG funding for indirect housing support, economic, and infrastructure recovery needs.

Regional Water and Wastewater Program. As a result of Hurricane Katrina, many Gulf Coast residents have moved further inland, away from the risk of future storm surges and hurricane force winds. To accommodate any migration with home building, water and sewer systems must be expanded to accommodate the growth in an environmentally responsible fashion. The Mississippi Department of Environmental Quality (MDEQ) released a master plan for water and wastewater improvements in the lower six counties of Hancock, Harrison, Jackson, Pearl River, George, and Stone. This plan will be implemented utilizing the new Gulf Coast Regional Wastewater Authority authorized by the 2006 Mississippi Legislature. HUD approved an Action Plan in August 2006 to allocate $641.2 million of CDBG funds for this program, which will help create new housing opportunities while facilitating future economic development in an environmentally sensitive way. To date, sixty-seven projects have been identified; an environmental assessment is required for completion.

Ratepayer and Windpool Mitigation Programs. On August 31, 2006, HUD approved a $440 million action plan amendment for the Ratepayer and Windpool Mitigation Programs. As a result of the Hurricane, 16,000 policyholders faced up to a 400 percent increase in annual premiums for wind and hail insurance. To offset the potential increase, the Ratepayer program targeted both business and residential customers to protect them from absorbing the entire cost of the utility infrastructure restoration following the storm. The Windpool program provided a one-time grant to the Mississippi Windstorm Underwriting Association to defray the additional cost to the consumer of wind insurance. The funds in this program have been 100 percent committed, with a disbursement of $440 million paid in December 2007.

Building Inspector Grants. 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 from the original Housing Action Plan to local governments in Hancock, Harrison, Jackson and Pearl River counties to cover the costs incurred by the need for additional permitting and building officials. To date, sixteen grant agreements have been issued, funding approximately eighty-six inspectors.

Fraud Prevention. To address fraud in the grant application process and contractor fraud related to rebuilding efforts, MDA provided a $5 million grant from the original Housing Action Plan to the Mississippi State Auditor to establish and operate a Katrina Fraud Prevention and Investigation Team. This team investigates instances of fraud identified during the application review and eligibility process as well as suspected fraud cases in rebuilding efforts. MDA has forwarded 117 applications to the Investigation Team of which 87 have been resolved and 30 are active cases.

Community Revitalization Program. As a result of the Hurricane, public areas such as fire stations, libraries, and sidewalk infrastructure in many municipalities were either severely damaged or destroyed. To facilitate the rebuilding of these areas, HUD approved an Action Plan for $500 million in December of 2006. A subsequent modification to the plan was approved in August 2007, bringing the total to $650 million. From that plan and modification, $300 million was allocated towards the Community Revitalization program. This program was established to provide funding to local jurisdictions in the counties of Hancock, Harrison, Jackson, Pearl River, George, and Stone. The funding can also be used to address needs created by damage as well as population increase as a result of the storm in the remaining forty-three counties of Mississippi. A total of 117 projects have been funded statewide to date.

As communities located in Hancock, Harrison, Jackson, Pearl River, George, and Stone counties approach recovery from the storm, the MDA provided a $10 million grant allocated from the plan approved in December 2006 to assist them in preparing community plans for rebuilding and repairing areas damaged by Katrina. The funds are 96 percent committed across twenty four grant contracts.

Economic Development Program. An allocation of $335 million from the Action Plan approved by HUD in December 2006 allowed MDA to assist local governments affected by the Hurricane provide infrastructure to support economic development. The Economic Development Grants program seeks to ensure that jobs are identified and offered to those applicants with a low-to-moderate income status so that Mississippi citizens can rebuild in the communities they call home. This Action Plan also includes a $5 million Tourism grant to increase the number of visitors to the impacted areas of the Gulf Coast in order to recover and sustain the small businesses that rely on tourism, increase related jobs, and return tax revenues to the communities in which the businesses reside. All of the allocated funds have been committed, and grant contracts have been issued for twenty-seven projects.

Port of Gulfport. To ensure a sustainable recovery effort, the state is working hard to continue to strengthen Mississippi's economy. Rebuilding and expanding our state's economic infrastructure, creating jobs, and stabilizing our state's insurance market are top priorities. Restoring our state's economic base and tax revenues is critical to the long-term recovery of the state. Creating jobs is perhaps the single best way to achieve this goal.

The Port of Gulfport's restoration was part of the state's original comprehensive recovery plan submitted to Congress in November 2005. Comprehensive recovery of the Gulf Coast cannot occur without restoring the Port both because of jobs and business activity. The most current economic impact data as presented by John A. Martin & Associates (Los Angeles, CA) revealed that Gulfport's maritime activity was responsible for 3,200 direct/indirect jobs (maritime only). An good industry example is the poultry market. The study indicated that 458 direct jobs were created in the export poultry market. Pre-Katrina, frozen poultry was generating 1.34 jobs per 1,000 tons of exported product. If the freezer were in operation today and the ratio were at least the same, frozen poultry exports would yield the greatest job impact to the Port due to its labor intensive nature.

To address the Port of Gulfport's devastation as a result of Hurricane Katrina, $600 million was allocated to provide funding to the Mississippi State Port Authority to facilitate restoration of public infrastructure and publicly owned facilities that were destroyed. The Action Plan was approved by HUD December 12, 2007. The funds are also targeted to provide mitigation against future damage and to provide for the long term recovery of the operating capacity of the Port.

The Homeowners Assistance Program was the initial plan submitted to HUD for approval and implementation. Originally, $3 billion was allocated for this program in anticipation of up to 27,000 homeowner grants averaging $110,000.

After MDA began taking applications, it determined that Phase I would fall significantly under the original projection both in number of eligible applicants and in average grant amount (the average grant amount is $70,000, $40,000 less than originally projected). To increase the impact to homeowners, and specifically those homeowners with lower income and workforce-level income, Phase II was implemented.

Based on current applications, the projected impact of the latest modifications for elevation certificates and sold homes, MDA estimates that the amount needed for Phase I and Phase II is $2.25 billion (30,000 grants at the current average of $70,000).

As Disaster Recovery action plans have been implemented, MDA has considered estimated cost of each existing and contemplated program to ensure that adequate funding would be available to cover each element of the comprehensive plan that was designed to provide recovery and relief with the CDBG funds.

The Port Restoration Program is designed to increase the labor force on the Mississippi Gulf Coast by creating and returning jobs in the region. The funds are being used to rebuild and upgrade the Port of Gulfport to restore jobs and ultimately impact the Coast's economy. The funds will restore the infrastructure, provide for long-term recovery of the operating capacity of the port and will reduce future risk. As the recipient of this funding, the Port and its tenants will make jobs available to low to moderate-income workers, and restore the jobs that the International Longshoreman Association enjoyed prior to Katrina.

The Port of Gulfport is the third largest container port on the Gulf of Mexico. Its contribution to the State's economy and the Gulf Coast's economy is enormous. An Economic Impact Study by Martin & Associates detailing the breakout of anticipated jobs, wages/salaries, and revenues follows:

- Job Impact, direct and induced
  - Maritime – 3,200
  - Non-maritime jobs – 4,101
  - Total – 7,301

- Wages and salaries - Direct and induced $240 Million
- Business Revenue - Over 400 Million
- Local Purchases - Trackable, identified purchases - $27 Million annually
- State and Local taxes - $26 Million

The Port is an important source of jobs. The Port is one of the few employers that offer jobs in the salary range ($45K-$50K) for labor-type jobs. Over ten years, the Port expects to create over 5,000 jobs.

The funds have not officially been obligated because there have not been any grant agreements issued yet. The state is in final negotiations with a Program Manager. This will expedite implementation of the Port rebuilding program.

The Port is an enterprise agency of the State of Mississippi and does not receive state revenue. Currently FEMA Public Assistance and insurance funds are being used to restore parts of the Port.

Ground Zero Program. The Ground Zero Unmet Needs program was announced in April 2008. A draft Action Plan was submitted for HUD approval in April of 2008. This program was allocated $200 million to support the recovery and restoration of Hancock County, the hardest hit area of Mississippi during Hurricane Katrina.

Conclusion. The State of Mississippi is committed to pursuing a recovery approach that addresses the critical housing and other rebuilding needs of our citizens in the wake of Hurricane Katrina's devastation. Our goal is to demonstrate excellent stewardship of the funds we have been allocated, while rebuilding Mississippi better than it was before. We are well on our way to that goal.

At this point in the recovery process, the state has worked to fulfill the temporary recovery needs of our citizens, while developing solutions for the long term problems facing storm-wrecked communities. Much of the federal assistance needed to address the projects and policies identified in state and local plans has been procured. As such, the state now finds itself fully in the implementation and closeout phase of recovery.

The state has set aggressive goals for all our CDBG programs. And while we understand that our work to recover, rebuild, and renew will continue for years, we hope to quickly complete implementation of all our programs.

As our work continues, we appreciate the continued support our nation's leaders and the American people. Katrina revealed to the world and, even to us the character and spirit of Mississippians. That revelation has revealed unprecedented opportunity our state - opportunity for job creation and economic prosperity; for a better quality of life for our people; and for greater, more widely spread equity that at any other time in our history.

Indeed, much opportunity lies ahead. Hurricane Katrina, with all its destruction, gave birth to a renaissance in Mississippi that will result in rebuilding our state bigger and better than ever before. Our citizens will be at the heart of that renaissance. The people of our Gulf Coast have been a model of the spirit and character of Mississippians. They have remained strong, resilient and self-reliant though they have endured terrible hardships. They bore the worst of Katrina and some are still living in conditions that amount to deprivation, but they persevere. Our people are rebuilding one day at a time, and we ask for your continued assistance in helping them move forward. Through your efforts and the efforts of the people of our great state, we are rebuilding a Mississippi that will exceed anything we have ever known.

Thank You.

Testimony of James Perry
Executive Director,
Greater New Orleans Fair Housing Action Center and President of the Louisiana Housing Alliance presented to the
United States House of Representatives' Financial Services Subcommittee on Housing and Community Opportunity
May 8, 2008

Congresswoman Waters, Ranking Member Capito, and members of the Committee, thank you for the opportunity to testify today on the use of CDBG funds in Gulf Coast communities.

I am James Perry, Executive Director of the Greater New Orleans Fair Housing Action Center, a private non-profit that works to eradicate housing discrimination in New Orleans. We are the only full service fair housing organization in the state of Louisiana. I also serve as President of the Louisiana Housing Alliance, a statewide coalition of housing advocates, non-profit housing providers, homeless service providers, advocacy organizations and local housing coalitions. We work to insure adequate affordable and low-income housing opportunities in Louisiana.

There are several goals and mandates within the Community Development Block Grant program. Most importantly, CDBG is supposed to provide housing opportunities for low-income Americans, cause development in poor communities and affirmatively further fair housing. I regret to inform you, however, that CDBG allocations have not been successful on these fronts.

CDBG Allocation Process

Lack of oversight - Members of Congress will recall that when CDBG funding was initially allocated to Gulf Coast communities, some of the stringent program requirements were reduced or stripped from the allocation. The goal was to make the program expansive since a large cross-section of citizens suffered in the 2005 storms. In particular, the obligation that 70% of funds go to assist low-income residents was significantly weakened. Only 50% of funds were required to be used in a fashion that would assist low-income families. The result is that the majority of CDBG funding has been used to assist middle and upper income families, rather than low-income citizens.

For example, post-hurricane, Louisiana created the Road Home program. The program was designed to help both homeowners and renters. However, 86.2% of CDBG funding allocated by the state has gone exclusively to homeownership programs, which help citizens regardless of income. Only 13.1% went to affordable rental housing. This defies CDBG program goals since the majority of New Orleanians and particularly, low-income

New Orleanians and Louisianans were renters. Any attempt to assist low-income citizens must focus a major portion of its efforts on affordable rental. This scant allocation of funds makes it inherently difficult for CDBG dollars to benefit low-income citizens. In fact the situation remains that the Road Home Small Rental program, has to date provided only 13 units, when the state of Louisiana estimates a need for as many as 80,000 units.

The effect of the short falling is demonstrated in reports by Unity for the Homeless, a New Orleans non-profit. The organization estimates that prior to Hurricane Katrina there were approximately 6000 homeless residents. There are now more than 12,000 homeless citizens in New Orleans. If the Road Home Small Rental program were properly funded and managed, the number of homeless citizens would be significantly less. Better oversight of the use of CDBG funding could have prevented this failure.

The problem is exacerbated by the liberal nature of CDBG funding. The United States Department of Housing and Urban Development (HUD), charged with monitoring and managing CDBG, has little oversight and/or authority over CDBG grantees. In each case that post-storm CDBG grantees presented plans that didn't achieve CDBG goals or asked for waivers from the CDBG low-income requirement, HUD has simply granted the waivers regardless of whether the plan affirmatively furthered fair housing or provided adequate housing assistance to low-income citizens.

The matter was clearly exemplified in Mississippi recently. Consider the unfortunate decision by Mississippi to allocate $600 million of its CDBG funding to a port development program that would offer little or no assistance to low-income citizens. Secretary Jackson of HUD stated in casual conversation that he believed the allocation to be a poor use of CDBG funding. He indicated that if he had the authority to reverse the decision, he would have done so.

The matter was again exemplified in Alabama. The millions of dollars allocated to the state to assist Hurricane affected evacuees have yet to be expended nearly three years after Hurricanes Katrina and Rita. Better oversight would force local and state officials to allocate CDBG funding in a timely manner.

Recommendations

- *The problem of CDBG allocations being used for purposes other than assisting low-income residents is a national problem. Communities look for ways to use the funding that don't necessarily help the poorest citizens or affirmatively further fair housing. In fact, studies indicate that most CDBG assistance inures to the benefit of moderate and middle-income citizens. Congress should refrain from removing the 70% low-income requirement on CDBG funding. In addition to the overall 70% low-income cap, 40% of CDBG funds should be required to be used exclusively to benefit citizens at or below 50% of median income. These rules should remain consistent both in normal operations and in times of disaster.*

- *Congress should increase HUD's oversight of CDBG funding and make it easier for HUD to revoke or limit funding when CDBG grantees fail to assist low-income citizens, remove blight in poor communities, or affirmatively further fair housing.*

- *Hurricane affected states have not been forthcoming in releasing reports on CDBG allocations or HUD's grading of their use of the allocations. Congress should strengthen reporting requirements so that all CDBG reports must be provided on the Internet and at the immediate request of citizens as soon as they are available.*

- *Congress should immediately account for the short fall that left many renter families without shelter by immediately allocating money for and approving 3000 permanent supportive housing vouchers. The Senate Appropriations Committee will vote on such funds today, as part of its supplemental budget package. The House should also include funding for these vouchers in its supplemental budget bill.*

Fair Allocation of CDBG Dollars

After Hurricanes Katrina and Rita, the 109th Congress capped Louisiana's share of CDBG funding at 54% of the allocation despite the fact that Louisiana suffered nearly 80% of all the housing damage. Louisiana had more than four times the damage suffered in Mississippi, yet Louisiana received less than twice the amount of funding received by Mississippi. We support the recovery of our neighbors in Mississippi, but the disparity in allocation left needs in Louisiana significantly unmet.

If Louisiana had received the more than $20 billion that is proportional to the amount Mississippi received, the status of recovery might have been very different. More affordable rental units would be funded and more low-income citizens might have been helped. However, with scant federal resources available, the state was required to pick and choose who received help. In such circumstances, low-income citizens and citizens with special needs are rarely successful. Such has been the case in Louisiana. In addition, Louisiana has been placed in the undesirable position of having to consistently beg the Federal government for additional resources.

Recommendation

- *It is important that in the future, funding must be allocated exclusively according to proportional need. In addition, Congress should reconsider whether current funding in Louisiana and Alabama has met the need. If not, Congress should allocate additional CDBG assistance.*

Road Home Housing Program

Failure to Affirmatively Further Fair Housing/Discriminatory Practices - Another area that demonstrates the need for better federal oversight of CDBG fund usage is the Louisiana Road Home Homeownership Program. The program fails from a fair housing standpoint because it has a disparate discriminatory impact on African-Americans and other historically segregated communities of color. The program uses pre-storm home values to calculate renovation grant amounts. In communities of color that have historically low property values due to historic patterns of segregation, residents are paid lower grant amounts then their counterparts in majority white communities where comparable properties have higher values. Road Home grant payouts should be based exclusively on home replacement/repair costs rather than property value. This process would be less discriminatory and better enable citizens to rebuild.

The State of Louisiana, ICF International (the Road Home contractor) and the Louisiana Recovery Authority (LRA) have all been made aware of the discriminatory impact of the program, yet the problem persists. Some advocates have suggested that an aspect of Louisiana's decision to ignore the problem may stem from the lack of a clear enforcement mechanism in the CDBG "affirmatively further fair housing," clause. Some Grantees have treated the language as dicta rather than a legal requirement. Advocates may be forced to pursue litigation to correct the problem.

Recommendations

- *Congress should use any authority available to force the Road Home Homeownership Program to adopt a less discriminatory process for awarding grants.*

- *Congress should provide more tools and language to enforce the "affirmatively further fair housing," provisions of CDBG laws and regulations.*

- *Congress should hold hearings on the discriminatory effect of the Road Home Homeownership Program*

Poor Use of Funds - The Road Home program has increased performance since the fourth quarter of 2007. It has awarded more grants at a more frequent rate. However, significant problems in the Road Home program persist. The problems are too numerous to enumerate in this testimony. However, I will provide some exemplary issues.

LRA has unnecessarily shifted CDBG funds intended for Road Home homeowner grants to a home elevation program that most homeowners will not and have not been able to take advantage of because it does not provide enough money to actually raise an average house in Louisiana.

The Road Home program lacks a fair and efficient appeals program. Advocates assisting Road Home grant recipients with appeals have found that the appeals process is nearly impossible to navigate because: Road Home officials are slow to release internal information related to clients' grant calculations; the appeals process and procedure is not clearly enumerated or publicized; conflicting Road Home policies thwart the appeals process; processing delays slow the appeals process; the appeals process is not firmly related to basic legal and administrative principles for deciding appeals; and appeals are not decided by a disinterested independent party.

The Additional Compensation Grant portion of the Road Home, which is meant to help low and moderate income homeowners rebuild, does not provide enough money to eligible applicants to make up for the gap between their homes' pre-storm value and actual repair/replacement costs. The result is that a large numbers of low-income citizens have received only part of the money necessary to rebuild. The national credit crunch combined with the fact that credit ratings of Gulf Coast citizens suffered during the months after the Hurricanes have made it difficult for low-income citizens to use the private lending market to fill the gap left open by the Road Home program's inefficiency. The result is that numerous citizens are left with partially renovated homes and no financial means to complete the renovations.

Finally, the Road Home and individual parishes have vague plans on how they intend to dispose of storm-damaged properties acquired by the Road Home program. The lack of clarity on the future of these properties limits citizens' ability to make informed decisions about their communities.

In spite of these failures, the State of Louisiana increased payments to ICF International (the contractor that manages the Road Home program) despite documented evidence of massive contractor error.

Recommendations

- *Again, Congress should increase federal oversight of CDBG funding to insure efficiency.*

- *In the planning process, CDBG grantees should be required to provide exhaustive details of how CDBG funding will be spent. Louisiana's plan for the expenditure of more than $12 billion dollars of CDBG money was less than 20 pages long. The result is that few people, including state officials, have a clear understanding of how program dollars are being spent.*

Road Home Rental Program

The Road Home Small Landlord program has failed to have any relevant effect on Louisiana's recovery. The program is simply not replacing lost rental housing stock. To date, the state has received applications to restore 12,800 units but a mere 13 units have been restored in the more than 2 ½ years since Hurricane Katrina.

The program requires that property owners get private financing and fully complete repairs prior to receiving funding. Of course, if landlords were able to get private funding, they would have no need for the program's assistance. The requirement that renovation be complete before any funding is allocated has caused the complete failure of the program. The LRA, not understanding the cause of the failure, has sought to redirect program funding to other areas. The problem is extremely important since LRA estimates that the state needs an additional 60,000 to 80,000 rental units to complete its recovery. The failure of this program exacerbates the affordable rental housing problems in Louisiana and prevents thousands of renters from returning to their communities. LRA must revamp this program to make it more lucrative and provide some upfront funding to landlords.

Recommendations

- *Again, Congress should increase federal oversight of CDBG funding to insure efficiency.*

Discrimination by Municipalities that Receive CDBG funding

Many of the rental units scheduled to be redeveloped are using the Low-Income Housing Tax Credit (LIHTC) and CDBG funding. The process of rebuilding affordable rental housing has been extremely difficult, because Louisiana municipalities have sought to limit the construction of affordable housing. Anti-affordable housing efforts, often termed "not in my backyard" (NIMBY) have slowed and in some instances stopped the development process.

One example occurred in Jefferson Parish where the Parish engaged in discriminatory zoning efforts that made it impossible for the Volunteers of America to build an apartment complex to replace a complex lost in the storm. The would-be occupants of the new complex were low-income elderly New Orleanians, most of whom are African-American. The Parish passed a resolution expressly requesting that no LIHTC developments be constructed on the westbank of Jefferson Parish. It later engaged in a land-use study at the site of the proposed development, timed to kill the project. The project is now dead and the low-income elderly, mostly African-American residents, for whom the project was intended, have been left without an affordable housing option. During the same period, the Parish approved and championed a high-end, market rate, multi-family complex for elderly citizens. The actions taken by the Parish certainly demonstrate a failure to affirmatively further fair housing. In fact, they likely constitute illegal discrimination under the federal Fair Housing Act.

Kenner City, located in Jefferson Parish, recently passed a moratorium on the construction of any multi-family housing in the City. The ordinance, which we are aggressively advocating against, prevents any LIHTC construction in the City. The talk of the ordinance came up after residents raised concerns about a storm damaged apartment complex that housed mostly Latinos and families with children. The moratorium on multi-family housing is likely illegal discrimination under the federal Fair Housing Act.

In similar fashion, a city council person for New Orleans East sought to prohibit the construction or renovation of any multi-family housing with two or more units in her district. The district housed a large portion of the City's affordable rental housing. African-Americans, people with disabilities and families with children comprise a large portion of the number of people who rely on the apartment housing in New Orleans East. The proposed ban was withdrawn prior to being voted on by the Orleans City Council. It however demonstrates discriminatory intent by the Council member.

In the Fall of 2007, St. Bernard Parish passed an ordinance making it illegal to rent single-family homes to people not related by blood to the owner. 93% of homeowners in St. Bernard are white. As a result, few if any minorities would be able to rent housing in St. Bernard. My organization, the Greater New Orleans Fair Housing Action Center, sued the St. Bernard Parish Council to force them to overturn the ordinance. The litigation resulted in the successful reversal of the ordinance. The ordinance was illegal discrimination under the federal Fair Housing Act and certainly failed to affirmatively further fair housing.

The State of Louisiana, post-Hurricane adopted a new building code but removed all the provisions that would have forced developers to build multi-family units in a manner that was accessible for people with physical disabilities. This is a failure to affirmatively further fair housing.

These examples are a mere sampling of post-Hurricane discrimination by municipalities that benefit from CDBG funding. When considered with the previously demonstrated racially discriminatory formula used by the state of Louisiana to determine Road Home homeownership grant amounts, it is clear that CDBG funding is not being used in a manner that affirmatively furthers fair housing. In fact, each entity is likely liable for violating federal fair housing laws.

This is exacerbated by the fact that the state of Louisiana, and nearly all municipalities (except Baton Rouge) have failed to engage in any fair housing related activities. None of the entities have supported any fair housing related activities, trainings, workshops, events, enforcement or fair housing organizations. The sole voice of the fair housing movement in Louisiana has been the six-person staff of the Greater New Orleans Fair Housing Action Center through its enforcement work and outreach efforts with partners such as the Urban Restoration Enhancement Corporation, the Louisiana Disaster Recovery Foundation, HUD, and an upcoming anti-NIMBY campaign with the Louisiana Housing Finance Agency.

It is important to note that the case is similar in Texas, Mississippi and Alabama. None of these states have engaged in any activities that affirmatively further fair housing. In

Mississippi, one municipality has bucked the trend by providing funding to the Mississippi Gulf Coast Fair Housing Center.

Recommendations

- *Congress should immediately strengthen the affirmatively further fair housing language in the CDBG regulations and laws so that municipalities can be fined and otherwise penalized for failing to affirmatively further fair housing.*

- *Congress should immediately strengthen CDBG requirements so that municipalities found liable to for illegal housing discrimination will be forced to forfeit CDBG funding.*

- *Congress should strengthen HUD's ability to enforce fair housing related CDBG regulations.*

- *Congress should require HUD to strengthen its enforcement of CDBG related fair housing laws.*

- *Congress should require municipalities to engage in specific activities that further fair housing.*

- *Congress should require CDBG grantees to fund private fair housing enforcement non-profits.*

- *Congress should require all staff of all municipalities that will manage CDBG funding to participate in fair housing law trainings.*

- *Members of Congress should conduct hearings to investigate the extent of illegal discrimination by CDBG grantees along the Gulf Coast.*

Additional Recommendations

- *Passage of an Affordable Housing Fund to support the production and preservation of rental housing affordable to extremely low income families and direct the resources to states where the housing supply has been affected by the Gulf Coast hurricanes for the first year.*

- *An additional allocation of GO Zone tax credits of $30 million annually for a period of five years to fund projects in the GO Zone;*

- *An increase in the State's annual allocation of Per Capita Tax Credits from $8.6 million annually to $18 million annually for a period of five years to fund projects in rural and metropolitan areas of the state affected by GO Zone out-migration;*

- *An allocation of $500 million of GO Zone Mortgage Revenue Bonds to promote ownership and rental housing in the GO Zone;*

- *Authority to use Single-Family Mortgage Revenue Bonds to refinance mortgage loans that are at risk of foreclosure;*

- *An increase from $15 million annually to $30 million annually for five years in its annual allotment of HOME funds to fund homeownership and affordable rental opportunities in GO Zone and non-GO Zone areas for persons earning less than 80% of AMI. 50% of the allocation would be reserved for citizens earning less than 30% of median income.*

- *$30 million in annual allotments of CDBG funds for five years to fund homeownership and affordable rental opportunities for persons in GO Zone and non-GO Zone areas earning from 0% to 100% of AMI. 33% of the allocation would be reserved for citizens earning less than 30% of median income.*

- *Additional federal funds for Regional Planning, and Community Development Training.*

- Respectfully submitted by James Perry

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Presented to the House Financial Affairs Subcommittee on
Housing and Community Opportunity,
United States House of Representatives

Emergency CDBG Funds in the Gulf Coast: Uses, Misuses and Lessons for the Future
May 8, 2008

Introduction

Honorable Chairwoman Waters, Ranking member Capito, and members of the Housing Subcommittee, thank you for the opportunity to speak before you today regarding CDBG funding, affordable housing and fair housing in Florida and the Gulf Coast. My name is Leslie Powell, a Senior Attorney with Legal Services of North Florida. I practice in our Pensacola office, which, as you may know, received a direct hit in both 2004 and 2005 from Hurricanes Ivan and Dennis respectively. I previously practiced with Legal Services of Greater Miami in both Miami and Key West. I received by BA in Political Science from North Carolina State University and my Juris Doctor in 1995 from the University of North Carolina – Chapel Hill.

Florida's Use of Emergency CDBG Funds

Having seen the effect of hurricanes in both 2004 and 2005, I am in a unique position to assess the effectiveness of the provision and use of emergency CDBG funds. In short answer to the questions posed to me, the hurricanes stymied the growth of affordable housing in Florida. The emergency CDBG funds have been essential to statewide efforts toward promoting affordable housing back to the level prior to 2004. In coming years, dedicating funding to strengthen existing housing stock would proactively limit future damage and the high costs that follow a hurricane.

Florida lost an enormous amount of affordable housing stock as a result of the 2004 storms. Not only was rental housing available only at a premium, but the loss of single-family homes served as a contributing factor to the increase in housing prices. Coupled with rising insurance rates and property taxes, homeownership is both hard to hold on to and more difficult to attain. As a result of the lack of rental housing, low income families could not find adequate housing and were forced to live in substandard conditions for extended periods of time. [1]

Following the 2004 hurricanes, the Governor convened a Hurricane Housing Work Group to develop a housing response to devastation. What was unique about this workgroup is it was extremely broad-based including not only legislators, business and government representatives, but also community advocates, legal services advocates and housing specialists. This group evaluated where housing had been lost, the types of families who were most affected and the full range of housing solutions that were available. There was a commitment to combine the federal funds with State housing funds in a comprehensive and focused approach to the housing loss.

The information they gathered demonstrated the size of the loss. More than 700,000 homes were damaged in 2004 in Florida because of the hurricanes. But more importantly it demonstrated who was most affected by that loss. Based on FEMA statistics, about 400,000 of those affected earned annual incomes of less than $30,000. Of those deemed by FEMA to have inadequate insurance – thus making them eligible for FEMA structural assistance – 53 percent had annual incomes of $20,000 or less, and 74 percent had incomes of no more than $30,000.

The poverty of those who lost their homes had a real impact on the Working Group. The members understood that the state housing response would have to have a major focus in assisting the poorest and most vulnerable. The impact of this real data, filtered through a statewide lens, was a solid list of well-founded recommendations. These recommendations prioritized the need to address affordable housing head on, using funds from all the various sources including the emergency CDBG funds. Recommendations focused on help for the extremely low income, lost rental housing, farmworker housing, and housing for elders, homeless and persons with disabilities. Accordingly, implementing agencies like the Department of Community Affairs have been able to fashion their programs to direct that the emergency CDBG funds, more likely than not, went toward affordable housing. Indeed, the housing program changes that resulted from that data have influenced state housing programs to this day.

Lessons Learned

Providing for flexibility in the uses of the CDBG funds benefited everyone, including the low income community. In 2004 Florida requested and received a waiver to allow fifty

[1] As a result, Escambia County, in particular, lost a significant amount of necessary Section 8 voucher funding. Continued funding has been based on the number of vouchers used in 2004, 2005, 2006, when the

percent of the CDBG funds to be used for infrastructure. While allowing a larger percentage of the CDBG funds to be used toward infrastructure may seem counterintuitive to the goal of affordable housing, it is difficult to restore a vital housing market without the necessary infrastructure. However, Florida did not need to request a waiver in future years and even in 2004 reducing the amount of CDBG funds available for housing to lower than 50 percent would have been harmful to the objectives of the CDBG.

This group also recommended that efforts be made to support local planning and development offices in order to speed recovery efforts. Low staff in permitting and inspection functions slowed recovery efforts as did lack of sufficient contractors. This was particularly true after the 2005 storms hit in the more westerly Gulf Coast states.

One recurring theme in the recommendations was the need to prepare for future disasters, included training government workers on both the state and local level to improve the ability to assess these needs more quickly; training non-profit, volunteer and faith-based organizations to improve the community response; and creating a clearinghouse of information for consumers on financial assistance, financial literacy and other public and community supports.

In 2005, the state knew what information it needed for a complete needs assessment. The DCA applied this data to the workgroup's recommendations from earlier in the year, again using a combination of CDBG funds and other sources to address the loss of

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rental stock was particularly limited and, therefore, unavailable to low income families.

affordable housing directly. Rather than requesting a waiver, the state enforced the requirement that 70 percent of the CDBG be allocated to the restoration of affordable housing. In fact, the DCA allowed its action plan to be fluid, amending it in 2006 to include a focus on maintaining Florida's existing housing stock. Mitigation funds have been aimed at PHAs to help prevent the extreme loss of affordable housing stock we've seen in the past few years.

While efforts should be made to speed up the recovery process, those efforts will combat market forces. It is important that funders take a long term view in assessing recovery particularly with respect to housing. In speaking with government entities since the storms, they often received no bids in response for proposals, or limited bids at higher cost. Today, the market seems to have corrected for this, however, in the months following a storm, the law of supply and demand seems to minimize the ability to utilize funds for needed housing recovery.

As to fair housing issues, proposals addressing how to use these funds to affirmative further fair housing objectives seem absent in these recommendations. While the state comprehensive plan includes a very detailed set of recommendations to further fair housing goals, the simple need to restore and repair housing seems to have overshadowed the discussion of fair housing principles. That is not to say that it was ignored, but this opportunity to raise fair housing ideals may have been missed.

As a recipient of funding under HUD's Fair Housing Initiatives Program beginning in 2006, we observed that those forced into substandard housing tended to be persons with disabilities, families with children, persons of color, and individuals and families of "minority" ethnic backgrounds.

As a result of the collaborative efforts of the workgroup and the wisdom of the state to implement its recommendations, Florida was better prepared for the 2005 hurricane season and continues to work toward preparedness for future storms. The state has implemented a mitigation program to use public funds to reinforce structures. Locally, we have collaborated with community development entities to assist low-income households with title clearing issues. [2] Local entities formed to focus on disaster-preparedness and education efforts operate year long. Continued disaster related CDBG funds could be used to support these efforts.

Ultimately, however, more funds are needed, both in the wake of a disaster and ongoing, to develop more affordable housing, to maintain and strengthen that housing, and to maintain and strengthen the infrastructure of the communities that rely on that housing. We will not be able to stop another hurricane, but we can take affirmative steps to avoid the extensive damage to affordable housing suffered in 2004 and 2005. We can't afford to allow the storms to set back affordable housing initiatives again.

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[2] Lack of clear title made some "homeowners" ineligible for FEMA assistance, and also prevents them from accessing rehabilitation funds or insuring their own properties. Reliance on government assistance could be reduced if private insurance were obtainable for these families. Homes could be made stronger if they were able to access the mitigation assistance.

STATE OF FLORIDA

DEPARTMENT OF COMMUNITY AFFAIRS

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Governor

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Secretary

MEMORANDUM

TO: Clerk, Committee on Financial Services
Subcommittee on Housing and Community Opportunity
2128 Rayburn House Office Building
Washington, D.C. 20515

FROM: Gail D. Stafford, Interim Administrator
Florida Small Cities Community Development Block Grant (CDBG)
and CDBG Disaster Recovery Programs

SUBJECT: State of Florida's Testimony, Thursday, May 8, 2008
Hearing on "Emergency CDBG Funds in the Gulf Coast: Uses, Challenges, and Lessons for the Future"

DATE: May 8, 2008

My name is Gail Stafford, and I am the administrator of the Florida Small Cities CDBG and CDBG Disaster Recovery Programs for the State of Florida.

Although our agency head could not be here this morning, Florida's CDBG Disaster Recovery Program's success is due largely to the support of state government management and local government input. The Secretary's Office and the Director of the Division of Housing and Community Development, which oversees the State's CDBG Program, have been directly involved in all disaster recovery efforts. Likewise, local governments are at the table when CDBG recovery plans are developed. Local governments, as well as 16 public housing authorities, were the recipients of Florida's CDBG Supplemental Disaster Recovery funding.

In 2004, the State of Florida was battered by Tropical Storm Bonnie and Hurricanes Charley, Frances, Jeanne and Ivan. All 67 counties were impacted within a two-month period, including the Gulf Coast counties.

- Homes and infrastructure were damaged and destroyed.

- Mobile home owners, especially those living in homes manufactured before 1994, suffered the most devastation.
- Plastic sheeting and tarps for 55,670 and 481,513, respectively, were immediately necessary.
- Thousands lost their homes completely.
    - Governor Jeb Bush reacted immediately by appointing a Hurricane Housing Work Group.
    - Housing data provided by the Work Group indicated that 708,361 housing units were destroyed.

- At least 10 hospitals sustained damage.
- Schools, nursing homes, and government buildings were damaged across the state.
- Other infrastructure damage was also significant.
- A portion of the U.S. Interstate Highway 10 bridge collapsed, and numerous streets and roadways were damaged or destroyed.
- Water and sewer systems failed and utility systems, both publicly and privately owned, were damaged.

The state targeted about $250 million in general revenue funds to address housing needs. However, these funds alone were not sufficient.

Thankfully, Congress allocated just over $100.9 million in Supplemental CDBG funds for Florida's recovery efforts. The funds were used for both housing and infrastructure recovery, since infrastructure damage directly affects people. Local governments determined the priority needs to be addressed in their communities.

During 2005, four hurricanes impacted the State of Florida.

- In July, Hurricane Dennis struck the Florida Panhandle, which was still recovering from the devastation caused by Hurricane Ivan less than a year before.
- In August, Katrina hit just north of Miami, causing tornadoes and wind damage in Southeast Florida.

- In September, Rita passed just south of the Florida Keys, causing flooding and storm surge in the chain of islands.

- In October, Wilma struck the southern peninsula of Florida, causing major damage in Southwest Florida, the Florida Keys and heavily populated counties in Southeast Florida.

    - Hurricane Wilma caused the largest disruption to electrical service ever experienced in Florida, with as much as 98 percent of South Florida without power after landfall.

    - By the end of the 2005 hurricane season, 39 of Florida's 67 counties had been declared a federal disaster area.

    - Housing related damages from Hurricanes Katrina and Wilma were estimated at $1.5 billion with more than 464,710 units affected.

    - More than 40,000 roofs were temporarily repaired through the Army Corps of Engineers "Blue Roof" program.

    - More than 625,000 Floridians registered for FEMA assistance.

Due to quick action by Congress, Florida received $82.9 million in CDBG Disaster Recovery funds.

- Our State required that grant recipients utilize at least 70% of their funding for the restoration of affordable housing.

    - The remaining 30% could be used to address damaged infrastructure or provide assistance for displaced and economically impacted businesses.

- The State's allocation methodology was based upon FEMA housing damage estimates and targeted funding to the "hardest hit" areas.

The scoring mechanism took four indicators into consideration:

1. Percentage of units damaged in each county (based on verified FEMA inspections)

2. Percentage of the state total of destroyed units in each county (again, based on verified FEMA inspections)

3. Percentage of a county's damaged units attributed to households with incomes up to $30,000, to measure level of low income need

4. Percentage of the State's total of temporary units that were placed in each county

A supplemental CDBG Disaster Recovery allocation of $82.9 million to address Katrina and Wilma damage was received in 2006.

Because Wilma damage had not been sufficiently addressed, these funds targeted Wilma recovery needs.

- Wilma alone impacted 275,437 housing units.
    - Of these, 119,038 Wilma damaged units were estimated to be lived in by homeowners/renters with annual incomes at or below $30,000.
- More than $4.6 billion in insurance claims were filed for Wilma damage alone.

HUD subsidized rental units were hit hard by the disaster.

- Of the 17,804 HUD subsidized units in the Wilma counties,
    - 2 developments reported severe damage with relocations
    - 61 households required temporary relocation, and
    - 134 developments reported damage.
- Of the public housing units in the area,
    - 4,974 units reported damage with the units remaining habitable
    - 401 units reported severe damage and were uninhabitable, and
    - 393 households were displaced.
- Approximately 600 multi-family units financed by the Florida Housing Finance Corporation also received minor damage.

Because of the needs of public housing authorities and other multi-family rental units, $20.3 million was set-aside to specifically address multi-family rental housing.

- Just over $10 million went to local governments for multi-family rental housing.
- The remaining $10 million went to 16 public housing authorities for subsidized multi-family rental units.
- Other CDBG Disaster Recovery funds targeted infrastructure needs, particularly those related to housing.

Clerk, Committee on Financial Services
Subcommittee on Housing and Community Opportunity
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The State of Florida believes that traditional CDBG activities can restore much of the damaged and destroyed housing and infrastructure following a catastrophic weather event.

Our Program focused on a reinvestment of resources into affordable housing, rather than compensation to individuals, and the restoration of infrastructure in low income areas.

- All units addressed with CDBG funds were required to be owned or occupied by low-and-moderate income persons since this population group traditionally does not have the personal resources and insurance needed to recover from the loss of their homes.

- Damaged units were required to be brought up to the minimum building code or Section 8 Housing Quality Standards to ensure that they would be strong enough to withstand storms in the future.

    - Repairing and bringing substandard units up to the minimum building code allows us to retain affordable housing that might otherwise be lost.

- With the rehabilitation, mitigation was encouraged.

- Flood and drainage systems were improved to prevent as much future flooding as possible in communities that experienced the most damage from flood waters.

- Homes that could not be repaired were replaced.

The State required each local government receiving funds to affirmatively further fair housing through the use of public newspaper notices advertising the availability of funds, and housing assistance plans that incorporated fair housing practices.

- Each local government receiving funding is required to conduct a fair housing activity each year of the grant.

- Statistical data on the beneficiaries served by the program clearly indicates that minorities, households headed by women, the elderly and the disabled received assistance.

Because the needs of the low and moderate income population group were significant, the State had no difficulty meeting CDBG's low/mod national objective.

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Challenges

1. The primary challenge that the State and local governments had was that there were not enough funds to assist everyone, and communities were not able to make all the mitigation improvements – such as strengthening of roofs, fortified windows and doors, and flood and drainage improvements - needed in order to ensure that fewer homes are affected by hurricanes in the future.

2. Unmet need in Florida is measured by cost burden.

   - In 2005, 545,121 rental households in Florida or 25.7% of all rental housing had a cost burden above 30% rent to income and income below 50% AMI.

   - In 2005, 491,889 owner occupied housing units or 9.8% of all owner occupied housing units had a cost burden above 30% and income below 50% AMI.

     - These statistics indicate that about 30% of the state's households need some type of financial assistance for housing or more affordable housing costs.

   - Added to the cost burden are ever increasing property taxes.

3. The State feels that disaster recovery housing programs would benefit by exempting rehabilitation of damaged units from the environmental review process since this delays getting the dollars into communities. These activities include housing rehabilitation and other improvements and restorations, but do not include new construction.

   Since the units were in place prior the storms, and households need to get back into their homes as quickly as possible, the environmental requirements do not seem to be appropriate in the situation where the home is being rehabilitated, especially when people have been displaced by a disaster. The homes being rehabilitated are on the same site and have been there for many years, it is unlikely that any adverse environmental impact would occur.

   The State of Florida would like to see Congress and HUD waive the environmental review requirements for all activities that are now considered categorically excluded. These activities include housing rehabilitation and other improvements and restorations, but do not include new construction.

   The State agrees that projects for new construction, whether housing or infrastructure, should be subject to environmental review even when the project is part of a disaster recovery effort.

4. Florida, like many states, has a significant amount of substandard housing. Housing in counties that were not drastically affected by the storms in 2004 and 2005 is still subject to be hit in the future.

    - Rehabilitation and mitigation funding is needed to strengthen housing for the low-and-moderate income population that reside in every Florida county.

    - There are still families whose homes were damaged or destroyed in 2004 and 2005 that need assistance. Upon completion of the current activities, the CDBG Program will have a better estimate of how much more funding it needs, but is clear at this point that more funding will be needed to help low-and-moderate income persons.

Summary

The State of Florida has received three allocations of Supplemental CDBG Disaster Recovery funding since the hurricanes of 2004 and 2005 occurred. While much damage occurred as a result of Katrina and Wilma, other hurricane damage was also significant.

Florida considers the CDBG Disaster Recovery funding to be a significant part of the long-term recovery effort and believes that its continuation through the U.S. Department of Housing and Urban Development is vital. The CDBG program is a good mechanism for delivering the activities needed to meet long-term recovery needs, and the structure for the delivery of services is already in place, which is important when crisis strikes. CDBG funds result in direct investments to our communities, mitigates potential hazards, and improves the way of life for Floridians.

The Council of State Community Development Agencies (COSCDA), the national association of state community development agencies, recently convened a meeting of several states from the Gulf Coast to discuss issues, recommendations and concerns about improving statutory and regulatory requirements related to disaster recovery programs. The State hopes that COSCDA will share the results of the meeting with the Subcommittee as a follow up to this hearing.

Thank you for your consideration of Florida's needs. If you would like additional information on our activities, please contact my office at 850/922-1885 or email gail.stafford@dca.state.fl.us.

SUBMITTED TESTIMONY TO
SUBCOMMITTEE ON HOUSING & COMMUNITY OPPORTUNITY
HOUSE COMMITTEE ON FINANCIAL SERVICES

BY THE EQUITY & INCLUSION CAMPAIGN

MAY 8, 2008

Chairwoman Waters, Members of the Committee, thank you taking the leadership to hold this oversight hearing on CDBG as it relates to Gulf Coast recovery. In particular, we would like to thank the leadership of Congresswoman Maxine Waters for continuing to keep Gulf Coast recovery on the legislative agenda.

The Equity & Inclusion Campaign is submitting this written testimony as part of a broad-based coalition of over 100 organizations advocating for fulfillment of the federal commitment to aid in the full recovery of the Gulf Coast. The Campaign is an initiative of the Louisiana Disaster Recovery Foundation (LDRF). Madame Chairwoman, the Campaign was first introduced to you, Congressman Al Green, Congressman Albio Sires and Congresswoman Judy Biggert by LDRF during oral testimony given during New Orleans field hearings conducted by your subcommittee in February, 2007.

Madame Chairwoman, the Campaign would like to thank you and Congressman Bennie Thompson, Congressman Bill Jefferson, Senator Mary Landrieu and others for being vigilant in the Congress to continue to advocate on behalf of Gulf Coast recovery.

The Equity & Inclusion Campaign has also been vigilant. As a public policy and public messaging effort, it draws together grassroots leaders from Louisiana, Alabama, and Mississippi to combine their voices and coordinate their efforts to promote **equity toward full recovery of the effected Gulf Coast** and **inclusion toward ensuring that all local residents have an equal voice**. At this hearing today, you will receive testimony, both oral and written from some of these grassroots leaders that are part of the Campaign.

As has been widely reported, the bulk of the most effective recovery work in lower income communities is being done by nonprofits, congregations, and individuals. Yet, no matter how heroic or effective the efforts of local nonprofits and faith-based groups, they cannot mend this region alone. The scope of the reconstruction in the four states devastated by hurricanes Katrina and Rita also necessitates the investment and successful deployment of billions of dollars in federal support and the continual engagement of the federal government to ensure that investment reaches those most in need.

With the focus of today's hearing being the oversight of the Community Development Block Grant (CDBG) program, we want to state our overarching concern about how the whole CDBG process: budget, allocation, local administration, and accountability is being addressed. We have strong reservations about how the CDBG program, which is the vehicle used to deliver the largest amounts of recovery dollars to the four devastated states, is not being used to serve those left vulnerable after hurricanes Katrina and Rita.

Donald E. Powell, former Federal Coordinator for Gulf Coast Rebuilding stated earlier this year "HUD, through the leadership of Secretary Jackson and his team, has continued to quickly and efficiently push money out the door to help drive long-term rebuilding of the Gulf Coast". With this statement we question both the former leadership of Secretary Jackson and also the practice of pushing money out the door without adhering to a process of full accountability. As we saw the approval of numerous waivers to CDBG dollars meant to help recover devastated communities, those are the very communities that continue to suffer and are ignored by state government. The most recent waiver in Mississippi diverted more than $600 million recovery dollars to expanding the Port of Gulfport while thousands of homeowners and renters continue to suffer.

We would like to briefly address the four areas of the process: budget, allocation, local administration, and accountability. We will leave it to our local grassroots leaders from Louisiana, Alabama, and Mississippi to talk about specific problems with the process in their respective States.

Budget

According to the Center on Budget & Policy Priorities, HUD provisions of the Consolidated Appropriations Act of 2008 (or omnibus) as derived would trim about $ 1 billion. As a result, total funding for HUD programs in 2008 would be $273 million below the 2007 level. Although it represents a significant improvement over the President's budget request of $ 38.7 billion, additional funding is essential. Any cutbacks will place an additional burden on the Gulf Coast already struggling desperately to recover from Katrina and Rita, and the twin challenges of the mortgage foreclosure crisis and economic slowdown.

- **Congress should provide up to $ 6 billion more to prevent losses of housing and community development assistance to low-income communities that cannot be used for other purposes or subject to waiver.**

- **Congress should maintain the present funding level of CDBG at $ 3.59 billion.**

Congress should not adopt the President's request to cut funding by 18% or $ 659 million to $ 2.9 billion. Additionally, the block formula should be closely scrutinized for the Gulf Coast states before any additional waiver authority is provided.

Allocation

This year marks the 75th anniversary of both the United States Conference of Mayors (USCM) and the National Housing Conference (NHS). Both organizations have provided national leadership toward ensuring that the CDBG program serves as a vital resource to cities, counties and States as they work to address their unique housing, community, and economic development needs.

USCM and it's sister organization, the National League of Cities have raised concerns about CDBG allocations not being directed to mayors of the Gulf Coast in the most need of these funds. During the 2007 National League of Cities Annual Conference in New Orleans, a number of Gulf Coast mayors voiced their concern about CDBG not being spent to help communities in vital need of resources for recovery.

A survey released last year by USCM, NHS, and 20 other organizations found that CDBG grants have been cut by 10 percent in 2006 and 5 percent in 2005. This has had a substantial negative effect on entitlement communities and states. Additional cuts would make it nearly impossible for Gulf Coast communities to survive.

Moreover, because only 70% of CDBG funds received by a jurisdiction must be spent to benefit people with low and moderate incomes, it leaves low-income communities short on resources in States with a large concentration of poor people; like Louisiana, Alabama, and Mississippi. Although the remaining 30% can be apportioned to disaster recovery that priority must be set by the federal government.

The National Low Income Housing Coalition (NHLIC) serves the umbrella for national advocacy groups addressing the housing needs of low income communities. NHLIC has carefully studied the CDBG "funding formula" and recommends a proposed change in the allocation formula.

- **Congress should entertain a formula change that redistributes funds away from wealthier jurisdictions to poorer jurisdictions. It should pay special consideration to Gulf Coast communities struggling to recover.**

NLIHC recommends that 100% of CDBG funds benefit households with income at or less than 80% of AMI and at least 40% benefit households under 50% of AMI. NLIHC proposes that CDBG funds should not be used to pay for standard municipal functions that the jurisdiction is already providing for non-CDBG eligible households (and review of HUD's existing maintenance of effort clause and enforcement thereof).

Local Administration

Governors, like mayors, use CDBG directly for the small and rural areas of their states based on a non-entitlement basis. This is particularly true in Louisiana, Alabama, and Mississippi. The availability of these funds is an essential component of efforts by States to leverage additional resources. The National Governors Association (NGA) supports all efforts to support sustainable and affordable housing; especially in rural areas and smaller municipalities.

- **National Governors Association recommend that Congress help improve the capacity of State and other local government to effectively administer the CDBG program with a predictable stream of funding for training and technical assistance of CDBG grantees.**

Accountability

The Government Accountability Office (GAO) has been studying CDBG and its present formula. As HUD as stated, the present formula has essentially stayed the same since 1978. Additionally, the process of HUD waiver authority has not undergone substantial review (since the HUD Reform Act). Last year, GAO presented its draft findings of its analysis to the National Academy of Sciences in order to receive feedback.

- **Congress should review the National Academy of Sciences assessment and direct HUD to proposal formula changes and review waiver authority administrative practices with an opportunity for public comment.**

Besides the above recommendations, the Equity & Inclusion Campaign will continue to work with its local grassroots leaders to insure transparency about the process. CDBG is critical to Gulf Coast recovery; especially for low-income communities. The entire CDBG process from budgeting, through allocation, local distribution, and accountability should be transparent for every jurisdiction and the public. There should be a specific effort by the Governors of Gulf Coast States to provide the public; especially those communities affected by CDBG-funded projects with the CDBG Annual Action Plan and the latest Grantee Performance Report.

Since 1974, the CDBG program has served as a vital resource to help cities, counties, and States meet their unique affordable housing, and community and economic development needs. HUD has allocated more than $ 116 billion to help support their own particular needs. In the past, it has provided important resources and support to the Gulf Coast States during times of recovery from past storms.

As Gulf Coast communities continue to struggle to recover and become whole again, HUD should not be the cloud that hangs over the heads of these communities. Let us be honest and fair and promote equity and inclusion.

Ashley Kennedy Shelton
Chairperson
Equity & Inclusion Campaign

Jainey Bavishi
Manager
Equity & Inclusion Campaign

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June 6, 2008

Subcommittee on Housing and Community Opportunity
2344 Rayburn House Office Building
Washington, DC 20515-0535

Dear Congresswoman Waters and members of the Subcommittee,

Thank you again for the opportunity to testify before your subcommittee on May 8, 2008. We appreciate your interest and continued support as we work to rebuild the homes, communities and lives of those impacted by the costliest disaster in our nation's history. We share your values and your concerns regarding our most vulnerable populations as we work through this recovery, and we have been conscientious in the design of our programs. We appreciate your oversight and any further suggestions your subcommittee may have to help us better serve those most in need.

Attached are the responses to the additional questions provided by the subcommittee. The bulk of these questions are centered on our efforts in furthering fair housing and the status of our Analysis of Impediments (AI). As a matter of background, it should be noted that prior to the hurricanes, we had 14 entitlement areas including some of the most impacted parishes such as Orleans, Jefferson, St. Tammany and Lake Charles each responsible for its own AI. The State office was responsible for the balance of state. With the Disaster Recovery Funds now flowing through the State, we recognize and accept the responsibility for conducting an AI that is statewide and focuses on the most impacted areas. These efforts are ongoing. Please see the attached response to your questions and do not hesitate to contact me if you have further questions, comments or concerns.

Sincerely,

Paul Rainwater,
Executive Director

Response to Questions for Louisiana
from the Subcommittee on Housing and Community Opportunity
Prepared by
the Louisiana Recovery Authority and the Office of Community Development

1. ***What instructions did the state receive from HUD regarding fair housing?***

The State was directed by HUD to conduct a statewide Analysis of Impediments (AI) to determine the current situation in respect to fair housing in the State. This would be a statewide analysis with emphasis on hurricane impacted areas, whereas in the past, the Office of Community Development was focused on the non-entitlement areas of the state. In terms of affordable housing, HUD directed a minimum of 19.33% percent total funds be used for affordable rental housing in the most impacted areas, or a minimum of $811,907,984 (as per Federal Register Docket No. FR-5089-N-01). In the implementation of our action plans, the state will exceed this amount.

2. ***What steps did the state take to assure that the state was following fair housing laws and meeting its obligations?***

The State has followed all HUD guidance and regulations on Fair Housing laws prior to the hurricanes and in developing post-disaster housing programs.

Louisiana's commitment to Fair Housing is longstanding. Our state legislature passed the Louisiana Equal Housing Opportunity Act in 1991. This law has been deemed substantially equivalent with the Federal Fair Housing Act.

Prior to Hurricanes Katrina and Rita, (and continuing in the present), the State Office of Community Development (OCD), in accordance with HUD regulations, required the State's non-entitlement areas (NEAs) to conduct AIs as a condition for receiving CDBG funds. The OCD monitors the NEAs for compliance with this requirement. The State, as a recipient of CDBG funds, conducted an AI in 1996 and updated that document in 2000.

The OCD works with the State Attorney General's office (AG). The Equal Opportunity Section of the AG's office is charged with the responsibility for the administration and enforcement of the Louisiana Equal Housing Opportunity Act. They are active in the investigation, conciliation, and judicial enforcement of fair housing claims. The AG set up a fair housing hot line last year. They work with the federal government in the enforcement of statutes prohibiting discrimination in public accommodations based on a person's race, color, national origin, religion, sex, handicap, or familial status. In addition, they provide information to Louisiana citizens on their rights regarding the renting and/or purchase of dwellings under the Louisiana Housing Opportunity Act and the federal Fair Housing Act.

- ***Did the state determine what new impediments to fair housing choice were created by the hurricanes and how these could be overcome?***

The State is alert to potential new impediments to Fair Housing in post-disaster Louisiana and we are actively engaged in upholding our obligations to ensure Fair Housing choice.

The unprecedented extent of the damage wrought by Hurricanes Katrina and Rita signaled to the State that *all* aspects of housing would be challenging in the disaster recovery phase. The National Low Income Housing Coalition (NLIHC) developed data to give the State a broad indication of what we would face in housing recovery. The NLIHC developed figures on the number of households by income status[1] by block group damaged by the hurricanes. According to the NLIHC, 113,427 households in block groups damaged by the storms had incomes less than 80% of the Area Median Income (AMI). These low income households comprised 46% of all households in storm damaged block groups. In addition, based on analysis conducted by HUD, the State recognized that a large portion of rental housing was lost, including a large percentage of affordable units.

In this challenging post-disaster landscape, the State is launching a new, statewide AI. In light of the profound changes in the housing stock and significant population shifts in Louisiana, we have specified in our scope of work that this AI will require innovative outreach to garner the public participation to aid in our identification and redress of any new, post-disaster Fair Housing impediments. We are planning to tap our experiences (details below) with outreach to hurricane displaced persons and other hard to reach groups for conducting public participation and education campaigns in regard to fair housing issues. (Additional details on the new AI project are included in relevant sections below).

In the midst of our State's acute housing shortages and myriad post-disaster challenges, the LRA and the OCD are taking concrete steps to meet and - in cases noted below – to exceed our Fair Housing obligations.

- ***Did the state analyze the housing needs of members of protected classes?***

For Louisiana's Road Home program, the OCD designated a team of subject matter experts to focus solely on populations with special needs. The Special Needs Advisory Team (SNAT) was incorporated into the program in August 2006. Since then, the team has analyzed and reviewed the practices, policies and procedures, and other components of the Road Home program. "Special needs" refers to Road Home applicants with disabilities, and/or who are elderly, non-English speakers, low-literacy, and others who may require accommodations to ensure equal access to the benefits in the Road Home program.

All of the State's housing programs require owners and managers to follow all of the Federal Fair Housing statutes and regulations. Discrimination is not tolerated in any of the programs we operate. In addition, the State's programs have gone well beyond what is required by the Federal statutes in order to expand opportunities for Louisiana citizens in need. The Piggyback program

[1] Extremely Low Income (<= 30% AMI), Very Low Income (31-50% AMI), Low Income (51-80% AMI) and Upper Income (>80% AMI)

is specifically designed to relieve concentrations of poverty and to enable very low income households of all races and creeds the opportunity to live in mixed-income communities that previously have been beyond their reach. A number of the Piggyback projects now underway will provide low income units in some of the highest rental markets on the Gulf Coast, including the *Warehouse District* in New Orleans.

The State's rental housing programs also have required that a significant number of units be set aside as Permanent Supportive Housing for people with mental or physical disabilities – a group often targeted for discrimination. These units are required to be substantially similar to the other units and will be distributed throughout the development.

- ***Did the state analyze the formula for homeowner assistance grants to determine whether it had any discriminatory impact? How was this done? What were the conclusions?***

The State specifically incorporated the 'Affordable Compensation Grant' into the design of its homeowner program to provide additional assistance to low-income homeowners. For details and results of the analysis, see the response to question 3.

- ***What steps were taken to affirmatively market the housing assistance programs?***

To further increase awareness to residents displaced across the country, The Road Home's Web site, www.road2LA.org, was created as a central location for updated information on the program, and for affected Louisiana residents to fill out an online application form and/or email questions about the program to a Road Home staffer. The Road Home also has established a toll free number, 1.888. ROAD.2.LA (1.888.762.3252 or TTY: 711 relay or 800.846.5277). This call center number is available to answer questions regarding the program and to mail out requests for hard copies of the application.

The Road Home program recognizes that thousands of Louisiana residents, unable to return to their homes, are living in cities across the state and country. In order to reach these residents, The Road Home created a means by which displaced residents could receive information about the program and submit applications.

A series of mobile deployments were conducted in areas with high numbers of displaced residents. Prior to each mobile deployment an extensive combination of earned and paid media were utilized, as well as comprehensive public outreach including individualized resident contacts, community meetings and faith-based initiatives.

Mobile deployments were held in the followings cities:
Atlanta, GA
Dallas, TX (2 deployments)
San Antonio, TX
Memphis, TN
Monroe, LA
Shreveport, LA
Alexandria, LA

Due to the extremely high concentration of displaced residents living in the Houston, TX area, a Housing Assistance Center was opened to provide dedicated service to those residents. The center employed both rental and homeowner advisors to serve all program needs of applicants and potential program applicants in that area.

- ***What steps were taken to address the needs of residents with limited English proficiency?***

The Road Home program has taken a proactive approach by providing the assistance that is needed in order to overcome language barriers. In addition to providing Spanish and Vietnamese-speaking operators at the Call Center and the Housing Assistance Centers, the program also employs two dedicated Public Information Officers/Outreach Specialists, one Hispanic and one Vietnamese.

These specialists are tasked with developing and cultivating relationships with minority and community media outlets that serve these populations and are responsible for the translation of all program materials. They also provide interpreter services to applicants at all stages of the application process.

3. What type of analysis of the distribution of funds has the state conducted?

In January of 2008, the LRA conducted an analysis of the distribution of funds by race. This was a preliminary analysis based on the approximately 87,000 homeowner grants that had closed by December of 2007. The LRA and OCD are currently partnering with PolicyLink to conduct a more comprehensive analysis around the end of June.

- ***What is the result of that analysis?***

The results of the previous analysis are as follows:

Race*	Total Served	Percent	% Receiving ACG**	Average Compensation	Median Compensation	Total Compensation in Billions
Black	37,137	43%	39%	$60,798	$53,900	$2.26B
White	31,642	36%	23%	$61,171	$51,192	$1.94B
Hispanic	2,280	3%	25%	$60,553	$50,000	$0.14B
Other	3,850	4%	34%	$61,068	$53,840	$0.24B
Not Indicated	12,189	14%	37%	$68,937	$64,606	$0.84B

*By Census standards, 'Hispanic' is an ethnicity rather than a race. If the race indicated was blank, other, white, or American Indian AND the ethnicity was indicated 'Hispanic', then they were in this category. 'Other' includes Asians, Pacific Islanders, American Indians/Alaska Natives and several combinations of all races including those that self identified as black AND white. 'Black' was anyone who self-identified as black including those with Hispanic ethnicity.
**ACG is the Affordable Compensation Grant, which provides an additional grant to cover damages beyond the pre-storm value of the home. This grant is available to those at 80% of Area Median Income or less and is capped at $50,000.

A higher percentage of African-Americans were able to take advantage of the Affordable Compensation Grant (ACG) to cover damages beyond their pre-storm value (39% compared to 23%). With the ACG, average compensation is comparable across races. The ACG has fulfilled its intended purpose of providing additional funding to low income homeowners. Without the ACG, more grants for African Americans would have been based on the pre-storm value alone (59% for blacks compared to 48% for whites) and grants for African Americans would have been on average about $7000 less. However, because of the ACG, only 27% of grants were based on the pre-storm value of the home compared to 30% for whites and the average compensation is almost equal for the two racial categories. Because of the correlation between race, income and home valuations, whites also tended to have a higher gap between their damage estimate and the compensation received from all sources (Road Home, FEMA, and insurance including NFIP).

The State of Louisiana is committed to fair housing and will reproduce this analysis mid-summer when more grants have been processed. We will continue to work with non-profits and our federal partners at HUD to evaluate the Road Home program to ensure equitable rebuilding opportunities and important lessons learned for future disasters.

*4. **Why has the state not yet submitted an updated AI?***

The update of the analysis of impediments is in progress. The Office of Community Development (OCD) has completed the Request for Proposal (RFP) for the updated AI. This AI, however, will be much more than simply an update. This is the first time that the State Office of Community Development has been required to conduct a statewide analysis of impediments. In the past, this office was only responsible for conducting an analysis on the balance of state for the non-entitlement areas, so this is a much more ambitious undertaking than those of the past. In addition, the census data normally used for this type of analysis is not as reliable because of the massive population shifts.

The RFP was published on the State's website and proposals are due June 23, 2008.

- ***Has HUD instructed the state to update its AI?***

Yes, HUD instructed the Office of Community Development to update its AI during a monitoring visit in March of 2007.

- ***What has the state done already in this regard?***

We take our commitment to affirmatively further fair housing seriously and we are actively pursuing producing an exemplary, statewide AI with meaningful public participation.

Contractor procurement to produce the AI is well underway. We have written an RFP that stresses that we require a high quality, thoroughly documented AI with meaningful public participation. The RFP has been issued, notices of the RFP have been sent to approximately 1250 potential vendors. We have reached out to contacts within state government and nonprofits to spread the word on the RFP. The RFP has been advertised in Louisiana, Houston, and Atlanta.

We have held a proposers' conference to reiterate the exemplary quality of work and the high level of public participation we require. We have responded to potential proposers' questions about the RFP.

A copy of the RFP is available on request or you can download it at http://wwwprd.doa.louisiana.gov/OSP/LaPAC/pubmain.asp.

- ***What is the timeline for its completion?***

The next milestone for the AI is June 23, 2008 - the deadline for proposal submittal. We have selected a proposal Evaluation Committee which includes an experienced housing official from New Orleans. Further details on the AI procurement process are included below in the Timeline section.

Timeline for the completion of the entire statewide AI is 12 to 18 months from the start of the contract. We anticipate having the contract in place by mid-August, 2008.

We have specified in the RFP that the contractor shall prioritize the parishes impacted by the Hurricanes Katrina and Rita. We will have useful analysis on the New Orleans Metropolitan Area within approximately 4 months from the start of the contract with other heavily impacted parishes following over the next several months.

We are already moving to expedite the work of the AI. As noted above in response to Question 2, in light of the profound changes in the housing stock and populations in the hurricane impacted areas of the state, we have taken care to emphasize the importance of not relying solely on US Census data for the AI. We have initiated gathering quality, up-to-date data from the plethora of robust studies conducted by top-notch institutions following the hurricanes.

5. ***What was the basis of the state's certification that it was in compliance with the fair housing and civil rights requirements of CDBG?***

The Office of Community Development has administered the Community Development Block Grant program since 1982 when it was implemented as a state program. In that time the Office of Community Development has consistently been monitored by HUD to include the monitoring of Fair Housing and Equal Opportunity requirements. The Office of Community Development has never received a finding in 26 years of FHEO monitoring visits from HUD.

Questions posed at House Financial Services sub-committee hearing
May 8, 2008

Responses submitted by Jack Norris
Director of Recovery and Renewal
Office of the Governor, State of Mississippi
May 16, 2008

1) Provide an audit statement for the Port of Gulfport fiscal year 2007.
2007 Audit Report enclosed.

2) Explain the $81 million in unencumbered funds?

The $81 million consists of insurance proceeds, FEMA Public Assistance and Pre-Katrina reserve funds.

The insurance proceeds, approximately $65 million, will be used for Port redevelopment outside the scope of those allowed under CDBG.

Post-Katrina $10 million, which was previously profit turned long-term investments, has been used to supplement Port operations due to lost revenue and existing debt service.

	FY 2005	FY 2006	FY 2007	YTD 04/2008
Operating Revenue	$21,035,132	$ 8,173,209	$ 8,290,201	$11,322,211
Operating Expense	(9,255,257)	(12,733,727)	(7,094,881)	(8,680,417)
Net Operating Rev.	11,779,875	(4,560,518)	1,195,320	2,641,794
Debt Service	(3,109,695)	(3,119,418)	(3,134,589)	(3,145,300)
Net Profit	8,670,180	(7,679,936)	(1,939,269)	(503,506)

3) Provide a breakdown of all Phase I and Phase II HAP awards, i.e. number of awards, average amount, and percent low-mod.

Phase I was a compensation program targeting homeowners outside the established flood zone. HUD granted a waiver for the Low-and-Moderate income requirement for Phase I, and therefore, applicants' incomes were not an eligibility requirement in Phase I. As such, any income data received was submitted on a voluntary basis and cannot provide a complete and accurate picture for the entire population, but is only an indication of the income level for this group. For reporting purposes, MDA adheres to the HUD definition of Low-and-Moderate as household income at or below 80% of Area Median Income.

- Number of Awards Paid: 16,374
- Average Check Amount: $71,748
- Percentage of Low-and-Moderate (80% of Area Median Income) applicants paid: 29.4%
- Number of Low-and-Moderate applicant grants paid: 4,820

Phase II was a compensation program targeting homeowners whose income was at or below 120% of Area Median Income. Qualified applicants were in or out of flood zone, insured and uninsured that received storm surge damage. For reporting purposes, MDA adheres to the HUD definition of Low-and-Moderate as household income at or below 80% of Area Median Income.

- Number of Awards Paid: 3,981
- Average Check Amount: $69,997
- Percentage of Low-and-Moderate (80% of Area Median Income) applicants paid: 82.8%
- Number of Low-and-Moderate (80% of Area Median Income) applicant grants paid: 3,304

4) How many Phase I or Phase II recipients also received elevation grants and in what amount?
   - Number of Awards Approved: 206
   - Average Check Amount: $25,000

5) What is the number of rental and public housing units completed to date?

Projected units resulting from the Small Rental Assistance Program range from 6,200 to 7,500. The program began accepting applications in October, 2007, and because of the extensive environmental review requirements, no units are complete to date; however, 760 applications have passed site inspections, 1,324 applications are under an environmental review stage, and 75 applications have cleared the environmental assessment process.

The number of projected units resulting from the Public Housing Program is approximately 3,200. To date, 272 units have been completed utilizing CDBG funds, and another 851 units are currently under construction.

6) Have any funds for the Port of Gulfport been "obligated?"

The Port redevelopment project was included in the State of Mississippi's Katrina recovery plan submitted to Congress November 1, 2005. Congress funded the state's plan through the CDBG program due to its flexibility and for expediency.

HUD approved the Port redevelopment action plan in January 2008. Consistent with HUD's definition, the Mississippi Development Authority (MDA) uses the term "obligated" to indicate that money has been committed, either by an award letter signed by the Governor, or a grant agreement with MDA signed by a particular entity. Using this definition, none of the funds have been obligated.

MISSISSIPPI STATE PORT AUTHORITY
AT GULFPORT
COMPONENT UNIT OF THE STATE OF MISSISSIPPI

FINANCIAL STATEMENTS

JUNE 30, 2007, 2006, AND 2005

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
LIST OF OFFICIALS
JUNE 30, 2007

Board of Commissioners		Term
Lenwood S. Sawyer, Jr.	President	12/10/07
A.J.M. "Butch" Oustalet, III	Vice President	12/08/08
John K. Rester	Secretary	12/08/09
Frances Turnage	Treasurer	12/08/10
Frank T. Wilem, Jr.	Commissioner	12/09/11

Executive Director and Chief Executive Officer

Donald R. Allee

Deputy Director of Finance and Administration

Mary J. Bourdin, CPA

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
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JUNE 30, 2007, 2006, AND 2005

INDEPENDENT AUDITORS' REPORT

Alexander | Van Loon | Sloan | Levens | Favre, PLLC

INDEPENDENT AUDITORS' REPORT

October 26, 2007

To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
Gulfport, Mississippi

We have audited the accompanying comparative balance sheets of the Mississippi State Port Authority at Gulfport, a component unit of the State of Mississippi, as of June 30, 2007, 2006, and 2005, and the related comparative statements of revenues, expenses, and changes in net assets and statements of cash flows for the years then ended. These financial statements are the responsibility of the Mississippi State Port Authority at Gulfport's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mississippi State Port Authority at Gulfport, as of June 30, 2007, 2006, and 2005, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2007, on our consideration of the Mississippi State Port Authority at Gulfport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

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304 N. Vardaman Street | P.O. Box 749 | Wiggins, MS 39577 | (601) 928-4416 | Fax (601) 928-4417 | E-Mail: info@avlcpa.com | www.avlcpa.com

To the Board of Commissioners
Mississippi State Port Authority
at Gulfport
October 26, 2007

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Mississippi State Port Authority at Gulfport taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis on pages 3 through 9, is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Alexander, Van Loon, Sloan, Levens & Favre

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Mississippi State Port Authority at Gulfport (the Authority), we offer the readers of the financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal years ended June 30, 2007, 2006, and 2005. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements.

Financial Highlights

- Operating revenues increased $1 million (or 15.0%) over prior year, but lagged $12.7 million from 2005.
- Cash flows from operating activities show an increase of $1.2 million in comparison with a net cash use of $4.6 million from the prior year's operating activities. This was an increase of 126.3%.
- The Authority's net assets increased $29.8 million (or 20.75 percent) as a result of this year's operations.
- As of June 30, 2007, the Authority's operating revenues totaled $8.0 million, and operating expenses totaled $9.8 million, resulting in a net operating loss of $1.8 million. This compares to Fiscal Years 2006 when operating expenses exceeded revenues by $9.3 million and 2005 when operating revenues exceeded expenses by $7.6 million.
- Of the $9.8 million of operating expenses, over $1.6 million is directly attributed to the continuation of Hurricane Katrina clean up and repair.
- The Authority continued its recovery during Fiscal Year 2007. Over 130,000 square feet of transit shed space was restored during the year. Reconstruction of an additional 170,000 square feet of shed space and the rebuilding of 1,200 linear feet of dock space began during the last quarter of the fiscal year.
- Total capital assets increased $17.6 million (or 18.6 percent).
- The Authority received $21.2 million from insurance as they continue to settle Katrina insurance claims.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's financial statements. The annual report consists solely of the financial statements of the Mississippi State Port Authority at Gulfport.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

These financial statements include the Comparative Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Current year revenues are recognized when earned and current year expenses are recognized when they are incurred without regard to when the cash is received or disbursed.

Balance Sheet

The Balance Sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating by reflecting the Authority's overall financial health. Restricted Assets include customer deposits and bond funds for capital expansion. The Authority internally restricts additional funds for debt service and/or emergency contingencies.

A summary of the Authority's Balance Sheets as of June 30, 2007 with comparative amounts for June 30, 2006 and June 30, 2005 is as follows:

COMPARATIVE BALANCE SHEETS			
ASSETS			
	2007	2006	2005
CURRENT ASSETS			
Cash and investments	$ 82,782,213	$ 73,266,621	$ 45,584,195
Accounts receivable	652,161	567,994	1,795,694
Other Receivables	12,495,294	3,785,250	309,582
Prepaid expenses	23,448	30,034	128,937
Restricted assets:			
Cash and investments	2,297	1,014,444	1,775,863
Interest receivable	2,332	442	691
Total current assets	95,957,745	78,664,785	49,594,962
NON-CURRENT ASSETS			
Capital assets	112,172,123	94,601,622	126,974,413
Restricted assets:			
Cash and investments	744,204	3,676,028	4,511,038
Unamortized bond issue costs	18,779	20,461	22,143
Total non-current assets	112,935,106	98,298,111	131,507,594
TOTAL ASSETS	$ 208,892,851	$ 176,962,896	$ 181,102,556

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Balance Sheet (Continued)

COMPARATIVE BALANCE SHEETS (Continued)

LIABILITIES AND NET ASSETS		2007		2006		2005
CURRENT LIABILITIES						
Accounts payable and accruals	$	5,640,650	$	1,890,070	$	2,139,723
Retainages payable		1,261,840		310,047		99,560
Bonds payable		1,780,000		1,695,000		1,610,000
Payable from restricted assets:						
Accounts payable and accruals		-		-		1,052,374
Retainages payable		-		758,864		723,489
Total current liabilities		8,682,490		4,653,981		5,625,146
NON-CURRENT LIABILITIES						
Bonds Payable		26,765,000		28,545,000		30,240,000
Payable form restricted assets:						
Customer deposits		2,300		130,581		133,581
Total non-current liabilities		26,767,300		28,675,581		30,373,581
NET ASSETS						
Invested in capital assets, net of related debt		83,627,121		64,361,622		95,124,405
Restricted		746,533		3,801,468		4,378,148
Unrestricted		89,069,407		75,470,244		45,601,276
Total net assets		173,443,061		143,633,334		145,103,829
TOTAL LIABILITIES AND NET ASSETS	$	208,892,851	$	176,962,896	$	181,102,556

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents information showing how the Authority's net assets have changed in the most recent fiscal year and the years presented for comparison. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement that will only result in cash flows in future fiscal periods.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Statement of Revenues, Expenses, and Changes in Net Assets (Continued)

In the statement of revenues, expenses, and changes in net assets, management divides the Authority's activities into two types as follows:

Charges for services - Most of the Authority's maritime services provided are reported here, including wharfage, dockage, usage, harbor fees, line-handling, and demurrage.

Revenue from leases - All revenue received from maritime and non-maritime lease activities is reported here.

A summary of the Authority's Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2007 with comparative amounts for June 30, 2006 and 2005 is as follows:

COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2007	2006	2005
OPERATING REVENUES			
Charges for services	$ 3,381,604	$ 2,917,320	$ 7,678,038
Revenue from leases	4,655,125	4,072,722	13,039,452
Total operating revenues	8,036,729	6,990,042	20,717,490
OPERATING EXPENSES	9,829,273	16,350,709	13,335,110
INCOME FROM OPERATIONS	(1,792,544)	(9,360,667)	7,382,380
NON-OPERATING REVENUE (EXPENSES)			
Revenue from County	883,026	893,061	899,949
Investment and other income	9,600,970	5,382,626	1,012,412
Insurance proceeds	21,245,970		
Interest and other expenses	(123,581)	(412,411)	(702,107)
Loss on disposal of assets	(4,114)	-	(414,162)
Total non-operating revenue (expenses)	31,602,271	5,863,276	796,092
NET INCOME BEFORE CAPITAL CONTRIBUTIONS AND EXTRAORDINARY ITEM-GAIN ON IMPAIRMENT	29,809,727	(3,497,391)	8,178,472
CAPITAL CONTRIBUTIONS	-	479,818	86,229
GAIN ON IMPAIRMENT OF CAPITAL ASSETS	-	1,547,078	-
CHANGE IN NET ASSETS	29,809,727	(1,470,495)	8,264,701
TOTAL NET ASSETS - BEGINNING	143,633,334	145,103,829	136,839,128
TOTAL NET ASSETS - ENDING	$ 173,443,061	$ 143,633,334	$ 145,103,829

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Statement of Cash Flows

The statement of cash flows details the cash received and expended by the Authority during the fiscal year. The cash flow statement is divided into cash flows from operating activities, non-capital financing activities, capital financing activities, and investing activities.

Overall Analysis of Financial Position

One of the most important questions to be answered about the Authority's finances is, "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Assets are tools that management uses as indicators of the Authority's overall financial health. Over a period of time, increases or decreases in the Authority's net assets are an indicator of whether its financial health is improving or deteriorating. Additionally, Management considers other non-financial indicators such as legislative mandates and the economic market conditions to assess the overall well-being of the port.

During Fiscal Year 2007 the Authority continued its recovery and reconstruction from Hurricane Katrina which was one of the worst natural disasters in history. The Master Plan Update was completed. Intensive planning, design and engineering are currently in process. The Authority's capital assets increased $17.6 million during the year. Its liabilities increased $2.1 million (or 6.4 percent) during the past fiscal year. Previously total liabilities decreased over the previous two fiscal years by $3.8 million (or 10.2 percent) as the Authority continues to extinguish its long-term debt. Total net assets increased $29.8 million (or 20.75 percent). Although $38.9 million in capital assets was lost due to Hurricane Katrina, the Authority has recovered in excess of $66 million from insurance and FEMA funds to assist in reconstruction.

Analysis of the Authority's current year cash flows shows an increase of $2.3 million in cash from the previous year. The current year Operating Activities resulted in an increase of $1.2 million in cash as compared to a net use of $4.5 million in cash in the prior year and an increased cash flow of $11.8 million in Fiscal Year 2005.

Other Potentially Significant Matters

Capital Asset Administration

CAPITAL ASSETS AS OF JUNE 30
(Net of Depreciation, in Millions)

	2007	2006	2005
Land	$ 7.4	$ 7.4	$ 7.4
Buildings	11.8	6.9	34.5
Machinery and equipment	0.5	0.5	1.5
Land improvements	10.0	10.2	15.3
Infrastructure improvements	39.2	41.7	43.1
Contruction in progress	43.3	27.9	25.2
	$ 112.2	$ 94.6	$ 127.0

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

The Authority continues its aggressive construction program to rebuild and expand its facilities in a Post-Katrina environment. Capital outlay for fixed assets exceeded $20 million during the current fiscal year. With the completion of the master plan update, over $95 million is budgeted for the next two fiscal years. Financial assistance from a variety of sources (e.g., Federal government, State government, and insurance coverage) is available to assist the Authority in the replacement of impaired assets. To date $62 million has been recovered from insurance policies. Over $54 million has been committed from FEMA for capital improvements.

Note 15 to the Financial Statements provides detail of the Authority's outstanding construction commitments as of June 30, 2007.

Debt Administration

DEBT OUTSTANDING AS OF JUNE 30

	2007	2006	2005
General Obligation Bonds: (backed by the State of Mississippi)			
Series 16 bonds outstanding	$ 28,545,000	$ 30,240,000	$ 31,850,000

The Authority continues to extinguish its debt. As of June 30, 2007, only one bond issue (Series 16 issued in 1998) remained outstanding.

Economic Factors and Fiscal Year Ending June 30, 2008's Budget

The Authority's management considered a variety of factors when setting the Fiscal Year 2008 budget. One of these factors was that the Authority's function is to provide marine terminal services to its customers in order to enhance the economic growth of the State of Mississippi. In reviewing the existing tenant agreements and considering the projected capital improvements, revenue projections, with a projected one percent increase, remain relatively flat. We are in the early stages of implementing the Strategic Master Plan as approved in Fiscal Year 2007. As our existing maritime tenants continue to face tough competition and to recover from Hurricane Katrina, we expect to see only a marginal increase in tonnage or revenues from them.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the funds it receives. If you have any questions regarding this report or need additional financial information, contact the Authority's Office of Finance & Administration, P. O. Box 40, Gulfport, MS 39502.

FINANCIAL STATEMENTS

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE BALANCE SHEETS
JUNE 30, 2007, 2006 AND 2005

ASSETS

	2007	2006	2005
CURRENT ASSETS			
Cash and cash equivalents	$ 7,461,153	$ 4,830,328	$ 6,656,575
Investments	75,321,060	68,436,293	38,927,620
Accrued interest receivable	964,226	413,054	254,522
Accounts receivable, net of allowance for doubtful accounts	673,457	567,994	1,795,694
Other receivable, insurance proceeds	5,000,000	2,052,437	-
Due from other governments	6,509,772	1,319,759	55,060
Prepaid expenses	23,448	30,034	128,937
Restricted assets:			
Cash and cash equivalents	2,297	255,581	661,569
Investments in repurchase agreements and certificates of deposit with the State Treasury	-	758,863	1,114,294
Accrued interest receivable	2,332	442	691
Total current assets	95,957,745	78,664,785	49,594,962
NON-CURRENT ASSETS			
Capital assets:			
Land	7,361,810	7,361,810	7,361,810
Buildings, net of accumulated depreciation	11,865,742	6,922,312	34,476,067
Machinery and equipment, net of accumulated depreciation	436,729	489,195	1,535,031
Land improvements, net of accumulated depreciation	9,998,410	10,203,666	15,289,537
Infrastructure, net of accumulated depreciation	39,181,679	41,745,325	43,101,592
Construction in progress	43,327,753	27,879,314	25,210,376
Total capital assets	112,172,123	94,601,622	126,974,413
Restricted assets:			
Cash and cash equivalents	744,204	798,140	838,581
Investments in repurchase agreements and certificates of deposit with the State Treasury	-	2,877,888	3,672,457
Unamortized bond issue costs	18,779	20,461	22,143
Total non-current assets	112,935,106	98,298,111	131,507,594
TOTAL ASSETS	$ 208,892,851	$ 176,962,896	$ 181,102,556

LIABILITIES AND NET ASSETS

	2007	2006	2005
CURRENT LIABILITIES			
Accounts payable	$ 4,433,125	$ 1,140,919	$ 1,389,856
Retainages payable	1,261,840	310,047	99,560
Deferred revenue	537,129	49,913	-
Accrued salaries	49,070	48,205	51,586
Accrued compensated absences	153,469	159,164	183,872
Accrued interest payable	467,857	491,869	514,409
Current maturities of bonds payable	1,780,000	1,695,000	1,610,000
Payable from restricted assets:			
Accounts payable	-	-	1,052,374
Retainages payable	-	758,864	723,489
Total current liabilities	8,682,490	4,653,981	5,625,146
NON-CURRENT LIABILITIES			
Bonds payable, net of current portion	26,765,000	28,545,000	30,240,000
Payable from restricted assets:			
Customer deposits	2,300	130,581	133,581
Total non-current liabilities	26,767,300	28,675,581	30,373,581
Total liabilities	35,449,790	33,329,562	35,998,727
NET ASSETS			
Invested in capital assets, net of related debt	83,627,121	64,361,622	95,124,405
Restricted	746,533	3,801,468	4,378,148
Unrestricted	89,069,407	75,470,244	45,601,276
Total net assets	173,443,061	143,633,334	145,103,829
TOTAL LIABILITIES AND NET ASSETS	$ 208,892,851	$ 176,962,896	$ 181,102,556

The accompanying notes are an integral part of these financial statements.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007, 2006 AND 2005

	2007	2006	2005
OPERATING REVENUES			
Charges for services	$ 3,381,604	$ 2,917,320	$ 7,678,038
Revenue from leases	4,655,125	4,072,722	13,039,452
Total operating revenues	8,036,729	6,990,042	20,717,490
OPERATING EXPENSES			
General and administrative	1,941,860	2,200,054	2,481,251
Contractual services	4,625,391	10,785,663	6,030,619
Commodities	267,902	505,521	409,158
Depreciation	2,994,120	2,859,471	4,414,082
Total operating expenses	9,829,273	16,350,709	13,335,110
INCOME (LOSS) FROM OPERATIONS	(1,792,544)	(9,360,667)	7,382,380
NON-OPERATING REVENUE (EXPENSES)			
Revenue from County	883,026	893,061	899,949
Interest and other investment income	4,259,738	2,101,505	1,012,412
Grant revenue	5,341,232	3,281,121	-
Insurance proceeds	21,245,970	-	-
Interest and other fiscal charges	(123,581)	(412,411)	(702,107)
Loss on disposal of capital assets	(4,114)	-	(414,162)
Total non-operating revenue (expenses)	31,602,271	5,863,276	796,092
NET INCOME (LOSS) BEFORE CONTRIBUTIONS AND EXTRAORDINARY ITEM	29,809,727	(3,497,391)	8,178,472
Capital contributions	-	479,818	86,229
Extraordinary item - gain on impairment of capital assets	-	1,547,078	-
CHANGE IN NET ASSETS	29,809,727	(1,470,495)	8,264,701
TOTAL NET ASSETS - BEGINNING	143,633,334	145,103,829	136,839,128
TOTAL NET ASSETS - ENDING	$ 173,443,061	$ 143,633,334	$ 145,103,829

The accompanying notes are an integral part of these financial statements.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007, 2006 AND 2005

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	$ 8,290,201	$ 8,173,209	$ 21,035,132
Cash payments for personnel services	(1,946,690)	(2,228,143)	(2,496,542)
Cash payments to suppliers of goods and services	(5,148,191)	(10,505,584)	(6,758,715)
Net cash provided by (used in) operating activities	1,195,320	(4,560,518)	11,779,875
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Cash received from other governments	1,034,245	3,014,141	900,426
Net cash provided by noncapital financing activities	1,034,245	3,014,141	900,426
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Cash received from capital grants	-	469,605	152,191
Acquisition and construction of capital assets	(16,822,116)	(11,187,563)	(8,527,003)
Proceeds from disposal of capital assets	-	-	81,917
Insurance proceeds	18,298,407	38,450,379	-
Interest paid	(145,911)	(433,269)	(1,591,067)
Principal paid on bonds payable	(1,695,000)	(1,610,000)	(1,930,000)
Net cash provided by (used in) capital and related financing activities	(364,620)	25,689,152	(11,813,962)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(91,226,760)	(54,333,939)	(6,475,037)
Interest received	2,673,669	1,518,488	1,010,408
Proceeds from maturities of investments	89,011,751	26,400,000	8,620,000
Net cash provided by (used in) investing activities	458,660	(26,415,451)	3,155,371
Net change in cash and cash equivalents	2,323,605	(2,272,676)	4,021,710
Cash and cash equivalents at beginning of year	5,884,049	8,156,725	4,135,015
Cash and cash equivalents at end of year	$ 8,207,654	$ 5,884,049	$ 8,156,725
CLASSIFIED ON THE COMPARATIVE BALANCE SHEETS AS FOLLOWS:			
CURRENT ASSETS			
Cash and cash equivalents	$ 7,461,153	$ 4,830,328	$ 6,656,575
Restricted Assets:			
Cash and cash equivalents	2,297	255,581	661,569
NON-CURRENT ASSETS			
Restricted Assets:			
Cash and cash equivalents	744,204	798,140	838,581
Cash and cash equivalents at end of year	$ 8,207,654	$ 5,884,049	$ 8,156,725

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
COMPARATIVE STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2007, 2006 AND 2005

	2007	2006	2005
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Income (loss) from operations	$ **(1,792,544)**	$ (9,360,667)	$ 7,382,380
Adjustments reconciling income (loss) from operations to net cash provided by (used in) operating activities:			
Depreciation	**2,994,120**	2,859,471	4,414,082
Provision for loss on accounts receivable	-	-	2,259
(Increase) decrease in assets:			
Accounts receivable	**(105,463)**	1,183,167	40,050
Prepaid expenses	**6,586**	98,903	(4,123)
Increase (decrease) in liabilities:			
Accounts payable	**(261,484)**	689,697	(40,752)
Deferred revenue	**487,216**	-	-
Accrued salaries	**865**	(3,381)	(23,027)
Accrued compensated absences	**(5,695)**	(24,708)	7,736
Customer deposits	**(128,281)**	(3,000)	1,000
Total adjustments	**2,987,864**	4,800,149	4,397,225
Net cash provided by (used in) operating activities	$ **1,195,320**	$ (4,560,518)	$ 11,779,605

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Mississippi State Port Authority at Gulfport (Authority) was purchased from the City of Gulfport by the State of Mississippi on September 26, 1960. The Mississippi Development Authority (MDA) is authorized by state law, Mississippi Code Ann. 1972 Section 59-5-11, to oversee operations of the Authority. Furthermore, Mississippi Code Ann. 1972 Section 59-5-21 provides MDA with the authority to operate a port through a State Port Authority.

The Authority is governed by a board of five commissioners appointed to serve five year staggered terms. Three commissioners are appointed by the governor of Mississippi, one is appointed by the Harrison County Board of Supervisors and one is appointed by the City of Gulfport City Council.

Financial Reporting Entity

For financial reporting purposes, the Authority includes all funds that relate to Authority operations, debt service and construction projects. It is not intended to reflect information pertaining to the MDA or the State of Mississippi. As a component unit of the State of Mississippi, its financial information is included in the State of Mississippi's Comprehensive Annual Financial Report.

Basis of Accounting

These financial statements have been presented in conformity with accounting principles generally accepted in the United States of America (GAAP) relative to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Authority has been identified as an "enterprise fund" as described by GAAP for governmental entities. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus* (GASB 34). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. With this measurement focus, all assets and liabilities associated with the operation of the Authority are included on the balance sheets. The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Authority. For purposes of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less, when purchased, to be cash equivalents.

Investments

The Authority reports investments at fair value. Unrealized gains and losses are reported in the statement of revenues, expenses, and changes in net assets.

Accounts Receivable

The Authority reports receivables at net realizable value. Management determines the allowance for doubtful accounts based on historical losses and current economic conditions. On a continuing basis, management analyzes delinquent receivables and, once these receivables are determined to be uncollectible, they are written off through a charge against an existing allowance account or against earnings.

Due from Other Governments

Due from other governments represents grant funds and ad valorem taxes earned but not received as of June 30.

Property and Equipment

Property and equipment exceeding the State of Mississippi's mandated capitalization thresholds are stated at historical cost. Maintenance and repairs are expensed as incurred. Replacements that improve or extend the lives of property and exceed the mandated thresholds are capitalized. Depreciation of property and equipment is computed on the straight-line method over the estimated useful lives of the related assets. The estimated useful lives and capitalization thresholds are as follows:

	Useful Life	Capitalization Threshold
Furniture and equipment	3-15 Years	$ 5,000
Land improvements	13-40 Years	25,000
Buildings	40 Years	50,000
Infrastructure improvements	20-50 Years	100,000

Capitalized Interest

Interest costs on outstanding debt are capitalized when incurred during the construction period.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unamortized Bond Issue Costs

Legal and accounting fees, printing costs and other expenses associated with the issuance of Bond Series 16 are being amortized on the straight-line method over the term of the bond.

Deferred Revenue

The Authority defers revenue recognition in connection with resources that have been received, but not yet earned.

Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Employees earn an amount of vacation pay monthly based on years of service and vacation pay is accrued as earned. There is no liability for unpaid accumulated sick leave since the Authority does not have a policy to pay any amounts when employees separate from service.

Net Assets

The Authority's net assets are categorized as follows:

Invested in capital assets - represents total capital assets net of related debt.

Restricted - represents cash and investments restricted by bond covenants or other agreements net of related liabilities.

Unrestricted - represents resources not limited or restricted in use.

Revenues

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and leasing facilities in connection with the Authority's ongoing operations.

Reclassifications

Certain reclassifications have been made to the data of fiscal year 2006 and 2005 in order to be consistent with the fiscal year 2007 financial statement presentation.

Concentration of Credit Risk

The Authority provides services on credit to many of its customers in the ordinary course of business. The Authority's customers are in the gaming, shipping and marine terminal businesses. The Authority performs on-going credit evaluations of its customers and, generally, requires no collateral.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 2: DEPOSITS AND INVESTMENTS

Deposits

The MDA deposits funds, on behalf of the Authority, in financial institutions selected by the MDA or the State of Mississippi Treasury Department in accordance with state statutes.

All deposits, including short-term certificates of deposit, with financial institutions insured by the Federal Deposit Insurance Corporation (FDIC) must be collateralized in an amount equal to 105% of the uninsured deposit. The collateral must be held by the State of Mississippi Treasury Department or held in trust by a third-party financial institution in the State's name and evidenced by a safekeeping receipt issued to the State.

Qualifying collateral includes:

a. Obligations of the U.S. Treasury and obligations guaranteed by the U.S. Government.

b. Obligations of the Federal Home Loan Bank, Federal National Mortgage Association (Fannie Mae), Federal Land Banks and similar agencies approved by the State Treasurer.

c. Tennessee Valley Authority obligations.

d. Obligations of the State of Mississippi, its agencies, political subdivisions, and municipalities or any body corporate and politic created by the State of Mississippi.

e. Legal obligations of any state, county, parish or municipality that are rated "A" or better.

f. Surety bonds of any surety company authorized to do business in the State of Mississippi.

g. All bonds authorized as security for state funds under items c, d, and e, inclusive, must be investment quality and any bonds under said items c, d, e and f, inclusive, which are rated substandard by any of the appropriate supervisory authorities having jurisdiction over said depository or by any recognized national rating agency engaged in the business of rating bonds, are not eligible for pledging as security.

The responsibility for ensuring the proper collateralization of deposits rests with the State of Mississippi Treasury Department. At June 30, 2006, the carrying amount of the Authority's deposits (including restricted deposits) was $3,554,752 and the bank balances totaled $3,642,478. The total of the bank balance was covered by federal depository insurance or by collateral held by the State of Mississippi Treasury Department or its agent in the State's name. The money market funds of $4,652,902 held by the trust department at one financial investment institution are not covered by federal depository insurance. Those funds are held in the Authority's name and are controlled solely by the Authority.

As of June 30, 2007, restricted cash and cash equivalents consists of the following:

Current:	
Restricted for customer deposits	$ 2,297
Non-current:	
Restricted for compliance with bond covenants	711,454
Restricted for other purposes	32,750
Total non-current	744,204
Total restricted cash and cash equivalents	$ 746,501

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments

As of June 30, the fair value of the Authority's investments by type are as follows:

	2007	2006	2005
U.S. Government securities and agencies	$75,321,060	$68,436,293	$38,927,620
Repurchase agreements	-	3,636,751	4,786,751
	$75,321,060	$72,073,044	$43,714,371

Investments are reported on the balance sheets as of June 30, as follows:

	2007	2006	2005
Current Assets:			
Investments	$75,321,060	$68,736,293	$38,927,620
Investments in repurchase agreements and certificates of deposit with State Treasury	-	758,863	1,114,294
Non-Current Assets			
Investments in repurchase agreements and certificates of deposit with State Treasury	-	2,877,888	3,672,457
Total investments	$75,321,060	$72,373,044	$43,714,371

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the financial institution with which the Authority invests, the Authority will not be able to recover the value of its investments, which are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counter party or the counter party's trust department or agent but not in the Authority's name.

As of June 30, the following investments were held by the counter party, or by its trust department or agent but not in the Authority's name:

	2007	2006	2005
Repurchase agreements	$ -	$ 3,636,751	$ 4,786,751

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

Custodial Credit Risk (Continued)

All investments made by the Authority are authorized by the Executive Director in accordance with all applicable state laws. As outlined by the Mississippi Code Section 27-105-33, the Authority invests in United States Government Instrumentalities. Mississippi Code Section 25-11-121 requires that all investments be clearly marked as to ownership and, to the extent possible, be registered in the name of the Authority. The repurchase agreements noted above were held in the name of the Mississippi State Treasury. As of June 30, 2007 there are no repurchase agreements held by the Mississippi State Treasury.

Credit Risk

Credit risk is the risk that an issuer or other counterparty will not fulfill its obligation. Mississippi State law requires a minimum quality rating of A-3 by Standard and Poor for corporate short-term obligations. This law also requires corporate and taxable municipal bonds to be of investment grade as rated by Standard and Poor, with bonds rated BAA/BBB not to exceed 5% of total fixed income investments. The highest credit rating that can be obtained from Standard and Poor is AAA.

As of June 30, the Authority's investments had the following credit ratings as published by Standard and Poor:

Investment	Credit Rating	Fair Value		
		2007	2006	2005
U.S. Government securities and agencies	AAA	$75,321,060	$68,436,293	$38,927,620
Repurchase agreements	Unrated	-	3,636,751	4,786,751
		$75,321,060	$72,073,044	$43,714,371

Interest Rate Risk

Interest rate risk represents the Authority's exposure to fair value changes arising from changing interest rates over the term of the investments. The longer the period for which an interest rate is fixed, the greater the potential for variability in fair value resulting from changes in interest rates.

The future maturities of the Authority's investments as of June 30, 2007 are as follows:

Investment Type:	Fair Value	Investment Maturities (in years)	
		Less than 1	1-5
U.S. Government securities and agencies	$75,321,060	$28,105,743	$47,215,317

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 2: DEPOSITS AND INVESTMENTS (Continued)

Interest Rate Risk (Continued)

The Authority has developed a formal written investment policy which governs the investment process and establishes parameters to be followed in order to mitigate investment risk to include credit and interest rate risk.

NOTE 3: ACCOUNTS RECEIVABLE

The following is a summary of accounts receivable at June 30, 2007, 2006, and 2005.

	2007	2006	2005
Accounts receivable from customers	$ 1,716,126	$ 1,610,663	$ 2,838,363
Less: allowance for doubtful accounts	(1,042,669)	(1,042,669)	(1,042,669)
Accounts receivable, net	$ 673,457	$ 567,994	$ 1,795,694

The Authority recorded no bad debt expense for the fiscal years ended June 30, 2007 and June 30, 2006. Bad debt expense for the fiscal year ended June 30, 2005 totaled $2,529. Bad debt expense has been netted against or included in the revenue to which it relates in the statements of revenues, expenses, and changes in net assets.

NOTE 4: ACCOUNTS RECEIVABLE – INSURANCE PROCEEDS

On August 29, 2005, the Authority's buildings and port operations were severely damaged by Hurricane Katrina. As of June 30, 2006, the Authority had received $38,450,379 in insurance proceeds and recognized $38,955,738 in capital impairment losses related to these damages. As of June 30, 2006, a net gain on impairment of capital assets of $1,547,078 was recorded in the comparative statements of revenues, expenses, and net assets under the caption "extraordinary item - gain on impairment of capital assets." As of June 30, 2007, $21,245,970 of insurance proceeds is recognized as non-operating revenues on the statement of revenues, expenses, and changes in net assets, and $5,000,000 is recognized as insurance receivable on the balance sheet.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 5: CAPITAL ASSETS

An analysis of the changes in capital assets is as follows:

For the fiscal year ended June 30, 2007

	Balance July 1, 2006	Additions	Disposals	Transfers	Balance June 30, 2007
Land	$ 7,361,810	$ -	$ -	$ -	$ 7,361,810
Buildings	7,713,858	-	-	5,121,028	12,834,886
Machinery and equipment	2,377,541	-	(7,091)	-	2,370,450
Land improvements	17,824,066	-	-	-	17,824,066
Infrastructure	67,580,087	-	-	-	67,580,087
Construction in progress	27,879,314	20,569,467	-	(5,121,028)	43,327,753
Total capital assets	130,736,676	20,569,467	(7,091)	-	151,299,052
Less: accumulated depreciation for:					
Buildings	(791,546)	(177,598)	-	-	(969,144)
Machinery and equipment	(1,888,346)	(47,620)	2,245	-	(1,933,721)
Land improvements	(7,620,400)	(205,256)	-	-	(7,825,656)
Infrastructure	(25,834,762)	(2,563,646)	-	-	(28,398,408)
Total accumulated depreciation	(36,135,054)	(2,994,120)	2,245	-	(39,126,929)
Net capital assets	$ 94,601,622	$ 17,575,347	$ (4,846)	$ -	$ 112,172,123

Construction in progress at June 30, 2007 is primarily composed of construction costs for terminal expansion, capital restoration of hurricane damage, and construction costs for rehabilitating berth facilities. For the year ended June 30, 2007, $1,169,378 of interest incurred on outstanding debt during the construction period was capitalized.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 5: CAPITAL ASSETS (Continued)

For the fiscal year ended June 30, 2006

	Balance July 1, 2005	Additions	Disposals	Transfers	Balance June 30, 2006
Land	$ 7,361,810	$ -	$ -	$ -	$ 7,361,810
Buildings	41,361,747	-	(33,647,889)	-	7,713,858
Machinery and equipment	5,716,892	53,617	(3,392,968)	-	2,377,541
Land improvements	25,611,579	-	(7,787,513)	-	17,824,066
Infrastructure	72,105,858	-	(10,960,024)	6,434,253	67,580,087
Construction in progress	25,210,376	9,388,801	(285,610)	(6,434,253)	27,879,314
Total capital assets	177,368,262	9,442,418	(56,074,004)	-	130,736,676
Less: accumulated depreciation for:					
Buildings	(6,885,680)	(68,355)	6,162,489	-	(791,546)
Machinery and equipment	(4,181,861)	(54,172)	2,347,687	-	(1,888,346)
Land improvements	(10,322,042)	(259,568)	2,961,210	-	(7,620,400)
Infrastructure	(29,004,266)	(2,477,376)	5,646,880	-	(25,834,762)
Total accumulated depreciation	(50,393,849)	(2,859,471)	17,118,266	-	(36,135,054)
Net capital assets	$ 126,974,413	$ 6,582,947	$ (38,955,738)	$ -	$ 94,601,622

All of the disposals for fiscal year ending June 30, 2006 were the result of devastation cause by the impact of Hurricane Katrina on August 29, 2005. Using the facts and circumstances approach outlined in GASB No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments,* management determined that the impairment gain should be reported as an extraordinary item as discussed in Note 4 above. For the year ended June 30, 2006, $1,076,200 of interest incurred on outstanding debt during the construction period was capitalized.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 5: CAPITAL ASSETS (Continued)

For the fiscal year ended June 30, 2005

	Balance July 1, 2004	Additions	Disposals	Transfers	Balance June 30, 2005
Land	$ 7,361,810	$ -	$ -	$ -	$ 7,361,810
Buildings	41,496,747	-	(135,000)	-	41,361,747
Machinery and equipment	5,606,498	79,689	(129,245)	159,950	5,716,892
Land improvements	24,752,319	-	(532,196)	1,391,456	25,611,579
Infrastructure	72,546,363	-	(440,505)	-	72,105,858
Construction in progress	16,609,528	10,205,235	(52,981)	(1,551,406)	25,210,376
Total capital assets	168,373,265	10,284,924	(1,289,927)	-	177,368,262
Less: accumulated depreciation for:					
Buildings	(6,118,064)	(821,163)	53,547	-	(6,885,680)
Machinery and equipment	(4,118,384)	(154,801)	91,324	-	(4,181,861)
Land improvements	(9,683,374)	(847,132)	208,464	-	(10,322,042)
Infrastructure	(26,853,783)	(2,590,986)	440,503	-	(29,004,266)
Total accumulated depreciation	(46,773,605)	(4,414,082)	793,838	-	(50,393,849)
Net capital assets	$ 121,599,660	$ 5,870,842	$ (496,089)	$ -	$ 126,974,413

For the year ended June 30, 2005, $867,655 of interest incurred on outstanding debt during the construction period was capitalized.

NOTE 6: DEFERRED REVENUE

As of June 30, deferred revenue includes the following:

	2007	2006	2005
FEMA	$ 49,913	$ 49,913	$ -
Dupont	36,979	-	-
Island View Casino	450,237	-	-
	$ 537,129	$ 49,913	$ -

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 7: BONDS PAYABLE

The Authority is responsible for the repayment of specific General Obligation Bonds of the State of Mississippi relative to Authority capital projects. The bonds are backed by the full faith and credit of the State of Mississippi but are being retired from the resources of the Authority and are presented as debt of the Authority. The 1991 Series B bond was paid in fiscal year 2005.

An analysis of bond activity is as follows:

For the fiscal year ended June 30, 2007

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at July 1, 2006	Principal Payments	Balance at June 30, 2007
16	$ 40,000,000	9/1/1998	9/1/2018	4.00-5.50%	$ 30,240,000	$ 1,695,000	$ 28,545,000
Less: current maturities included in current liabilities					(1,695,000)		(1,780,000)
Bond payable, net of current portion					$ 28,545,000		$ 26,765,000

For the fiscal year ended June 30, 2006

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at July 1, 2005	Principal Payments	Balance at June 30, 2006
16	$ 40,000,000	9/1/1998	9/1/2018	4.00-5.50%	$ 31,850,000	$ 1,610,000	$ 30,240,000
Less: current maturities included in current liabilities					(1,610,000)		(1,695,000)
Bond payable, net of current portion					$ 30,240,000		$ 28,545,000

For the fiscal year ended June 30, 2005

Series	Issue Amount	Issue Date	Maturity Date	Interest Rate	Balance at July 1, 2004	Principal Payments	Balance at June 30, 2005
16	$ 40,000,000	9/1/1998	9/1/2018	4.00-5.50%	$ 33,385,000	$ 1,535,000	$ 31,850,000
1991B	$ 6,155,000	12/1/1991	12/1/2004	4.00-6.10%	395,000	395,000	-
Total bonds payable					33,780,000	$ 1,930,000	31,850,000
Less: current maturities included in current liabilities					(1,930,000)		(1,610,000)
Bonds payable, net of current portion					$ 31,850,000		$ 30,240,000

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 7: BONDS PAYABLE (Continued)

The Authority's future principal and interest requirements as of June 30, 2007 related to the bond payable at June 30, 2007 are as follows:

Year(s)	Principal	Interest	Total
2008	$ 1,780,000	$1,365,300	$ 3,145,300
2009	1,870,000	1,285,890	3,155,890
2010	1,970,000	1,195,500	3,165,500
2011	2,070,000	1,094,500	3,164,500
2012	2,175,000	988,385	3,163,385
2013-2017	12,660,000	3,150,500	15,810,500
2018-2022	6,020,000	304,750	6,324,750
	$28,545,000	$9,384,825	$37,929,825

Total interest incurred on bonds payable totaled $1,415,577, $1,486,877, and $1,563,757 for fiscal years ended June 30, 2007, 2006, and 2005, respectively.

NOTE 8: COMPLIANCE WITH BOND COVENANTS

The indenture covenants of the Series 16 State of Mississippi General Obligation Bond require the establishment of certain funds and periodic transfers of money to them as follows:

A. Bond and Interest Sinking Fund - into which shall be transferred by the tenth day of the month preceding the payment date an amount to cover the principal and/or interest payment due.

B. Operation Reserve Fund - into which shall be transferred monthly payments until such fund shall equal $250,000.

C. Bond Reserve Fund - into which shall be transferred monthly payments until such fund shall equal $455,000.

The balances of the above funds at June 30, 2007 reported as restricted assets on the balance sheet, are as follows:

	Balance June 30, 2007	Bond Requirements	Over Funded
Operation Reserve Fund	$ 256,454	$ 250,000	$ 6,454
Bond Reserve Fund	455,000	455,000	-
Totals	$ 711,454	$ 705,000	$ 6,454

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 9: CONDUIT (NO COMMITMENT) DEBT OBLIGATION

On May 1, 1991, the Mississippi Business Finance Corporation (Issuer), an agency of the State of Mississippi, under the direction of the MDA, issued 1991 Series B revenue bonds totaling $10,000,000 under the provisions of a trust indenture to fund the costs of constructing, installing and equipping ore storage and handling facilities to be owned by the Authority. The 1991 Series B revenue bonds are payable solely from and secured by a pledge of rental payments to be received under the lease agreement with E. I. du Pont de Nemours and Company (DuPont) and are irrevocably and continually guaranteed by DuPont. These bonds are not a general obligation of the Issuer, MDA or the Authority and are not an indebtedness of the State of Mississippi or any political subdivision thereof. Neither the faith and credit of the Issuer, MDA or the Authority nor the taxing power of the State of Mississippi or any political subdivision thereof is pledged to the payment of the principal or interest of these bonds.

DuPont pays rental payments to the trust, which in turn pays debt service requirements. The effect of this transaction is that the Authority has received an asset paid for by DuPont. The facility was completed in 1994, and the total cost of $9,723,685 was included in improvements as of June 30, 1994. The bonds bear interest at a rate of 7.15% per annum. The bonds were paid in full by DuPont on December 12, 2005.

NOTE 10: CAPITAL CONTRIBUTIONS

Accounting principles generally accepted in the United States of America for proprietary funds of governmental entities require that resources (i.e., grants, entitlements, or shared revenues) externally restricted for capital acquisition or construction are to be reported as capital contributions in the statement of revenues, expenses, and changes in net assets. Capital acquisitions acquired through such resources totaled $479,818 and $86,229, as of June 30, 2006 and 2005, respectively. There were no capital contributions as of June 30, 2007.

NOTE 11: LEASING ARRANGEMENTS

Substantially all of the Authority's property and equipment are leased to various businesses for periods up to 40 years. All of the leases are accounted for as operating leases. Revenue from leases was $4,655,125, $4,072,722, and $13,039,452 for 2007, 2006, and 2005, respectively. The leases to gaming operations include contingent rentals of $2,496,757, $2,051,170, and $11,457,154 for 2007, 2006, and 2005, respectively. These contingent rentals are based on gross revenues of the gaming and certain non-gaming operations. Many of the leases with other operations include provisions for minimum thruput charges in order to fund debt service requirements relating to the specific facility leased. These thruput charges are included in operating revenues.

The following is a schedule of future minimum rentals for the next five years under lease agreements in effect as of June 30, 2007, not including contingent rentals, consumer price index adjustments, or thruput charges:

Year	Amount
2008	$2,159,872
2009	1,833,240
2010	1,614,300
2011	1,436,800
2012	1,436,800
Total	$8,481,012

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 12: DEFINED BENEFIT PENSION PLAN

Plan Description

The Authority contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS, 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary and the Authority is required to contribute at an actuarially determined rate. As of June 30, 2005, the Authority's rate was 9.75% of annual covered payroll. For the periods ending June 30, 2006, and June 30, 2007, the Authority's rate was 11.3% of annual covered payroll. Effective July 1, 2008, the Authority's rate increases to 11.85%. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The Authority's contributions to PERS for the years ended June 30, 2007, 2006, and 2005 were $166,095, $182,155, and $185,843, respectively, equal to the required contributions for each year.

NOTE 13: LEASES

In May 2007, the Authority entered into a new lease agreement for office space. The office space lease is classified as an operating lease. The lease has an initial period of seven years with one additional renewal period of five years. Annual rent under this lease agreement is $164,509. The terms of the lease agreement state that the first two months of payments are waived in consideration of costs associated with moving. The term period will begin on July 1, 2007. Therefore, there is no rent expense for the lease for the year ended June 30, 2007. Rent expense under the lease expiring in October 2005 was $22,842 and $139,124 for the years ended June 30, 2006 and 2005, respectively. Upon the expiration of the office lease in October 2005, the Authority's rental arrangement changed to a month-to-month agreement.

In addition to office space, in December 1999, the Authority began renting modular buildings under an original three-year operating lease expiring December 2002 and subsequent month-to-month operating leases. The Authority provided one of these buildings to a lessee as part of the customer's lease agreement. The building was returned on April 29, 2005. Rent expense under these leases was $7,250 for the year ended June 30, 2005.

Rent expenses are included in the statements of revenues, expenses, and changes in net assets as contractual services. The minimum future lease payments on these leases at June 30, 2007 are as follows:

Year	Amount
2008	$ 164,509
2009	164,509
2010	164,509
2011	164,509
2012	164,509
Thereafter	329,018
Total	$1,151,563

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 14: ECONOMIC DEPENDENCY

One lessee accounted for approximately 58 percent of the operating revenues in fiscal year 2007. There were no significant gaming revenues in fiscal year 2006. Two other gaming operation lessees collectively accounted for approximately 55 percent of the operating revenues in fiscal year ended June 30, 2005.

NOTE 15: COMMITMENTS AND CONTINGENCIES

Commitments

Construction in Progress

Construction in progress at June 30, 2007 is primarily composed of construction costs for terminal expansion, capital restoration of hurricane damage, and construction costs for rehabilitating berth facilities. The total amount of the construction contracts in progress as of June 30, 2007 is $78,439,893, of which $43,327,753 in construction costs has been incurred through June 30, 2007. Of the construction costs incurred as of June 30, 2007, the Authority remains obligated to pay $5,112,916 from unrestricted cash. The Authority is further obligated to pay the remaining amount of $35,112,140 as work progresses on these construction contracts from Authority revenues and bonds.

Other Projects

The Authority is also committed to construction material testing and inspection services, services for regulatory and environmental permitting, perimeter security fencing, sewer lift station repairs, and land use concept. The total of the contracts is $1,380,840, of which $328,122 has been incurred through June 30, 2007. The Authority is further obligated to pay the remaining amount of $1,052,718 as work progresses.

Army Corps of Engineers

In January 2003, the Authority entered into an agreement with the Army Corps of Engineers to prepare a Gulfport Harbor General Reevaluation Report. The Authority's share of the costs related to the report is $1,058,531. The total costs incurred as of June 30, 2007 is $650,000. Of the total costs incurred, $227,500 were incurred as of June 30, 2005, and are recorded on the comparative statements of revenue, expenses, and changes in net assets as contractual services. There were no costs incurred as of June 30, 2007 and 2006. The remaining costs were incurred prior to June 30, 2004.

Contingencies

Regulatory Environment

The Authority's future expansion plans, accounted for in construction in progress, are subject to various regulatory approvals by federal and state agencies which could affect the scope and timing of project completion.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007, 2006, AND 2005

NOTE 16: MISSISSIPPI COAST FOREIGN TRADE ZONE, INC.

In January 1999, the U. S. Department of Commerce Foreign Trade Zone Board approved the expansion of the Greater Gulfport/Biloxi Foreign Trade Zone, Inc. to include Harrison County. Such designation allows foreign or domestic merchandise coming into the Mississippi State Port Authority to generally be considered as part of international commerce and not officially entered in United States Commerce. Therefore, the usual duties charged on goods may be deferred, reduced, avoided or eliminated.

NOTE 17: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and the destruction of assets; errors and omission; injuries to employees; and natural disasters. Significant losses are generally covered by commercial insurance with the exception of the self-insured risks discussed below. There have been no reductions in insurance coverage.

Self-Insurance

Tort Claims

In July 1993, the Authority became a member and participant in the Mississippi Tort Claims Fund under the administration of the Mississippi Tort Claims Board. This entity is a self-insurance tort (civil suit) claims fund organized under Mississippi Code Ann. 1972 Section 11-46-17. Membership for state agencies is mandatory. The plan provides liability and tort claims insurance for its members according to limits established by the Mississippi Tort Claims Act. The members of the group are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

Unemployment Insurance

In January 1979, the Authority became a member and participant in the Unemployment Insurance Fund under the administration of the Department of Finance and Administration, Office of Insurance. The entity is a self-insurance unemployment insurance fund organized under Mississippi Code Ann. 1972 Section 71-5-355. Membership for state agencies is mandatory. The group is self-insured for all unemployment claims filed with the Mississippi Employment Security Commission by former State employees. The members of the group are jointly and severally liable for the obligations of the group. The possibility of additional liability exists, but that amount, if any, cannot be determined.

NOTE 18: SUBSEQUENT EVENT

Construction Contracts

Subsequent to year end, the Authority entered into $290,493 in construction and engineering change orders related to various projects.

Grants

Subsequent to year end, the Authority has accepted grant offers from state and federal entities totaling over $2,000,000 for harbor improvements and channel maintenance.

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Alexander | Van Loon | Sloan | Levens | Favre, PLLC

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 26, 2007

To the Board of Commissioners
Mississippi State Port Authority at Gulfport
Gulfport, Mississippi

We have audited the financial statements of the Mississippi State Port Authority at Gulfport, as of and for the year ended June 30, 2007, and have issued our report thereon dated October 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Mississippi State Port Authority at Gulfport's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mississippi State Port Authority at Gulfport's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Mississippi State Port Authority at Gulfport's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Mississippi State Port Authority at Gulfport's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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To the Board of Commissioners
Mississippi State Port Authority at Gulfport
October 26, 2007

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Mississippi State Port Authority at Gulfport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain additional internal control and other matters that we have reported to management of the Mississippi State Port Authority at Gulfport in a separate letter dated October 26, 2007.

This report is intended solely for the information and use of management, the Board of Commissioners and others within the Authority, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Alexander, Van Loon, Sloan, Levens & Favre

ALEXANDER, VAN LOON, SLOAN, LEVENS & FAVRE, PLLC
Certified Public Accountants
Gulfport, Mississippi

Alexander | Van Loon | Sloan | Levens | Favre, PLLC

**REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO THE
MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

October 26, 2007

To the Board of Commissioners
Mississippi State Port Authority at Gulfport
Gulfport, Mississippi

Compliance

We have audited the compliance of the Mississippi State Port Authority at Gulfport, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. The Mississippi State Port Authority at Gulfport's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Mississippi State Port Authority at Gulfport's management. Our responsibility is to express an opinion on the Mississippi State Port Authority at Gulfport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Mississippi State Port Authority at Gulfport's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Mississippi State Port Authority at Gulfport's compliance with those requirements.

In our opinion, the Mississippi State Port Authority at Gulfport complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-1.

Internal Control Over Compliance

The management of the Mississippi State Port Authority at Gulfport is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs.

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To the Board of Commissioners
Mississippi State Port Authority at Gulfport
October 26, 2007

In planning and performing our audit, we considered the Mississippi State Port Authority at Gulfport's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Board of Commissioners and others within the Authority, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Alexander, Van Loon, Sloan, Levens + Favre

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Certified Public Accountants
Gulfport, Mississippi

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Identifying Number	Federal Expenditures
U.S. Department of Homeland Security			
Passed through the Mississippi Emergency Management Agency:			
Disaster Public Assistance Grant	97.036	PW6480	$ 22,906
		PW7811	508,890
		PW7999	40,483
		PW8249	885
		PW8418	35,835
		PW8606	92,337
		PW8627	35,845
		PW8766	99,557
		PW8908	221,323
		PW9191	119,516
		PW9400	31,613
		PW9433	1,151
		PW9780	4,422
		PW9876	134,793
		PW9898	32,162
		PW9903	83,458
		PW9904	3,782,167
		PW9932	966
		PW9934	4,644
		PW10031	770
		PW10074	89,286
Total U.S. Department of Homeland Security			5,343,009
Total Expenditures of Federal Awards			$ 5,343,009

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1- BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards is included in the federal grant activity of the Mississippi State Port Authority at Gulfport and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.*

NOTE 2- RECONCILIATION TO GRANT REVENUE

The following reconciles the Total Expenditures of Federal Awards to grant revenue recognized in the Comparative Statements of Revenues, Expenses, and Changes in Net Assets:

Total expenditures of federal awards	$ 5,343,009
Overstatement of federal expenditures on PW7489 at June 30, 2006	(1,777)
Total federal revenues	$ 5,341,232

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unqualified
Internal Control over financial reporting:	
Material Weaknesses identified?	No
Reportable Conditions identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Internal Control Over Major Programs:	
Material Weaknesses identified?	No
Reportable Conditions identified that are not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section_510(a) of Circular A-133?	Yes

Programs tested as major programs:

CFDA Number(s)	Name of Federal Program
97.036	Disaster Public Assistance Grant

Dollar threshold used to distinguish between type A and B Programs	$300,000
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

None

MISSISSIPPI STATE PORT AUTHORITY OF GULFPORT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007

Section III – Federal Award Findings and Questioned Costs

2007-1 Finding

Program: *U. S. Department of Homeland Security*; Disaster Public Assistance Grant; CFDA #97.036
PW 7126; PW 7999; PW8418; PW8606; PW9400; PW9876; PW9904; PW10074

Criteria or Specific Requirement

Per OMB Circular A-102.1.d and OMB Circular A-110.44(d) non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred. Federal nonprocurement rules require that the grantee verify that the contractor is not suspended or debarred or otherwise excluded by checking the *Excluded Parties List System* (EPLS) listing maintained by the General Services Administration, collecting a certification from the contractor, or adding a clause or condition to the covered transaction with the contractor.

Condition

The grantee did not obtain certification of suspension or debarment as part of the contract prior to contract award, did not include a clause or condition in the contract, and did not check the EPLS listing.

Questioned Costs

There are no questioned costs associated with the finding.

Context

Subsequent verification on the EPLS website revealed that the two construction contractors and two engineering firms were not suspended or debarred on the date of the contract awards.

Effect

Non-compliance with suspension and debarment requirements could result in future questioned costs and/or loss of funding.

Cause

Although the grantee is aware of the requirement not to use contractors who have been suspended or debarred, there was no process in place to ensure that the proper procedures were performed.

Recommendation

We recommend that the grantee develop and institute procedures to ensure that certification of suspension or debarment is obtained before contracts are awarded.

Views of Responsible Officials and Planned Corrective Actions

Management concurs with the finding and has provided a response in the Corrective Action Plan.

MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT

Corrective Action Plan
Single Audit
Fiscal Year Ending June 30, 2007

Finding 2007-1

The Authority failed to obtain documentation for several contractors where the contracts were already in place at the end of Fiscal Year 2006. The Authority will check all contracts that were issued prior to the original finding for certification of suspension or debarment. In addition, a checklist will be developed to include the requirement for certification of suspension or debarment. The revised procedure will include certification from the department manager that the checklist is complete and has been reviewed.

Mary J. Bourdin, CPA

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Deputy Director
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MISSISSIPPI STATE PORT AUTHORITY AT GULFPORT

Summary Schedule of Prior Audit Finding
June 30, 2007
(Unaudited)

2006-1 Disaster Public Assistance Grant; CFDA No. 97.036; U.S. Department of Homeland Security passed through the Mississippi Emergency Management Agency

Condition:

The Mississippi State Port Authority at Gulfport did not obtain certification of suspension or debarment as part of the contract prior to contract award.

Recommendation:

"We recommend that the grantee develop and institute procedures to ensure that certification of suspension or debarment is obtained before contracts are awarded."

Current Status:

The Authority immediately implemented procedures to obtain certification of suspension or debarment as soon as they received notification of the error. The general conditions and information for bidders were revised to require all bidders to provide the appropriate documentation when submitting any bid.

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Additional Information to the House Financial Services Committee

Mississippi Governor's Office of Recovery and Renewal

1. What instructions did the state receive from HUD regarding fair housing?

The state has and continues to take all necessary steps to address Fair Housing on the Gulf Coast as required by HUD. The state built upon the Analysis of Impediments to Fair Housing (AI) conducted in 2003 by updating AI specifically addressing the lower 4 counties most impacted by Hurricane Katrina (Hancock, Harrison, Jackson, and Pearl River). This updated study was approved by HUD. HUD further requested that the state complete an analysis statewide, to which the state will comply no later than November 9, 2008.

2. What steps did the state take to assure that the state was following fair housing laws and meeting its obligations?

The state updated 2003 AI recognizes and addresses impediments identified in the 2003 AI. Partners with HUD and other non-profit organizations to overcome these impediments as through the HUD approved action plan.

Did the state determine what new impediments to fair housing choices were created by the hurricane and how these could be overcome?

The state has addressed identified impediments, such as those pertaining to accessible construction, lack of affordable housing, including rental stock, non-renewal of leases and non-repair of dwellings, complaint resolution, and assistance with obtaining of applicant credit issues through approved and pending action plans.

Did the state analyze the housing needs of members of protected classes?

As required by HUD, analyses to identify impediments to fair housing choices of the protected classes in the lower 4 counties were included in the updated AI. Further analyses for the remainder of the state's counties will be completed no later than November 9, 2008.

Did the state analyze the formula for homeowner assistance grants for any discriminatory impact? How was this done? What were the conclusions?

The state took proactive steps to ensure that a significant portion of its CDBG dollars reached low and moderate income communities within the coastal counties. About 30 percent of Homeowners Assistance Grants issued in Phase 1of the Homeowners Assistance Program were to low and moderate income (i.e., homeowners who were at or below 80 percent of Average Median Income for particular area) Phase 2 of the Homeowners Assistance Program is geared specifically toward low and moderate income homeowners. Additionally, the state took measures to make available financial counseling for those wanting or needing it.

What steps were taken to affirmatively market the housing assistance programs?

The state contracted with Enterprise Corporation of the Delta to conduct outreach campaigns specifically directed to protected classes. Examples of these activities, above and beyond the standard media advertisement mechanisms of newspapers, billboards, and television, include door-to-door outreach in the lower 4 counties, informational door hangers and other materials printed in Spanish and Vietnamese, and a mobile service center campaign, which targeted locations in the lower 4 counties to make sure that all potential applicants were aware of the housing programs available to them.

What steps were taken to identify and meet the needs of residents with limited English proficiency?

The state contracted with the East Biloxi Coordination, Relief, and Redevelopment Agency to conduct outreach to Spanish and Vietnamese communities in the Lower 4 counties. Numerous workshops were held on the coast specifically for these communities. In addition, in each of the state's three service centers located on the coast, there was trained staff available to translate and provide assistance to those applicants of limited English proficiency.

3. Please provide the Committee with the most recent Analysis of Impediments to Fair Housing Choice submitted to HUD.

   Copy of updated AI attached.

   Now that the state's AI has been rejected, what are the state's plans for revising it?

   As referenced above, the state's updated AI for the lower 4 counties was approved by HUD. To comply with HUD's requirement that the AI cover counties statewide, MDA has contractred with a reputable third party organization to complete an updated AI for locations in Mississippi other than the four Hurricane Katrina Disaster grant counties (Hancock, Harrison, Jackson, and Pearl River), and other entitlement jurisdictions of the Cities of Jackson, Hattiesburg, Biloxi, Gulfport, Moss Point, and Pascagoula.

      What has HUD instructed the state to do?

      Please see answer above.

      What has the state done already?

Updated AI, Draft Action Plan submitted to HUD.

What is the timeline for completing an updated AI?

As per the instructions from Marilyn Moore-Lemons, the MDA will submit the updated, statewide AI to the Jackson Office of Fair Housing and Equal Opportunity no later than November 9, 2008.

4. What was the basis of the state's certification that it was in compliance with the fair housing and civil rights requirements of CDBG?

   a. As part of HUD's published Consolidated Plan, which includes the Comprehensive Housing Affordability Strategy (CHAS) the Community Development Plan (required for the Community Development Block Grant (CDBG) program, and submission and reporting requirements for four community development formula grant programs, the state is required to:

      i. Complete an Analysis of Impediments to Fair Housing Choice (AI);

      ii. Undertake actions to overcome the effects of any impediments identified through the analysis;

      iii. Maintain records reflecting the analysis and actions taken.

The state has complied with all existing HUD and CDBG requirements. No findings of noncompliance were provided to MDA.

5. Please provide the following race data:

   A. Phase I grants:

   B. Ethnicity data for Phase I was not a requirement of this program. The information that follows was provided by the Primary Applicants on a voluntary basis and is unverified

      Caucasian: 12,743
      African American: 3,012

   C. Same Data for the Following: Phase II, Infrastructure program (number of African–Americans benefiting from this program), Economic Development and community Revitalization program (number of African-Americans employed for these programs); Rate Payer and Wind Pool mitigation program

C.1. Phase II: Ethnicity data for Phase II was not a requirement of this program. The information that follows was provided by the Primary Applicant on a voluntary basis and is unverified.

Caucasian: 3,044
African American: 921

C.2. Infrastructure: The following projections of numbers to benefit from the Infrastructure program were obtained from the applications and are based on conceptual design. Actual project statistics will be available once project construction is completed. Currently, none of the 67 scheduled projects have completed construction.

Caucasian: 331,770
African American: 77,058

C.3 Community Revitalization: The requirements of community revitalization are to award CDBG funds to units of local governments for new construction, repair, or other public improvements needed as a result of damage from Hurricane Katrina. Grantees are required to comply with all standards set forth by HUD, State and Federal laws pertaining to the receipt of CDBG funds. MDA does not track construction of these projects (i.e. the racial makeup of the construction companies, architects, and other subcontractors). Anticipated beneficiary data by race is recorded in each application but is not a determining factor in the receipt of funds. For example, if a local government is building a fire station to replace one destroyed by Katrina, the beneficiary data will include a breakdown of who will be served by the new fire station. Upon completion of a Community Revitalization project, each grantee will report a total beneficiary breakdown by race. Because projects are still in the design phase or are awaiting environmental clearance, total beneficiary breakdown by race is not available at this time.

C.4 Economic Development: The Economic Development program is similar to those of Community Revitalization. Total number of estimated jobs for all the projects to date is 6,488.

C.5. Ratepayer/Windpool: Ratepayer mitigation program protected homeowners and businesses from absorbing the entire cost of the utility infrastructure restoration through utility bills. All individuals paying a utility bill benefited from this program through the mitigation against increased bills.

Windpool mitigation program was a one time grant provided to the MS Windstorm Underwriting Association to defray the additional cost to consumers of wind insurance. This program limited the insurance rate increases for any individual with coverage through the MS Windstorm Underwriting Association.

C.6. Number of African Americans employed by port:

Information is not collected specific to minority breakdown by race.

6. How does Mississippi expect to meet 50% requirement with port money when only 10% of employees are presently LMI and the population in the region as a whole is below 50% LMI. The many entities operating at the Port of Gulfport will recruit from the entire region to fulfill the 50% LMI requirement. HUD data regarding the percentage of low to moderate-income residents on the Mississippi Gulf Coast Region, as broken down by county or Municipality is as follows:

Local Government	LMI
George County	44.1%
Lucedale	58.0%
Hancock County	42.6%
Bay St. Louis	40.7%
Waveland	43.4%
Harrison County	36.6%
Biloxi	42.2%
D'Iberville	42.2%
Gulfport	44.9%
Long Beach	29.5%
Pass Christian	36.0%
Jackson County	34.2%
Moss Gautier	36.2%
Point	48.3%
Ocean Springs	29.0%
Pascagoula	47.1%
Pearl River County	41.0%
Picayune	44.1%
Poplarville	45.4%
Stone County	48.7%
Wiggins	54.4%

7. What race data do they maintain? What race data they have reported to HUD, if any? If they have reported race data to HUD, please submit all such reports.

a. See answer to 5.C.6 above.

8. What is the capacity of the port compared to pre-hurricane? How many persons does the Port of Gulfport now employ? How many have been hired in the past year? How many of those are low or moderate income. How many are African-American?

a. Currently the Port of Gulfport has 4 serviceable berths versus 10 pre-Katrina. This directly relates to the number of ships that can be served. The Port has 400,000 sq feet of covered shed space versus 700,000 sq feet pre Katrina. It should be noted that none of the current covered shed space is temperature controlled. However, The Port of Gulfport recently completed 100,000 sq.ft. of dry shed space that was used by customer GEARBULK pre-Katrina, BEARBULK, was forced to abandon Gulfport immediately following the storm at divide its business between other ports in the US Gulf, and entered in to leases with Port Manatee and Lake Charles, LA.

The Mississippi Port Authority (MSPA), per se, does not hire "casual" labor. MSPA employees (currently less than 30 individuals) are responsible for the daily management of the Port Authority. These positions may be in the areas of maintenance, operations, administration and engineering and are State of Mississippi employees. MSPA demographics (2005 versus 2008):

Total number of employees on August 28, 2005	42
Total number of minority employees on August 28, 2005	6
Total number of employees on May 29, 2008	28
Total number of minority employees on May 29, 2008	3
Total number of new hires in last 12 months	0

For Port daily operations, the steamship lines and stevedores employ or engage ILA laborers. ILA Local 1303 provides a labor pool from which to draw. The regularly scheduled steamship lines calling Gulfport are Crowley Liner Services, DOLE Liner Express and The Great White Fleet (Chiquita.) They have vessels in the port every week.

On an irregular (or "non-liner") basis, DuPont, and other specialized Carriers, will place ships at/in the Port of Gulfport throughout the year. They will all utilize ILA labor. This is done through one of two stevedores (loaders and unloaders of ship's cargo); the stevedores are Ports America and SSA Marine.

9. How many residents of FEMA trailers will be displaced by the closing of the FEMA trailer parks at the end of the month? What alternative funding is available for these residents? What is the State doing to assist these residents?

According to FEMA, no FEMA trailer parks will be closed in June; one will be closed at the end of July. FEMA will offer assistance for the approximately 20 households in that park through DHAP or hotel vouchers until they find permanent housing.

As FEMA closes and consolidates its park sites, case managers will help the tenants find an apartment; if none are available, FEMA will pay for the tenant to live in a hotel. FEMA does not remove a household without identifying alternative living arrangements.

The state and FEMA are currently negotiating a case management program to provide services to disaster victims, with a focus on current FEMA travel trailer tenants. The program's primary goal is help those tenants secure long term housing.

10. How did Mr. Norris conclude in his testimony that there will be more affordable housing built with CDBG money than existed before the hurricane when (a) the data shows that many damaged units – especially rental – are not being replaced and; (b) there is a critical shortage of affordable housing for households being evicted from FEMA trailers?

Please see attached, Mississippi Coast Housing Projection. Which estimates that the number of affordable units constructed utilizing CDBG and other disaster funds will be comparable to the number of units receiving major and severe damage in the lower three counties. Units constructed using other funds, such as insurance payments and non-profit assistance, are not included. Through all of these funding sources, more affordable housing will be rebuilt than existed before Hurricane Katrina.

11. Why is it appropriate to do major expansion with CDBG funds when Mississippi faces a continued housing crisis? What other sources of funding are available for the port?

The restoration of the Port of Gulfport is crucial to the economy and long-term recovery of the State of Mississippi and to the Gulf Coast region. Many products grown or manufactured in the state are exported through the Port, includes two of the top three exports, poultry and forest products.

As an enterprise agency of the state of Mississippi, the Port receives no annual general fund allocation from the State, but operates as a private enterprise. From a revenue standpoint, the Port of Gulfport was on pace to report total operating revenues of $21M FY 2005. Compared to 8.7m for FY 2008.

2008 budget reflected \$8.7M. Other sources of funding available to the Port are FEMA, US Corps of Engineers, US Customs, Homeland Security and insurance proceeds. To restore the Port to full capacity will assist in returning the Port to a
self generator of funds.

12. Is it not true that when Governor Barbour asked specifically for CDBG funds to expand the Port of Gulfport in March, 2006, but that Congress did not provide the sought after funding in its second appropriation in June, 2006?

The state's initial appropriations request in November 2005 included funding for the Port of Gulfport's restoration, Homeowner Assistance Program, and other recovery needs. The state requested Port funding through the U.S. Department of Transportation and homeowner assistance funding through FEMA. Governor Barbour presented the comprehensive recovery plan to Congress, and briefed the House and Senate leadership and appropriations committees.

Congress, however, consolidated funding for these programs under CDBG because it is an existing federal program that is flexible and could deliver funds quickly. No specific projects were mentioned in the CDBG appropriations and states were provided flexibility to make recovery decisions. Congress specifically identified infrastructure needs as a priority for CDBG spending.

Pub. Law No. 109-148 (Dec. 30, 2005)
*"For an additional amount for "Community development fund", for necessary expenses related to disaster relief, long-term recovery, and **restoration of infrastructure**.... "*

Pub. Law No. 109-234 (June 15, 2006)
*"For an additional amount for "Community development fund", for necessary expenses related to disaster relief, long-term recovery, and **restoration of infrastructure**.... "*

Further:

*"That prior to the obligation of funds each State shall submit a plan to the Secretary detailing the proposed use of all funds, including criteria for eligibility and how the use of these funds will address long-term recovery and **restoration of infrastructure**: Provided further, That prior to the obligation of funds to each State, the **Secretary shall ensure that such a plan gives priority to infrastructure development and rehabilitation** and the rehabilitation and reconstruction of affordable rental housing stock including public and other HUD-assisted housing"*

Q. Did MDA have input from the public about the CDBG?

A. Yes

Q. What was the process?

A. On Friday, September 7, 2007, at about 5 pm, MDA announced its plan to reprogram $600 million in housing funds to finance the expansion of the the State Port at Gulfport. The deadline for public comment was September 24, 2007. 10 business days, or 17 days if weekends are counted.

The public comment version of this action plan was placed on the MDA website. Internet access was a prerequisite to seeing the action plan. It was not distributed elsewhere to our knowledge by MDA. There was an email release, and some basic news coverage. There was no hearing and no affirmative outreach beyond the notice by MDA.

The action plan narrative was 7 pages long, and the provisions on the public comment process are quoted below. The Action Plan did not include the 2003 Master Plan or the 2007 Master Plan which provided the details of the proposed expansion and the economic rationale. The action plan made no mention of plans to include a hotel/casino complex on the port premises.

Citizen Participation / Public Comment
This proposed amendment—Amendment 5—is submitted for public comment. Copies are available on the internet at www.mississippi.org or upon request to MDA via the public comment submission process noted below. Written comments regarding this proposed modification may be mailed to MDA, Post Office Box 849, Jackson, MS 39205, Attention: Disaster Recovery, or sent via facsimile to (601)359-9280. Comments may also be submitted online to actioned@mississippi.org. Comments must be received no later than September 24, 2007, at 5:00 p.m. Central Standard Time. Changes may be made at that time and the final amendment to the Action Plan will then be submitted to HUD for approval.

Q. How did MDA actually receive comments?

A. In writing by mail fax or email.

Q. Did MDA hold hearings?

A. No.

Q: [a question Rep. Green should have asked] What were the public's comments? What was the degree of support or opposition to this proposal from the public input side?]

A. The public comment was 1,593 opposed versus 5 in favor of the port diversion.

See the attached final action plan, pp. 10-12.

Opposed to funding port restoration with funds currently allocated to the Homeowners Assistance Program. (Petition signatures 1,377, individual responses 195, 21 responses were received after the deadline)

Supports the restoration of the Port but requests the plan to be amended to be more responsive to local governments' desires for expanded uses of the Port site by providing inclusion of the city's long-term goals and objectives and reflect a stronger management role by MDA and the City of Gulfport. (1)

Supports cruise ship terminals being built at Port of Gulfport (2)

Supports Port Restoration Program (2)

Q. (Rep. Green) Will this principally benefit low moderate income people?

A. (MDA's answer): Jobs created through rebuilding efforts will be presented to low mod individuals.

MCJ's answer in fact is, NO, this $600 million dollar investment will not meet the requirement that at least 50% of the expenditure will principally or primarily benefit low and moderate income persons.

The following is excerpted from the Final Action Plan, pp. 4-5.

The 2007 Master Plan Update projects approximately 5,400 direct, induced and indirect maritime jobs to be generated by the year 2015. Table 3 shows there were 2,058 direct maritime jobs prior to Hurricane Katrina. Of these 2,058 jobs, 205 were held by individuals with low-to-moderate-income. In 2007, the number of direct maritime jobs has fallen to 1,286, 141 of which are held by individuals with low-to-moderate- income.

As the recipient of this funding, the Port and its tenants will make jobs available to low-to-moderate-income workers. The Port's tenants will be required to sign a contract/Memorandum of Agreement (MOA) with the Port. The MOA will detail the job classification categories and the number of jobs created or retained that will be made available to low-to-moderate-income persons. All jobs created or retained and those that are made available to low-to-moderate-income workers will be documented and reported. These efforts will provide relief and long-term recovery to the disaster area and are consistent with the CDBG program's primary purpose.

Merely "presenting" the opportunity to apply for jobs of certain classifications to persons of low and moderate income is not adequate assurance that 50% of this enormous expenditure in fact will primarily benefit persons of low and moderate income for the following reasons:

(1) The benefit is hypothetical, it depends upon unspecified job opportunities arising months if not years in the future.

(2) There are no practical consequences for failure to meet the low-moderate income benefit. The $600 million will be spent and cannot be recaptured.

(3) Based on past history, the Port only has had 10% of its jobs held by persons of low and moderate income.

Q. (Rep. Green) Some may benefit, but I am not convinced they would be principal beneficiaries.
Will they be principal beneficiaries?

A. (MDA's response) This is an issue of overall recovery of ms gulf coast. Port redevelopment is crucial part of MS economic recovery.

A. Low and moderate income people will not be the principal or primary beneficiaries. See discussion above.

Q. Will this Port Expansion aid in elinimnating slums or blight?

A. (MDA's answer) Mississippi only has to meet one of the national objectives. This is not one we rely upon.

MCJ'S answer is No, in fact this port expansion likely will increase slum and blight because it will place an inland terminal, with a railway switching yard, warehouses, and 18-wheel parking/transit acreage immediately south of a blighted, economically depressed predominantly African American community known as North Gulfport. This action has serious environmental justice questions. It also may include a dedicated, and possibly elevated, highway that would sever and further isolate two other distressed African American communities (the Quarters and Gaston Point) from the main part of the city of Gulfport.

O