

GAO

Report to the Committee on Homeland  
Security and Governmental Affairs,  
U.S. Senate

June 2009

GULF COAST  
DISASTER  
RECOVERY

Community  
Development Block  
Grant Program  
Guidance to States  
Needs to Be Improved



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Highlights of [GAO-09-541](#), a report to the Committee on Homeland Security and Governmental Affairs, U.S. Senate

## Why GAO Did This Study

Almost 4 years after the 2005 Gulf Coast hurricanes, the region continues to face daunting rebuilding challenges. To date, \$19.7 billion in Community Development Block Grant (CDBG) funds have been appropriated for Gulf Coast rebuilding assistance—the largest amount in the history of the program. GAO was asked to report on (1) how Louisiana and Mississippi allocated their shares of CDBG funds, (2) what difficulties Louisiana faced in administering its housing recovery program, and (3) what human capital challenges Louisiana and Mississippi encountered and the efforts taken to address those challenges. GAO interviewed federal and state officials and reviewed budget data, federal regulations, and state policies and planning documents.

## What GAO Recommends

GAO recommends that the Secretary of Housing and Urban Development (HUD): (1) issue written CDBG disaster assistance program guidance that articulates an acceptable rehabilitation versus compensation program, including, among other things, explanation of program elements that trigger federal environmental reviews and (2) coordinate with the Federal Emergency Management Agency (FEMA) to clarify options and limits of using CDBG funds with other disaster-related federal funds. HUD partially agreed with the recommendations, citing concerns about the content and timing of new guidance. GAO believes such guidance would better aid states' housing recovery efforts.

View [GAO-09-541](#) or key components. For more information, contact Stanley J. Czerwinski at (202) 512-6806 or [czerwinkis@gao.gov](mailto:czerwinkis@gao.gov)

# GULF COAST DISASTER RECOVERY

## Community Development Block Grant Program Guidance to States Needs to Be Improved

### What GAO Found

Louisiana and Mississippi received the largest shares of CDBG disaster funds and targeted the majority toward homeowner assistance, allocating the rest to economic development, infrastructure, and other projects. Between 2006 and 2008, Louisiana's total allocation devoted to housing increased from 77 to 86 percent while Mississippi's decreased from 63 to 52 percent as the state focused on economic development. With homeowners as the primary focus, Louisiana initially adopted a plan that linked federal funds to home reconstruction and controlled the flow of funds to homeowners, while Mississippi paid homeowners for their losses regardless of their intentions to rebuild. This helped Mississippi avoid challenges that Louisiana would encounter, but with fewer assurances that people would actually rebuild.

Louisiana's approach to housing recovery created a program that incorporated certain elements from two different models—compensation and rehabilitation—funded with multiple federal funding streams. While there is no written guidance that distinguishes between the two models, HUD explained the major differences. In a rehabilitation model, funds are used explicitly for repairs or reconstruction, requiring site-specific environmental reviews. In contrast, a compensation program disburses funds directly to homeowners for damages suffered regardless of whether they intend to rebuild and does not trigger site-specific environmental reviews.

Federal guidance was insufficient to address Louisiana's program and funding designs. Two major problems stemmed from the state's approach. First, HUD and the state disagreed as to whether the incremental disbursement of funds subjected homeowners' properties to environmental reviews. Despite many iterations of the program, HUD ordered a cease and desist of the program, leading the state to abandon its original plans and issue lump-sum payments to recipients. Continual revision and re-submittal of the design contributed to a 12-month evolution of the program. Second, conflicting federal determinations hindered coordination of CDBG and FEMA's Hazard Mitigation Grant Program (HMGP) funds. According to state officials, the Federal Coordinator for Gulf Coast Rebuilding advised them to use most of the HMGP funds to acquire properties through their housing recovery program. FEMA rejected this plan, in part, because it determined that the program gave preference to the elderly. However, HUD is subject to similar legal requirements and did not find the program discriminatory. Louisiana changed its plans and used HMGP funds for a home elevation program. In sum, it took FEMA and the state over a year to reach agreement, delaying assistance to homeowners.

In the immediate aftermath of the 2005 hurricanes, Louisiana and Mississippi lacked sufficient capacity to suddenly administer and manage CDBG programs of such unprecedented size. Both states created new offices to direct disaster recovery efforts and hired additional state agency staff and private contractors to implement homeowner assistance programs.

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Figure 4: Mississippi's Allocations of CDBG Disaster Funds in 2006 and 2008

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**Abbreviations**

|        |   |
|--------|---|
| CDBG   | Community Development Block Grant   |
| DHS    | Department of Homeland Security   |
| FEMA   | Federal Emergency Management Agency   |
| GOHSEP | Louisiana Governor's Office for Homeland Security and<br>Emergency Preparedness |
| HMGP   | Hazard Mitigation Grant Program   |
| HUD    | Department of Housing and Urban Development                                     |
| LRA    | Louisiana Recovery Authority  |
| MDA    | Mississippi Development Authority   |
| OCD    | Louisiana Office of Community Development                                       |
| PA     | Public Assistance (grant program)   |

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United States Government Accountability Office  
Washington, DC 20548

June 19, 2009

The Honorable Joseph I. Lieberman  
Chairman  
The Honorable Susan M. Collins  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate

The Honorable Mary L. Landrieu  
Chairman  
Ad Hoc Subcommittee on Disaster Recovery  
Committee on Homeland Security and Governmental Affairs  
United States Senate

Almost 4 years after Hurricanes Katrina, Rita and Wilma brought death and destruction along the Gulf Coast, the region and the nation continue to face daunting rebuilding challenges. For perspective on the magnitude of the damage, some estimates put capital losses at a range of \$70 billion to more than \$150 billion.<sup>1</sup> Wide swaths of housing, infrastructure, and businesses were destroyed, leaving more than 1,500 people dead and hundreds of thousands of others displaced without shelter or employment. Over the coming years, perhaps decades, many neighborhoods and communities will need to be rebuilt—some from the ground up. The size and scope of the devastation caused by the 2005 Gulf Coast hurricanes<sup>2</sup> presents the nation with unprecedented rebuilding challenges, as well as opportunities to reexamine shared responsibility among all levels of government.

In the interest of providing funds to the Gulf Coast states quickly and affording states as much discretion as possible in the aftermath of the 2005 Gulf Coast hurricanes, Congress chose the Community Development Block Grant (CDBG) program as the vehicle to provide the largest share of disaster relief and recovery funds. The CDBG program's primary objective is not specifically to provide disaster relief to states, but rather to develop

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<sup>1</sup> See GAO, *Gulf Coast Rebuilding: Observations on Federal Financial Implications*, [GAO-07-1079T](#) (Washington, D.C.: Aug. 2, 2007).

<sup>2</sup> For the purposes of this report, Hurricanes Katrina, Rita, and Wilma are referred to as the Gulf Coast hurricanes.

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viable urban communities by providing decent housing, a suitable living environment, and expanded economic opportunities for low and moderate income persons. However, CDBG has often been relied upon as a convenient source of flexible funding that can easily be applied to federal disaster situations to help states rebuild and revitalize their communities. This is consistent with past practice: over the last two decades, Congress has repeatedly turned to CDBG to assist states in recovering from federal disasters.<sup>3</sup> For example, Congress directed CDBG funds toward recovery and rebuilding efforts in Texas and Louisiana after Hurricanes Gustav and Ike in 2008, New York after the September 11th terrorist attacks in 2001, the Midwest after the floods in 1997, Oklahoma City after the 1995 bombing of the Alfred Murrah Building, Southern California after the 1994 Northridge earthquake, and Florida after Hurricane Andrew in 1992.

To date, \$19.7 billion in supplemental appropriations have gone to Gulf Coast states through CDBG—the largest amount of CDBG disaster relief provided to one area in the history of the program. You requested that we review the CDBG funding that has been allocated for rebuilding the Gulf Coast and determine what challenges, if any, the states encountered in administering and managing the funds. In response to your request, we report on: (1) Louisiana’s and Mississippi’s allocations of CDBG funds, (2) difficulties Louisiana faced in administering its housing recovery program, and (3) the human capital challenges Louisiana and Mississippi encountered and their efforts to address those challenges. This report builds upon GAO’s prior work on rebuilding efforts in the Gulf Coast region.<sup>4</sup>

Our work focused on Louisiana and Mississippi—the two states most directly affected by the 2005 Gulf Coast hurricanes. To conduct our review we obtained and reviewed the supplemental appropriations acts outlining the purpose and availability of CDBG disaster funds. We collected and analyzed information on the Department of Housing and Urban Development’s (HUD) role in the allocation and distribution of the funds, how Louisiana and Mississippi prioritized and developed allocations for

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<sup>3</sup> Over the past two decades, CDBG supplemental appropriations have been provided for disaster relief more than 20 times.

<sup>4</sup> [GAO-07-1079T](#) and GAO, *Preliminary Information on Rebuilding Efforts in the Gulf Coast*, [GAO-07-809R](#) (Washington, D.C.: June 29, 2007), and *Gulf Coast Rebuilding: Preliminary Observations on Progress to Date and Challenges for the Future*, [GAO-07-574T](#) (Washington, D.C.: Apr. 12, 2007).

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their shares of disaster funding, and how those allocations changed over time. In our examination of the challenges the two states encountered when administering their housing recovery programs, we focused on Louisiana because of its specific approach, which led to significant program challenges. We interviewed various federal officials from HUD, the Federal Emergency Management Agency (FEMA), and the Office of the Federal Coordinator for Gulf Coast Rebuilding within the Department of Homeland Security (DHS). We also interviewed various state officials and contractors hired by the states and coordinated our work with HUD's Office of Inspector General and state audit offices. We analyzed federal regulations, various state policies and planning documents, and federal and state budget data. For more information on our scope and methodology see appendix I. We conducted our work from June 2007 through April 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

The Community Development Block Grant (CDBG) program, created in 1974 and administered by the Department of Housing and Urban Development (HUD), is the most widely available source of federal funding assistance to state and local governments for neighborhood revitalization, housing rehabilitation activities, and economic development.<sup>5</sup> Eligible activities include housing assistance, historic preservation, real property acquisitions, mitigation, demolition, and economic development. Because of the funding mechanism that the CDBG program already has in place to provide federal funds to states and localities, the program is widely viewed as a convenient, ready-made solution for disbursing large amounts of federal funds to address emergency situations. Eligible activities that grantees have undertaken with CDBG disaster recovery funds include public services, relocation payments to displaced residents, acquisition of damaged properties, rehabilitation of damaged homes, and rehabilitation of public facilities such as neighborhood centers and roads. Over the past two decades,

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<sup>5</sup> Activities funded with CDBG must address at least one of three objectives: (1) principally benefit low and moderate income persons, (2) aid in eliminating or preventing slums or blight, or (3) meet particularly urgent community development needs.

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CDBG has repeatedly been adapted as a vehicle to respond to federal disasters such as floods, hurricanes, and terrorist attacks. For example, Congress provided CDBG disaster relief funds to aid long-term recovery efforts after the Midwest floods in 1993 and for economic revitalization after the 1995 bombing of the Murrah Federal Building in Oklahoma City. CDBG funds were also provided to New York City in the aftermath of the September 11, 2001, terrorist attacks to aid in the redevelopment of Lower Manhattan. When the CDBG program is used to provide disaster relief funds, many of the statutory and regulatory provisions governing the use of CDBG funds are waived or modified, thereby providing states with even greater flexibility and discretion.

Following the 2005 Gulf Coast hurricanes, \$19.7 billion in disaster CDBG funds were provided to the most affected states—Louisiana, Mississippi, Alabama, Florida, and Texas—through three supplemental appropriations enacted between December 2005 and November 2007. The first CDBG supplemental appropriation, passed on December 30, 2005, provided \$11.5 billion in CDBG funding and included, among others, a provision that prohibited any state from receiving more than 54 percent of that total appropriation.<sup>6</sup> The second supplemental appropriation, passed on June 15, 2006, provided an additional \$5.2 billion in CDBG funds and required that no state receive more than \$4.2 billion of that appropriation.<sup>7</sup> HUD was responsible for allocating the funds from these two supplemental appropriations among the five states in accordance with these and other statutory requirements.<sup>8</sup> A third supplemental appropriation passed on November 13, 2007, and provided an additional \$3 billion exclusively for Louisiana.<sup>9</sup>

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<sup>6</sup> Department of Defense, Emergency Supplemental Appropriations to Address Hurricanes in the Gulf of Mexico, and Pandemic Influenza Act, 2006, Pub. L. No. 109-148, 119 Stat. 2680, 2779-2780. These funds were appropriated on a no-year basis and remain available until expended. In addition to CDBG funds, the federal government provided assistance through a combination of grants, loans, tax subsidies, and federal tax incentives.

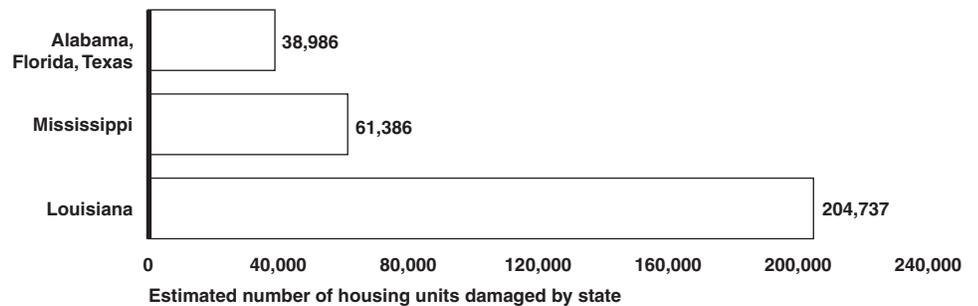
<sup>7</sup> Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006, Pub. L. No. 109-234, 120 Stat. 418, 472. These funds were appropriated on a no-year basis and remain available until expended.

<sup>8</sup> For example, both appropriations acts granted HUD the authority to waive certain provisions governing the use of CDBG funds and required that HUD establish procedures to prevent recipients from receiving any duplication of benefits.

<sup>9</sup> Department of Defense Appropriations Act, 2008, Pub. L. No. 110-116, 121 Stat. 1295, 1343. These funds were appropriated on a no-year basis and remain available until expended.

According to HUD’s estimates,<sup>10</sup> a total of 305,109 housing units suffered major or severe damage or were completely destroyed along the coast of Louisiana, Mississippi, Alabama, Florida and Texas. For perspective, figure 1 shows the states’ total damages in terms of housing units. Louisiana suffered the greatest amount of devastation compared to any other Gulf Coast state with an estimated 204,737 damaged housing units—equal to 67 percent of the total estimated damage in the Gulf Coast region. Mississippi had the second highest degree of destruction with an estimated 61,386 damaged housing units—20 percent of the total estimated damage in the region. The remaining damage—an estimated 38,986 housing units or approximately 13 percent of the total damage—was combined across Alabama, Florida, and Texas.

**Figure 1: Estimated Number of Housing Units Damaged by State**



Source: GAO analysis of HUD damage estimates, which were based upon FEMA and SBA inspection data.  
 Note: “Housing units” refers to both owner-occupied and renter-occupied structures. “Damage” refers to units that suffered major or severe damage or were completely destroyed.

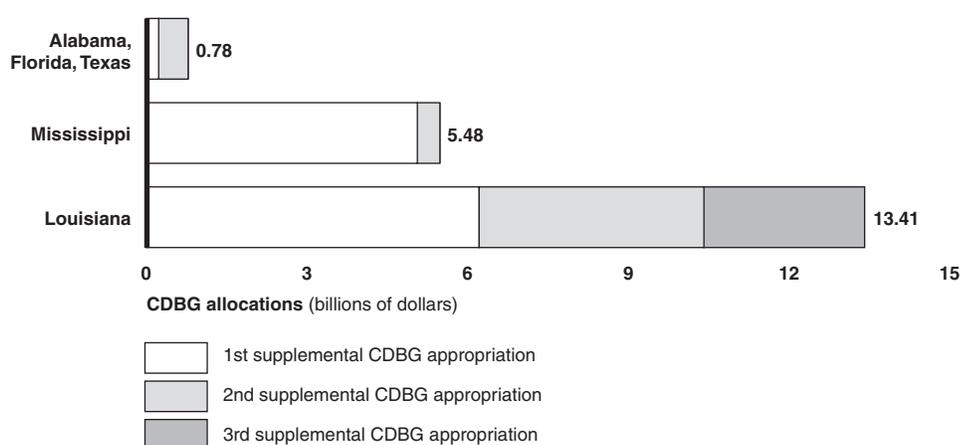
Based on HUD’s analysis of housing damage estimates for each of the five Gulf Coast states and in accordance with specific congressional provisions, the department distributed the \$19.7 billion in CDBG funds that were appropriated for recovery efforts in the region.<sup>11</sup> Louisiana received the greatest amount—68 percent of the total CDBG funding or \$13.4 billion. Mississippi received 28 percent of the total funding—\$5.5

<sup>10</sup> To inform its allocation decisions, HUD developed damage estimates based on data collected during FEMA’s and the Small Business Administration’s (SBA) inspections of housing damages in the affected areas. Based on this inspection data, HUD estimated the number of homes with minor, major, and severe damage including both owner-occupied and renter-occupied housing units.

<sup>11</sup> The supplemental appropriations language that provided CDBG funds included specific provisions, among others, that limited the amount of funds that could be allocated to a single Gulf Coast state.

billion. The remaining 4 percent—almost \$800 million—was allocated across Alabama, Florida, and Texas. Figure 2 shows a breakdown of the total amount of CDBG disaster recovery funds that HUD allocated to each state.

**Figure 2: Amount of CDBG Funds Allocated by State**



Source: GAO analysis of HUD allocation data.

Traditionally, grantees are afforded broad discretion as they decide how to allocate CDBG funds to specific projects and programs. In the aftermath of the 2005 Gulf Coast hurricanes and in an action similar to past disaster recovery situations, Congress provided additional flexibility to the states’ use of CDBG funds. For example, lawmakers permitted HUD to waive certain regulations and statutes that would otherwise be applicable including income targeting provisions and public service expenditure caps.<sup>12</sup> Specifically, HUD was allowed to waive the threshold outlined in statute that 70 percent of total funds must be allocated to activities that primarily benefit low and moderate income persons. Instead, only 50 percent of the total funds had to be targeted on this basis unless the Secretary found a compelling need to waive the targeting provision altogether. In addition, HUD suspended statutory requirements that limit the amount of CDBG money that can be used to provide public services to

<sup>12</sup> Pub. L. No. 109-148, 119 Stat. at 2780; Pub. L. No. 109-234, 120 Stat. at 472-73.

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the affected communities.<sup>13</sup> In conjunction with these increased flexibilities, Congress prohibited HUD from waiving four specific program requirements—nondiscrimination, environmental review, labor standards, and fair housing.

Once HUD allocated CDBG funds to the affected states, the state-level development agencies were responsible for the administration and management of these funds. In Louisiana and Mississippi, the two states that incurred the most damage, the authorities in charge of disaster recovery efforts were the Office of Community Development (OCD) and the Mississippi Development Authority (MDA), respectively. In Louisiana, OCD has managed the state CDBG program over the past two decades. After the 2005 Gulf Coast hurricanes, the Louisiana Commissioner of Administration created the Disaster Recovery Unit within OCD to administer the state's share of CDBG disaster relief funds. Similarly, MDA's Disaster Recovery Division was responsible for managing Mississippi's share of CDBG disaster relief funds.

Federal funding sources other than CDBG were available to states after the 2005 Gulf Coast hurricanes, but CDBG supplemental appropriations provided the largest amount of money. Other sources included the Public Assistance (PA) grant program and Hazard Mitigation Grant Program (HMGP), both administered by the Federal Emergency Management Agency (FEMA).<sup>14</sup> In contrast to the PA grant program—which provides funds to support infrastructure recovery such as rebuilding schools, roads, and utilities—HMGP provides funds to states and local governments to implement long-term, cost-effective hazard mitigation measures after a major disaster.<sup>15</sup> For example, HMGP funds may be used for projects such

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<sup>13</sup> Typically, public service expenditures cannot exceed 15 percent of the grantee's total CDBG allocation. Eligible expenditures include the provision of food, temporary shelter, and other related services. In the event of a presidentially declared disaster, HUD may suspend this statutory requirement.

<sup>14</sup> In addition to the CDBG, Public Assistance, and Hazard Mitigation Grant programs, some other examples of federal assistance included payouts from the National Flood Insurance Program, economic injury and physical disaster loans for homeowners, renters, businesses and nonprofit organizations, funds for levee restoration and repair, and Gulf Opportunity Zone tax relief and incentives for individuals and businesses.

<sup>15</sup> Our prior work reported on FEMA's PA grant program and identified a number of challenges the program has faced with respect to Gulf Coast rebuilding efforts. See GAO, *Disaster Recovery: FEMA's Public Assistance Grant Program Experienced Challenges with Gulf Coast Rebuilding*, [GAO-09-129](#) (Washington, D.C.: Dec. 18, 2008).

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as flood-proofing properties, acquiring the property of willing sellers in hazard-prone areas and transforming it into open space, and retrofitting structures against earthquakes or hurricane-force winds. After the Midwest floods in 1993, CDBG and HMGP funds from HUD and FEMA respectively, were used to acquire privately held property within flood plain areas in the affected states and convert the land to public uses, such as recreation or green space.

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## Louisiana and Mississippi Targeted Majority of Funds to Homeowner Assistance

HUD allocations of CDBG disaster funds to the Gulf Coast states were designated for necessary expenses related to disaster relief, long-term recovery, and restoration of infrastructure in the most affected and distressed areas. States had great flexibility in choosing the types of recovery activities to initiate with their CDBG funds. Specific language in the supplemental appropriations acts required states to develop and submit action plans to HUD detailing the proposed use of all funds. Upon submission, HUD reviewed the action plans for acceptance.<sup>16</sup> These action plans served as state proposals for how states would use their share of CDBG disaster funds and included descriptions of eligibility criteria and how the funds would be used to address both urgent needs and long-term recovery and infrastructure restoration. Any substantial program changes—presented as amendments to a state’s action plan for its use of CDBG disaster recovery funds—had to be submitted to HUD for review and acceptance.<sup>17</sup>

Recovery activities in Louisiana and Mississippi fell into four main categories: housing, infrastructure, economic development, and other projects. Both Louisiana and Mississippi devoted most of their allocations toward housing assistance, with a majority directed toward homeowners. For example, in November 2006, Louisiana allocated nearly 77 percent of

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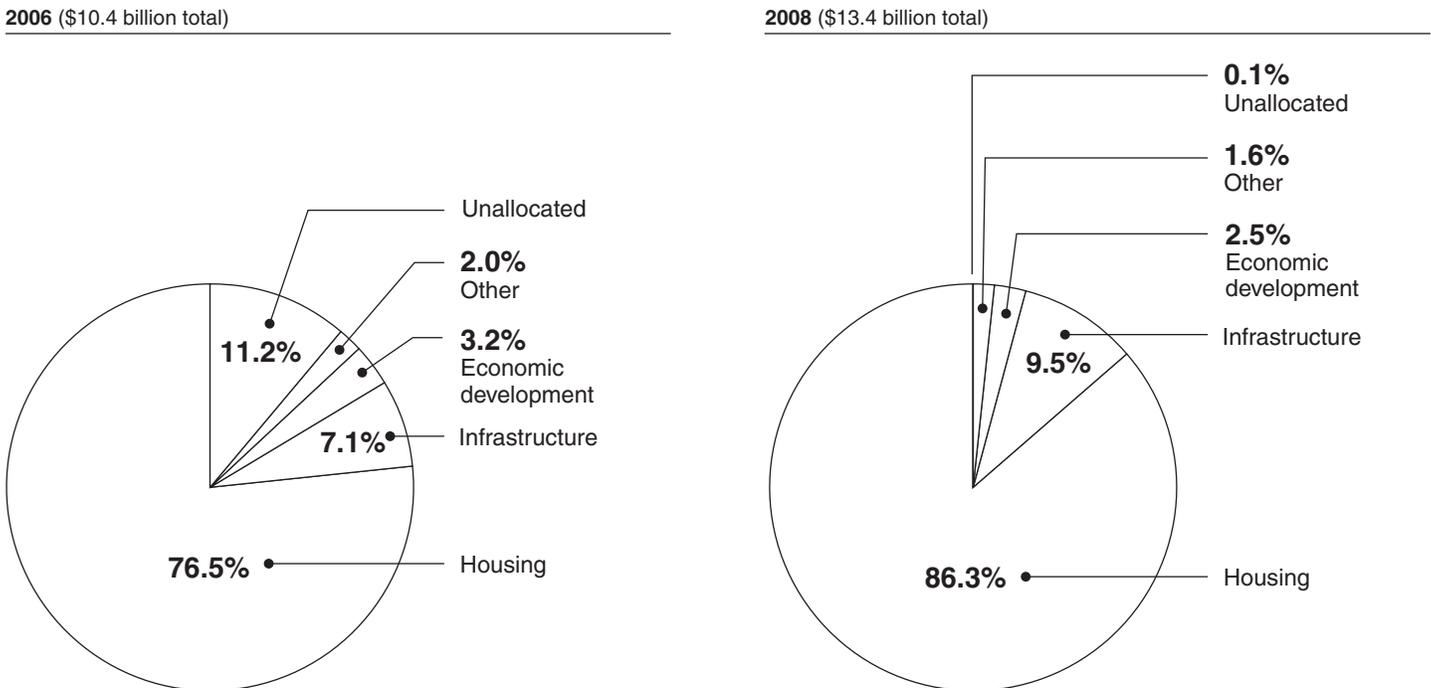
<sup>16</sup> HUD expresses its “acceptance” of grantee action plans rather than its “approval.” According to HUD officials, this distinction is important as it underscores the grantee’s legal responsibility to carry out CDBG activities in accordance with program requirements. According to HUD, if the grantee submits a plan that appears to be acceptable and certifies that it will meet all program requirements, but then HUD later discovers eligibility deficiencies, HUD’s position is somewhat stronger than if it had approved the plan. However, we found that HUD officials used these terms interchangeably. In this report, where we use the term “approve” HUD has also used the same term.

<sup>17</sup> In some cases, an action plan amendment may not be considered substantial, and therefore does not require HUD review and acceptance. In addition, a state may submit technical modifications to its action plan, which also does not require HUD review and acceptance.

its CDBG funds for housing assistance. Of that amount, approximately 80 percent was directed toward homeowners. In December 2006, Mississippi allocated 63 percent of its CDBG funds for housing assistance, of which approximately 98 percent was directed toward homeowners.

Between 2006 and 2008 Louisiana and Mississippi modified the level of funding allocated for different recovery projects as shown in figures 3 and 4 below. For example, as permitted by CDBG guidelines, Louisiana increased the percentage of its total CDBG allocation for housing while Mississippi reallocated a percentage of its housing funds for economic development needs.

**Figure 3: Louisiana’s Allocations of CDBG Disaster Funds in 2006 and 2008**



Source: GAO analysis of budget data from Louisiana Office of Community Development.

Note: In Louisiana, “Other” refers to planning, administration, and technical assistance activities. “Housing” includes homeowner, rental, and low-income programs.

Louisiana’s increased focus on housing largely resulted from the additional supplemental appropriations that Congress provided amid concerns that the state’s housing recovery program needed additional funds. As of November 2006, Louisiana received \$10.4 billion in CDBG disaster relief funds. After Congress granted an additional \$3 billion in CDBG funds

exclusively for Louisiana, in November 2007, the state's total increased to \$13.4 billion. Mississippi's reprogramming of funds was largely attributed to the state's decision to repair one of its storm-damaged ports.

**Figure 4: Mississippi's Allocations of CDBG Disaster Funds in 2006 and 2008**

2006 (\$5.5 billion total)

2008 (\$5.5 billion total)



Source: GAO analysis of budget data from the Mississippi Development Authority.

Note: In Mississippi, "Other" refers to ratepayer and wind insurance mitigation and administrative activities. "Housing" includes homeowner, rental, and low-income programs.

The different approaches that Louisiana and Mississippi took for designing and developing their own homeowner assistance programs led to substantially different experiences. The specific goals and details of Louisiana's and Mississippi's initial designs differed significantly. Louisiana started with a program design that included incentives to promote home rebuilding and ensure retention of the state population. The primary concern for Louisiana state officials was to bring residents back to their communities to begin the process of rebuilding. On the other hand, Mississippi adopted a much simpler design, which awarded one-time, lump-sum payments to homeowners to compensate them for their losses, independent of their choice to rebuild. This helped Mississippi to avoid many of the challenges and delays that Louisiana would experience as discussed in the next section of this report.

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## Federal Guidance Was Insufficient to Address Louisiana's Approach to Housing Recovery

As Louisiana and Mississippi planned their housing recovery efforts, Louisiana designed different solutions than Mississippi did. Louisiana initially adopted a plan that tied federal funds to home reconstruction and controlled the flow of funds to homeowners while Mississippi paid homeowners for their losses regardless of their intentions to rebuild. Specifically, Louisiana initially created a program that incorporated certain elements from two different housing recovery program models: compensation and rehabilitation. Although there is no written guidance distinguishing between the two models, HUD officials explained to us what the major differences are between the two programs. Generally, in a rehabilitation program, funds are used explicitly for repairs or reconstruction projects. In contrast, a compensation program disburses grant payments directly to homeowners for the damages they suffered regardless of whether they intend to repair or rebuild.

Furthermore, rehabilitation and compensation programs are subject to different legal and financial requirements in terms of HUD's oversight responsibilities. HUD officials explained that under a rehabilitation model, binding federal funds to reconstruction triggers several federal requirements, including site-specific environmental reviews of each property. Federal and state officials said these environmental reviews can be costly and time consuming, taking perhaps several months to years to complete.<sup>18</sup> Officials in both states said this was a key factor considered when deciding whether or not to adopt the rehabilitation model. Under a compensation model, environmental reviews are not required because recipients are not required to spend their grant proceeds on home repair and reconstruction. Senior HUD officials said that historically, CDBG funds have not been used for compensation programs, but rather rehabilitation, reconstruction, and rebuilding programs.<sup>19</sup> According to senior HUD officials involved with administering CDBG disaster

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<sup>18</sup> For example, HUD highlighted that above-ground propane tanks were commonly found in Mississippi. As part of an environmental review, homeowners would have to either bury the tanks underground or harden their homes to safeguard against a potential blast.

<sup>19</sup> According to senior HUD officials, CDBG disaster funds have not been used to distribute compensation payments to individual residents in the past, except in New York City after the September 11th terrorist attacks when compensation payments were provided to local renters as an incentive to stay in the city. However, that situation differed from the Gulf Coast because specific language was included in the supplemental appropriations regarding compensation payments to residents. The supplemental appropriations language granting CDBG funds to the Gulf Coast did not include such references.

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assistance, CDBG is not often used for compensation programs because it is difficult to know what recipients will do with the money.

Louisiana's other solution was to try to use multiple federal funding streams for its housing recovery program. Specifically, the state planned to finance the purchase of properties with CDBG funds and essentially pay itself back with FEMA funds. Mississippi, on the other hand, chose not to combine federal funds together in this way. Existing guidance was not sufficient to address Louisiana's approach, and failures in communication hindered full understanding of the problems with the state's particular program and funding designs. As a result, Louisiana encountered many challenges to implementing its recovery efforts that Mississippi did not.

In Louisiana, there were two major problems stemming from its particular program and funding designs. The first was a misunderstanding between Louisiana officials and HUD staff as to whether the design for their housing recovery program could be considered a compensation program, as opposed to a rehabilitation program. The two types of programs have different regulatory requirements as noted above. In particular, rehabilitation programs require costly and time-consuming site-by-site environmental reviews, whereas compensation programs do not. Louisiana's program design was labeled as compensation, even though it contained elements of a rehabilitation program. This led to more misunderstandings with HUD and delays in program implementation.

The second problem came up when, on the advice of the Federal Coordinator for Gulf Coast Rebuilding (Federal Coordinator) according to state officials, Louisiana tried to use multiple federal funding sources for its housing recovery program.<sup>20</sup> Louisiana state officials planned to use FEMA and HUD funds together for purposes allowable under the requirements for each funding source. However, the manner in which the state planned to use the funds to finance the state's purchase of residential properties led the state to run afoul of certain programmatic and legal

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<sup>20</sup> The position of Coordinator of Federal Support for the Recovery and Rebuilding of the Gulf Coast Region was created by Executive Order 13390 on November 1, 2005. Among other things, the function of the Coordinator was to lead the development and monitor the implementation of specific policies and programs to provide effective, integrated, and fiscally responsible support from across the federal government to state and local governments, and others in the recovery of the Gulf Coast. Also see GAO, *Office of the Federal Coordinator for Gulf Coast Rebuilding: Perspectives and Observations*, [GAO-09-411R](#) (Washington, D.C.: Apr. 10, 2009).

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requirements governing the FEMA funds. All of these problems led to more delays in funding and program implementation.

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### Misunderstandings between Louisiana and HUD Led to Multiple Iterations of the Road Home Program

Louisiana state officials developed and started to implement the Road Home program,<sup>21</sup> which evolved over the course of approximately 12 months between May 2006 and May 2007. Throughout, HUD staff provided technical assistance to state officials and conducted scheduled monitoring visits for oversight purposes. To explain the evolution of the Road Home program, we identified three key phases and their associated milestones: the original design (approved May 2006), the revision (accepted July 2006), and HUD's cease and desist order (issued March 2007). Table 1 below highlights the time line of events surrounding the evolution of the Road Home program.

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<sup>21</sup> The Road Home program is the largest housing recovery program in U.S. history.

**Table 1: Time Line of Events Surrounding the Evolution of Louisiana’s Road Home Program**

| <b>Date</b>        | <b>Event</b>   |
|--------------------|--|
| <b>Phase One</b>   |  |
| Feb. 13, 2006      | HUD announced Louisiana’s first CDBG disaster funding allocation and related waivers.  |
| May 12, 2006       | Louisiana submitted action plan to HUD describing Road Home program.   |
| May 30, 2006       | HUD approved the Road Home program.  |
| <b>Phase Two</b>   |  |
| July 12, 2006      | Louisiana re-submitted Road Home program action plan to HUD as a compensation program.<br>HUD accepted Road Home as a compensation program.<br>Louisiana began pilot of Road Home program. |
| Aug. 11, 2006      | Louisiana submitted clarification and an update to HUD about Road Home.  |
| Aug. 22, 2006      | HUD approved the Road Home clarification and update.<br>Road Home began accepting homeowner applications.  |
| Nov. 30, 2006      | Louisiana submitted further clarifications about Road Home program.<br>HUD accepted Road Home clarifications.  |
| <b>Phase Three</b> |  |
| Mar. 16, 2007      | HUD ordered Louisiana to cease and desist Road Home program.   |
| Apr. 9, 2007       | Louisiana publicly announced Road Home as lump-sum compensation program.   |
| May 7, 2007        | Louisiana submitted Road Home program action plan amendment to HUD; adopted lump-sum compensation model.   |
| May 30, 2007       | HUD approved action plan amendment.  |

Source: Data from HUD and Louisiana’s Office of Community Development.

**Original Program Design Encouraged Homeowners to Stay**

This first phase began after HUD announced Louisiana’s first CDBG disaster funding allocation in February 2006. In the following months, Louisiana state officials established the goals of the Road Home program, which were aimed at encouraging residents to return to their neighborhoods and rebuild their storm-damaged homes.<sup>22</sup> To meet the program goals, Louisiana state authorities developed the main housing

<sup>22</sup> Louisiana identified four specific goals in its initial Road Home action plan: (1) repair and rebuild quality housing in safe neighborhoods, (2) restore pre-storm value to homeowners who want to return, (3) provide affordable rental housing opportunities for displaced residents, and (4) provide housing for the return of critical workforce.

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assistance components<sup>23</sup> of the program and offered homeowners three specific options through the program. Homeowners could: (1) rebuild homes on their own properties, (2) sell their properties and relocate within the state, or (3) sell their homes and relocate outside of the state. Those homeowners who chose to stay in Louisiana were eligible to receive a larger grant award than those who chose to leave the state.<sup>24</sup> As noted above, in contrast to Louisiana's home recovery plan, Mississippi chose early on to adopt a homeowner assistance program that was clearly within the terms of a compensation model. Once Louisiana homeowners applied for Road Home assistance, they had to select their preferred benefit option.<sup>25</sup> Among the three choices available to homeowners, rebuilding was the most popular selection. Of the 143,580 homeowners who returned their benefit preference to state officials, almost 88 percent chose to stay and rebuild their storm-damaged homes.<sup>26</sup>

By April 2006, Louisiana officials completed the state's action plan. The action plan outlined the different types and amounts of assistance available to homeowners, eligibility criteria, formulas to calculate recipient grant awards, and a general description of the disbursement process to transfer funds to eligible recipients. Under the initial design of the Road Home program, homeowners who chose to rebuild were required to meet code and zoning requirements and comply with the latest available FEMA guidance for base flood elevations. These homeowners were required to use the home as their primary residence for at least 3 years upon completion of repairs.<sup>27</sup> Louisiana submitted the plan to HUD on May

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<sup>23</sup> The Road Home program consisted of four sets of programs to restore the state's housing stock: homeowner assistance, workforce and affordable rental housing, homeless housing, and developer incentives. For the purposes of this report, we focused solely on the homeowner assistance component of the Road Home program.

<sup>24</sup> Grant awards for homeowners who elected to leave the state were based on 60 percent of their pre-storm home value instead of 100 percent of their pre-storm value.

<sup>25</sup> The deadline to apply for homeowner assistance through the Road Home program was July 31, 2007, followed by a second deadline upon which homeowners had to identify their option selection. Homeowners had to report their option selection to the state by November 1, 2008.

<sup>26</sup> This percentage is based on the number of benefit option letters returned to the state by the deadline.

<sup>27</sup> There were additional requirements and benefits stipulated in the original plan: the state specified a total benefit cap of \$150,000 per homeowner; and state authorities applied a 30 percent penalty, or reduction, on the grant proceeds of those homeowners who were not carrying the type of insurance required for their home at the time of the storm.

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Action Plan Revision  
Attempted to Address  
Conflicting Interpretations;  
Program Development  
Proceeded

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12, 2006—3 months after HUD announced each state’s allocation of CDBG funds. The HUD Secretary approved<sup>28</sup> Louisiana’s action plan for the Road Home program approximately 2 weeks later on May 30, 2006.

The second phase began in the months immediately following the HUD Secretary’s approval of the Road Home action plan. Key HUD staff and state officials had different interpretations and expectations of exactly how the Road Home program would operate. Because HUD lacked written program guidance, there were no concrete federal definitions that HUD or the state could refer to. According to HUD officials who were involved in reviewing Louisiana’s action plan, their understanding was that Road Home would operate as a rehabilitation program—thereby requiring site-specific environmental reviews. In contrast, Louisiana state officials thought CDBG program rules provided sufficient flexibility so that the program they proposed qualified as a compensation model and would not require the environmental reviews. As a result, Louisiana officials revised the action plan in an attempt to resolve the conflicting interpretations and re-submitted the plan for HUD review. HUD officials said that they worked with state officials to revise the language in the action plan to reflect more of a compensation-type program so as to not trigger the site-specific environmental requirements. On July 12, 2006, HUD officials accepted the revised plan for Road Home as a compensation program.

Upon HUD’s acceptance of the action plan, the state continued to develop the operational and payment structures to implement Road Home and initiated a pilot of the program. On August 11, 2006, the state provided HUD with additional Road Home program clarifications that further explained the formulas used to calculate grant award payments to homeowners and the covenants that would be placed upon the homes of those who chose to stay in their homes and rebuild. The covenants required that Louisiana homeowners rebuild and elevate their homes in accordance with applicable codes and local ordinances and that the home be owner-occupied for at least 3 years after receiving compensation and

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<sup>28</sup> As noted earlier, HUD officials explained that the department expresses its “acceptance” of grantee action plans rather than “approval.” However, we found that HUD officials used these terms interchangeably. For example, in its August 2006 and May 2007 letters to Louisiana, HUD “approved” the action plan amendments. In this report, where we use the term “approve,” HUD has also used the same term.

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be covered by the appropriate insurance.<sup>29</sup> The purpose of these covenants was to ensure that homeowners returned to their neighborhoods and helped to rebuild the community. The state also clarified that homeowners who did not fulfill the terms of their covenants may not receive benefits or may have to repay all or some of the compensation they received. In addition, homeowners would receive grant proceeds incrementally to ensure covenant compliance, but were not required to use the money for repairs and rebuilding costs. To meet the requirements for a compensation program, the action plan amendment explicitly stated that homeowners had complete discretion as to the use of the compensation they received. HUD approved the clarifications in the amendment on August 22, 2006. Another step forward for the program involved state officials establishing agreements with local financial institutions and defining their roles and responsibilities in the disbursement process, transferring funds from the state to eligible recipients. Agreements were also established between individual homeowners, the state, and the financial institutions and included specific provisions and requirements that outlined the terms of grant award disbursement.

During this second phase, the state worked out some of the details of its original design. For example, homeowners who chose to rebuild their storm-damaged homes would receive their CDBG grant awards in incremental payments as they provided evidence to the state that rebuilding efforts were under way. Under the Road Home program, a homeowner would receive an initial portion of his or her grant proceeds equal to either \$7,500 or 10 percent of his or her total grant proceeds—whichever is less—upon execution of a contract for repairs. Subsequently, the homeowner would receive a second portion of the grant proceeds equal to no more than one-third of the total funds necessary to rebuild his or her home upon completion of a commensurate amount of repairs.<sup>30</sup> Similarly, a third payment would be disbursed upon completion of two-thirds of the necessary repairs followed by a final disbursement of the remaining grant proceeds. Final payment of the grant proceeds is withheld until the state receives verification that the work is actually complete thereby protecting the homeowner from potential fraudulent contractor

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<sup>29</sup> This is a slight change from the prior version of the action plan in which the covenants required homeowners to occupy the home for 3 years after completion of repairs. Both Louisiana and Mississippi attached covenants to the properties of those homeowners who chose to rebuild their storm-damaged homes.

<sup>30</sup> Completion of repairs would be confirmed by an inspection.

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action.<sup>31</sup> Louisiana state officials chose this type of incremental payment system to provide assurance that federal funds were being spent as intended, and to provide information that could be used to measure the progress of homeowners' rebuilding. Tying CDBG funds to home repairs in this manner is consistent with a rehabilitation program; however, Road Home had been labeled and approved as a compensation program.

One year after Hurricane Katrina made landfall, the Road Home program was officially launched statewide in late August 2006 when the state began accepting applications from homeowners and continued forward with plans to disburse initial payments to those homeowners who participated in the pilot. Throughout the subsequent months, state authorities mailed out award letters to individual homeowners explaining the three options available to them and giving them deadlines for their participation. In addition, housing assistance centers, where eligible homeowners could speak with trained housing advisors to help guide them through the process and make informed decisions about their options, opened statewide. Housing advisors also collected critical information from homeowners regarding ownership, insurance, and mortgage balances—information that was required to process individual applications and inform benefit calculation. In November 2006, Louisiana submitted another action plan amendment that, among other changes, removed any penalty for elderly homeowners who chose to relocate outside of Louisiana.<sup>32</sup> HUD did not consider the contents of the November 2006 amendment to be substantial enough to require formal review, allowing state officials to continue forward with the Road Home program. By March 15, 2007, Louisiana had received more than 116,000 applications for Road

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<sup>31</sup> This specific disbursement process applied to homeowners who had mortgages on their houses. For those homeowners without mortgages, they could choose to either have their grant proceeds managed in this way or to receive funds over a 3-year period.

<sup>32</sup> Previously, the state action plan stated that compensation for any homeowner choosing to relocate outside of the state would be based on 60 percent, rather than 100 percent, of the home's pre-storm value. The state also updated compensation grant formulas to factor in the amount of housing damage incurred.

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HUD's Cease and Desist Order Prompted More Changes to Road Home Program

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Home assistance and disbursed approximately \$214.4 million to nearly 3,000 homeowners.<sup>33</sup>

The third phase began on March 16, 2007, when HUD ordered Louisiana officials to “cease and desist” Road Home, approximately 7 months after the program was fully operational. According to HUD officials, they found that the program was operating more like a rehabilitation program—meaning that CDBG funds were paying for home repairs and reconstruction exclusively—and therefore, participating homes were subject to site-by-site environmental reviews. While there is no written documentation explaining HUD’s decision reversal nor any written federal guidance outlining the specific terms of a compensation program, key HUD officials provided us with a verbal explanation. Specifically, they said that HUD staff conducted a scheduled monitoring visit to Louisiana and reviewed the operating documents for the Road Home program, including the grant disbursement agreements. According to an e-mail from the HUD Assistant Secretary to key HUD staff involved in Gulf Coast recovery, there was an “apparent inconsistency” between Road Home program operations and the approved action plan. HUD would not allow the state to move forward with the program until adjustments were made to the disbursement process or until the state conducted the required site-by-site environmental reviews.

According to Louisiana state officials, they were very surprised and frustrated by HUD’s decision because of the department’s previous acceptance of the Road Home program design. One top Louisiana official testified on May 8, 2008, before the House Financial Services Subcommittee on Housing and Community Opportunity that the environmental assessments were the single biggest reason for the state opting to implement a compensation model over a rehabilitation model. During the early development of Road Home, Louisiana conducted a study to estimate the costs, staff requirements, and time needed for full site-by-site property reviews. The state concluded that there was no practical way to cost-effectively perform the environmental assessments on well over

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<sup>33</sup> The amount disbursed is an estimate based on the total number of completed home closings multiplied by the average grant award per homeowner. As of March 15, 2007, Road Home completed 2,956 closings with an average grant award of \$72,529 per homeowner. Similarly, as of late February 2009, Road Home received a total of 185,113 applications, completed 122,722 closings, and disbursed approximately \$7.8 billion to homeowners with an average award of \$63,586 per homeowner.

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100,000 homes and expect to get rebuilding money “on the street” in a timely manner.

State officials met with key HUD staff in Washington, D.C., to discuss HUD’s concerns and reconcile conflicting federal and state interpretations of what qualifies as a compensation program versus a rehabilitation program. However, as noted earlier, Louisiana officials believed that CDBG regulations provided sufficient flexibility for its approach to operate a compensation program. After these discussions, Louisiana state officials decided to abandon their plans to disburse grant proceeds incrementally and chose to provide funds to homeowners in lump-sum payments. State officials submitted an action plan amendment to HUD in early May 2007 to document this policy change. HUD approved the revised action plan shortly thereafter and said in its approval letter to state officials that the changes addressed the Department’s concerns that Road Home “did not comply with the requirements of a true compensation program.” Louisiana state authorities announced the policy change on April 7, 2007, explaining that homeowners would receive a full payment of their Road Home grant award in lump sum. They also recommended that homeowners consult with financial advisors, lenders, and housing counselors before beginning home repairs and encouraged homeowners to establish voluntary disbursement accounts with lenders to help guard against fraudulent contractor activity.

While the state continued to accept homeowner applications, individual covenants had to be revised; homeowner grant awards had to be recalculated; and scheduled house closings<sup>34</sup> were postponed. Many federal and state officials said that the original design of the Road Home program with the incremental payment process was better aligned with the state’s original priorities of ensuring long-term rebuilding and incorporating front-end assurances that federal funds were spent as intended than the lump-sum compensation program that was ultimately implemented. Senior HUD officials told us that a compensation model could disburse funds to homeowners incrementally rather than one-time, lump-sum payments, but the officials were unable to provide any examples

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<sup>34</sup> Closings were scheduled when eligible homeowners returned their completed benefit option letters and provided all required documentation, including mortgage and title information. After homeowners completed their closings, they would begin to receive their grant awards.

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where such an approach has been taken when disbursing CDBG disaster recovery funds.<sup>35</sup>

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### Conflicting Federal Determinations Hindered Coordination of Federal Funding Sources

While the CDBG program provided much of the federal assistance in the aftermath of the 2005 Gulf Coast hurricanes, several other federal programs provided assistance to Louisiana to support the state's comprehensive long-term recovery efforts, including among others, FEMA's Hazard Mitigation Grant Program (HMGP). Louisiana was eligible to receive almost \$1.5 billion from FEMA's HMGP, which is part of a broad framework of FEMA initiatives authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act.<sup>36</sup> Similar to the evolution of Louisiana's Road Home program design discussed above, the state's proposal to use HMGP funds for homeowner assistance also evolved for more than a year.

### Key Federal and State Officials Agreed That HMGP Funding Could Be Used for Road Home

Soon after the first supplemental appropriation was enacted in late December 2005, federal and state officials entered into negotiations for a second appropriation of CDBG funding in light of concerns that the Road Home program needed additional funds. State officials reported that as part of these negotiations, the Office of the Federal Coordinator advised them on how to incorporate HMGP funding<sup>37</sup> into the Road Home program. Doing so would have reduced the amount of additional CDBG funds the state would request from Congress.

As part of their proposed funding design for the Road Home program, Louisiana state officials planned to use approximately \$1.1 billion in HMGP funds in coordination with CDBG funds to purchase over 12,000

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<sup>35</sup> According to HUD, although CDBG funds were distributed as compensation in the form of incremental incentive payments to New York City renters after the September 11, 2001, terrorist attacks, CDBG has never before been used to provide compensation payments to individual homeowners.

<sup>36</sup> The amount of HMGP funds made available to states is formula-driven, based on a percentage of the total estimated amount of disaster grants provided under other Stafford Act programs, such as the Public Assistance program and the Assistance to Individuals and Households program. The maximum HMGP contribution within each state for each major disaster declaration ranges from 7.5 percent to 15 percent of the total Stafford Act assistance. 42 U.S.C. 5170c as amended by Pub. L. No. 109-295, § 684, 120 Stat. 1447 (Oct. 4, 2006).

<sup>37</sup> Unlike CDBG disaster funding, HMGP funding originates from the Disaster Relief Fund and is not a line item appropriation.

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properties from homeowners who chose to relocate. The properties would have initially been purchased with CDBG funds. At some point, but not necessarily before their purchase, state officials and other stakeholders would determine exactly which properties would be converted to open space and which ones would be redeveloped. The cost of the properties converted to open space would then be reimbursed with HMGP funds, as converting properties to open space is an acceptable mitigation activity under HMGP rules and regulations.

In traditional HMGP projects, funding is typically passed through the state government to a local sub-grant applicant to coordinate with property owners. In this case, the state itself would have been coordinating directly with property owners. According to FEMA officials, they first found out that the state expected to use HMGP funds toward Road Home in July 2006, after the state had already published its action plans, which stated this intention. FEMA also claimed that the agency was not included in the initial negotiations between the state and the Federal Coordinator's office. However, Louisiana state officials reported that FEMA verbally committed to allowing the state to use HMGP funds for acquisitions. Throughout the second half of 2006 and much of 2007, state officials met regularly with FEMA as well as HUD—who did not oppose the initial plan—to work out an agreement for the use of HMGP funds. However, it still took over one year for FEMA and the state to come to an agreement over how HMGP funding could be used.

#### FEMA Rejected Louisiana's Initial Application for HMGP Funds

In late September 2006, Louisiana submitted its application to FEMA for HMGP funds in accordance with its planned property acquisition project. In a December 13, 2006 letter to the Louisiana Governor's Office for Homeland Security and Emergency Preparedness (GOHSEP)—the entity responsible for administering and managing the state's HMGP funds—FEMA expressed its concerns with Louisiana's application.

FEMA denied Louisiana's application to use HMGP toward the Road Home program in February 2007 because the agency asserted that the state's intended plan to use HMGP for property acquisition did not meet statutory, regulatory, or programmatic requirements. Specifically, FEMA cited three main aspects of the proposal that formed the basis for its rejection:

- the plan exempted senior citizens from a specific financial penalty under the Road Home program, which violated FEMA's statutory requirement of non-discrimination based on age;

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- the plan did not adequately involve local jurisdictions; and
  - the application itself was too general and did not contain project-level data and specific budget information.

FEMA officials also indicated that the proposed project was inconsistent with the overall purpose of HMGP; namely, they perceived the Road Home proposal as more focused on redevelopment than long-term hazard mitigation. As noted in FEMA's letter to Louisiana, the state did not have a plan to coordinate with local officials to identify which properties would become part of the HMGP program before their acquisition. However, state officials could not identify the total number of properties that would be converted to open space or redeveloped until homeowners indicated to the state their choice to either keep or sell their storm-damaged property in accordance with the benefit options available under the Road Home program. Subsequently, FEMA maintained that this arrangement would not provide enough detail for the agency to determine project eligibility for specific properties. It appeared that the Road Home program lacked sufficient budgetary resources, and the state's priority was to "backfill" the CDBG account with proceeds from HMGP, according to one FEMA official.

Louisiana state authorities submitted an appeal to FEMA on April 4, 2007. In that letter, GOHSEP urged FEMA to reverse its decision and allow the Road Home program to use HMGP funds to acquire property and transform it into open space. GOHSEP argued that the combination of the CDBG-funded Road Home program and the HMGP acquisition project had the great potential to reduce future damages more than any other hazard mitigation project ever funded. Table 2 below shows the time line of events surrounding the state's attempt to leverage HMGP funding.

**Table 2: Time Line of Events Surrounding Louisiana’s Attempt to Leverage HMGP Funds**

| <b>Date</b>  | <b>Event</b>  |
|--------------|---|
| <b>2006</b>  |   |
| January      | Concerns expressed that Road Home program needs additional funds. Meetings between Louisiana state officials and the Federal Coordinator. |
| Summer, Fall | Interagency Steering Committee meetings including Louisiana, FEMA, and HUD.   |
| July 12      | Louisiana officials contend that FEMA verbally committed to Louisiana’s use of funds for acquisitions.                                    |
| September 29 | Louisiana applied for HMGP funds.   |
| <b>2007</b>  |   |
| February 6   | FEMA denied Louisiana’s application.  |
| April 4      | Louisiana submitted appeal to FEMA.   |
| July 16      | FEMA denied the state’s appeal.   |
| Summer       | Louisiana decided to use HMGP for elevations rather than acquisitions.  |
| October 15   | FEMA approved Elevation/Pilot Reconstruction Project.   |
| November 13  | Public Law 110-116 passed (\$3 billion for Road Home).  |

Source: Data from FEMA, Louisiana’s Office of Community Development, and Louisiana Governor’s Office of Homeland Security and Emergency Preparedness.

FEMA denied the state’s appeal on July 16, 2007. According to FEMA regulations, HMGP funds cannot be used as a substitute or replacement to fund projects or programs that are available under other federal authorities, except under limited circumstances in which there are extraordinary threats to lives, public health or safety or improved property.<sup>38</sup> HMGP funds may, however, be packaged or used in combination with other federal, state, local, or private funding sources when appropriate to develop a comprehensive mitigation solution. One FEMA official testified that HMGP is not designed to compensate individuals for disaster losses. Rather, HMGP provides communities with resources to implement long-term solutions that reduce the risk to citizens and public facilities from hazards. The Stafford Act permits HMGP funds to be used in connection with flooding for property acquisition as long as the property’s use is compatible with an open space, recreational, or wetlands management practice, among other requirements.<sup>39</sup> In Louisiana’s case, the state’s planned use of HMGP funds was to transform

<sup>38</sup> 44 C.F.R. § 206.434(g).

<sup>39</sup> 42 U.S.C. § 5170c(b).

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flood-prone properties into open space and relocate homeowners out of harm's way. In a May 24, 2007, hearing before the Senate Homeland Security and Governmental Affairs Subcommittee on Disaster Recovery, FEMA's Assistant Administrator for Mitigation testified that the agency "agreed in concept to this approach and began developing the legal and programmatic framework to make it work." However, FEMA later determined that the state's implementation approach did not allow for compliance with HMGP requirements.

Although HUD and FEMA are bound by similar nondiscrimination statutes and regulations to determine project eligibility for their respective disaster recovery programs, the agencies reached different conclusions about their ability to fund the Road Home program. FEMA's determination that it could not fund the program because of HMGP's non-discrimination requirements prevented HMGP funding from being used for property acquisitions as initially intended by the state. Under the Road Home program, homeowners who chose to sell their properties to the state and relocate outside Louisiana or those who sold homes and remained in the state without purchasing new properties incurred a financial penalty. Specifically, homeowner grants were reduced by 40 percent. Elderly homeowners (65 or older as of December 31, 2005), however, were exempt from this penalty. HUD did not find this measure violated the non-discrimination requirements applicable to CDBG funds, which were used to fund the Road Home program. However, citing the Stafford Act, FEMA determined that such an exemption was discriminatory toward homeowners under the specified age limit. From the states' perspective, it was not necessarily clear how two separate nondiscrimination provisions would be applied to the Road Home program. In effect, different federal determinations prohibited the state's efforts to design and implement this piece of its housing recovery program.

FEMA Accepted Revised  
HMGP Application, but Delays  
Continued

Louisiana successfully redesigned the program to use HMGP funding primarily for elevation grants, but the vast majority of homeowners have yet to receive funds. After FEMA denied the state's appeal to use HMGP funds for property acquisitions, state officials redesigned their request, and submitted a new application to FEMA to use HMGP funding for

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homeowner elevation grants and reconstruction projects.<sup>40</sup> FEMA approved the plan, and in October 2007 the agency approved a small batch of test properties as eligible to receive HMGP funds. Although the state administered the new elevation/reconstruction project through the Road Home program, HMGP funds were not integrated with CDBG funds as they would have been under Louisiana's original acquisition proposal. Both federal and state officials characterized the HMGP elevation project as running on a separate but parallel track to the CDBG-funded homeowner assistance program. Homeowner demand for the projects has been less than expected, in part because of the length of time it has taken to develop and implement the program. Consequently, the state has reallocated funds from the state-run HMGP elevation/reconstruction program to community-led traditional HMGP projects.

Our past work found that the application process for HMGP funds can be complex and time and resource intensive.<sup>41</sup> Long delays can occur in receiving funds, which can lead to additional obstacles for local communities. For example, delays in receiving grant funds can prevent a city from being more cost-effective in terms of mitigation. These types of HMGP delays were only exacerbated in Louisiana when the state attempted to use HMGP funds alongside CDBG funds. While FEMA has taken several steps to streamline their review processes, every property must still meet FEMA eligibility requirements, including environmental and historical preservation requirements. In our prior work, one local mitigation official said that it would be most effective to conduct mitigation activities immediately after a storm event, when damages are being repaired, rather than waiting for HMGP funds to become available.<sup>42</sup> According to FEMA, while states normally have up to one year from the

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<sup>40</sup> The Louisiana Office of Community Development's Hazard Mitigation Grant Program provides an award up to \$30,000 (based on actual construction costs) to eligible homeowners to elevate or reconstruct their homes to certain standards. Homeowner eligibility is determined by FEMA based on HMGP regulations. These funds are not subject to the Road Home \$150,000 maximum cap. The state administers a second elevation program through the Road Home with CDBG funds, the Road Home Elevation Incentive program. This initiative provides a fixed amount of \$30,000 (\$20,000 for mobile homes) to eligible homeowners as an incentive to elevate their homes to meet certain standards. These funds are limited to the specific dollar amount and cannot exceed the Road Home \$150,000 maximum grant amount.

<sup>41</sup> GAO, *Natural Hazard Mitigation: Various Mitigation Efforts Exist, but Federal Efforts Do Not Provide a Comprehensive Strategic Framework*, [GAO-07-403](#) (Washington, D.C.: Aug. 22, 2007).

<sup>42</sup> [GAO-07-403](#).

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date of a disaster declaration to apply for HMGP funds, the approval process can begin much earlier following a disaster if state and local officials have previously identified viable mitigation projects that are consistent with state and local mitigation plans. However, without effective communication between federal agencies, states are challenged to coordinate the multiple streams of federal funding typically needed to address recovery from catastrophic disasters.

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## Louisiana and Mississippi Took Similar Approaches to Address Human Capital Needs for Unprecedented Program Size

In the immediate aftermath of such a catastrophic disaster, Louisiana and Mississippi state development agencies lacked sufficient capacity to effectively manage billions of dollars in federal assistance. This is most evident in the human capital challenges state agencies faced as they designed and developed state CDBG programs of unprecedented size. We found that Louisiana and Mississippi employed similar approaches to build organizational capacity and address human capital needs, including the creation of new state entities, hiring private contractors, and hiring additional state agency staff.

Prior to the 2005 Gulf Coast hurricanes, state community development agencies in both states had experience managing CDBG program budgets of similar size to one another. For example, between fiscal years 2002 and 2005, the average annual CDBG program administered at the state level was budgeted at approximately \$34.6 million and \$35.6 million for Louisiana and Mississippi respectively. Funding allocations for state CDBG programs have been generally declining in recent years. Specifically, Louisiana's state CDBG program budget decreased to \$27.6 million in 2008 while Mississippi's budget decreased to \$29.8 million. The amount of CDBG disaster recovery funds Congress provided after the Gulf Coast hurricanes translated into enormous increases in both states' CDBG budgets. Table 3 shows the annual state CDBG budgets for Louisiana and Mississippi compared to the amount of CDBG disaster funds provided to each state for Gulf Coast hurricanes recovery and rebuilding efforts.

**Table 3: Comparison of Louisiana’s and Mississippi’s Annual CDBG Budgets to CDBG Disaster Funds Allocated After 2005 Gulf Coast Hurricanes (in millions)**

| <b>Louisiana</b>    |                                    |               |               |               |
|---------------------|------------------------------------|---------------|---------------|---------------|
|                     | <b>FY2002-FY2005<br/>(average)</b> | <b>FY2006</b> | <b>FY2007</b> | <b>FY2008</b> |
| State CDBG Program  | \$34.6                             | \$29.3        | \$29.5        | \$27.6        |
| CDBG Disaster Funds | —                                  | \$6,210.0     | \$4,200.0     | \$3,000.0     |
| <b>Mississippi</b>  |                                    |               |               |               |
|                     | <b>FY2002-FY2005<br/>(average)</b> | <b>FY2006</b> | <b>FY2007</b> | <b>FY2008</b> |
| State CDBG Program  | \$35.6                             | \$30.4        | \$30.5        | \$29.8        |
| CDBG Disaster Funds | —                                  | \$5,058.2     | \$423.0       | —             |

Source: GAO analysis of HUD data.

Note: Annual CDBG figures reflect funds granted to the state program. Additional CDBG funds are administered by localities within the state.

Both states were suddenly responsible for managing and administering multibillion dollar programs that were substantially larger than their more typical multimillion dollar programs.

### Both States Created New Offices to Direct Disaster Recovery Efforts

Both states created new entities to coordinate and oversee rebuilding efforts and to serve as policymaking bodies responsible for planning and coordinating efforts throughout the state. In Louisiana, the governor created the Louisiana Recovery Authority (LRA) within the state’s executive branch in October 2005.<sup>43</sup> As part of its responsibilities, LRA was charged with establishing spending priorities and plans for the state’s share of CDBG funds, subject to approval of Louisiana’s state legislature. LRA’s primary goals included securing funding for recovery and rebuilding, identifying and addressing critical short-term recovery issues, and providing oversight and accountability. While LRA was responsible for developing and issuing policies on the state’s recovery, the Office of Community Development (OCD) was responsible for administering the Road Home program and managing the day-to-day implementation of LRA’s policies. In 2008, under the leadership of a newly elected governor, OCD merged with LRA creating a more centralized structure for authority and oversight of the state’s recovery activities. Moreover, the executive

<sup>43</sup> The LRA was created at the direction of former Governor Blanco by executive order in October 2005 and subsequently authorized by the state legislature in early 2006. LRA is scheduled to sunset on July 1, 2010, unless further extended by the legislature.

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director of the recently combined LRA and OCD now serves as the governor's authorized representative to the President for disaster recovery in Louisiana. According to one state official we spoke with, this consolidated leadership structure has improved the operation of the Road Home program.

Similarly, in Mississippi, the governor created the Governor's Office of Recovery and Renewal in January 2006, which served as a policy-oriented body and had the primary responsibility for designing the state's various recovery programs and shaping the state's overall approach to rebuilding.<sup>44</sup> Among its responsibilities, the office coordinated relief efforts among federal and state agencies and other public and private entities. Its primary objectives included, obtaining the maximum amount of federal funds and maximizing the use of credit in lieu of cash, providing policy advice and formulation to the governor and state agencies, providing technical assistance and outreach to local governments, and facilitate the implementation of recommendations made by the Governor's Commission.<sup>45</sup> While the Governor's Office of Recovery and Renewal is responsible for setting policies for long-term recovery plans, Mississippi Development Authority (MDA) is responsible for the implementation of these policies and administering the state's CDBG disaster recovery programs.

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**Both States Hired  
Additional State Agency  
Staff and Private  
Contractors**

Officials from the state development agencies—OCD and MDA—recognized the need to build the states' organizational capacities to address the enormous task of developing and managing massive housing recovery programs. In response, both Louisiana and Mississippi hired additional state agency staff; however, Mississippi lagged behind Louisiana in this effort. Specifically, Louisiana OCD made use of state civil service provisions that allowed the agency to recruit higher-salaried, term-appointment managers who were well-qualified disaster recovery experts. According to the former Executive Director of OCD, despite most of the key staff in the agency having more than 20 years of experience working

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<sup>44</sup> Creation of Mississippi's Office of Recovery and Renewal was passed by the state legislature and signed by the governor in early 2006.

<sup>45</sup> In December 2005, the Governor's Commission on Recovery, Rebuilding, and Renewal released a report titled, "After Katrina: Building Back Better than Ever." The report contained over 230 recommendations in a variety of areas including infrastructure, economic development, and human services. The Office of Recovery and Renewal issued annual reports with updates on the state's recovery efforts.

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with the CDBG program, the agency needed additional help. OCD hired staff from other states who had experience implementing federal housing programs and with CDBG disaster program funding. These individuals came from various states including Kentucky, New York, North Dakota, and Pennsylvania and were placed in top management positions within the agency.

In Mississippi, top agency officials also acknowledged that the state and local governments were overwhelmed by the scale of destruction left by the 2005 Gulf Coast hurricanes. One top MDA official said the agency did not have a sufficient number of staff in place—particularly staff with expertise in CDBG-funded disaster recovery programs—to administer a wide range of new programs. Top MDA officials said that they had approximately 20 people assigned to disaster recovery positions in the aftermath of the 2005 Gulf Coast hurricanes. Eventually, MDA increased its disaster recovery staffing level in 2008 after receiving an evaluation and recommendations from HUD. For example, an audit conducted by the HUD Inspector General found that MDA did not have adequate staff to monitor implementation of the state’s Homeowner Assistance Program and had not established the required monitoring processes. The supplemental appropriations act that provided CDBG funds for recovery from the 2005 Gulf Coast hurricanes, coupled with the state’s HUD-approved action plan, required that MDA establish and implement monitoring processes to ensure that program requirements were met and to provide continuous quality assurance.

In addition, HUD’s Office of Community Planning and Development, which was the office responsible for administering and overseeing CDBG disaster recovery funds, found that MDA had insufficient separation of duties, thereby negatively affecting the state’s fiscal controls and accounting procedures for billions of federal CDBG dollars. Specifically, HUD found that one individual had multiple roles of authority as a program and financial manager and monitor as well as an invoice approval and reconciliation manager. In response to HUD’s findings, MDA restructured the agency and created a separate bureau to handle all reporting and monitoring responsibilities. The agency also hired 30 people, for a total of approximately 50 employees assigned to administering and managing the state’s disaster recovery work.

In addition to hiring additional agency staff, both states contracted with private firms to help state development agencies implement and manage their housing assistance programs. Both states hired contractors to set up customer service centers, process applications, determine and verify

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eligibility and calculate damage compensation amounts, develop tracking procedures, prevent duplication of benefits, and develop cost estimates. Louisiana officials recognized that even with the additional agency staff, the agency still did not have the capacity to manage all of those operations. When reviewing potential contractors to implement the Road Home program, state officials included multiple stakeholders in an inclusive and transparent process. For example, the top OCD official at the time brought in experts from other states to score and rank the various proposals. ICF International's proposal was unanimously chosen by the selection team with the support of the state legislature and state attorney general's office. The initial contract between OCD and ICF International cost approximately \$756 million, but the cost increased to \$912 million in December 2007 when the number of homeowners estimated to receive assistance increased from 100,000 to 160,000. Similarly, MDA recognized its need to build capacity and contracted with Reznick Group to implement its Homeowners Assistance Program. One top MDA official said the agency relied heavily on Reznick to manage program operations on the ground. Mississippi's contract with the firm cost an estimated \$88 million.

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### Both States Said They Needed HUD Staff on the Ground

According to state officials in both Louisiana and Mississippi, the state development agencies responsible for designing and administering CDBG-funded housing recovery programs needed regular, on-site technical assistance from HUD staff. While HUD staff did conduct four to five on-site monitoring and technical assistance visits per year as part of its oversight responsibilities, a number of state officials pointed to a need for clarification and further explanation of various federal regulations, environmental requirements, and waivers related to the states' use of CDBG funds in disaster recovery activities. HUD has field offices in both states; however, the CDBG disaster recovery program for the Gulf Coast was managed out of the agency's Washington, D.C. headquarters office. In Mississippi, MDA officials asserted that some of their agency's capacity challenges and frustration interacting with HUD could have been alleviated if one HUD official had been assigned to work in their office. Specifically, they identified two ways that on-site HUD assistance would have benefited the state. First, a HUD representative would have brought extensive CDBG expertise and helped to fill the knowledge gap at the state level. Second, a HUD representative with sufficient decision-making authority could have reduced bureaucratic delays and led to quicker program implementation. According to MDA officials, HUD's first visit to Mississippi was in the fall of 2007, almost 2 years after Hurricane Katrina's landfall.

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Similarly, top officials in LRA and OCD also highlighted the state's need for on-site technical assistance, adding that such an arrangement could have helped Louisiana avoid some of the challenges it encountered with the Road Home program. For example, one top state official said that HUD's on-site presence would have strengthened the state's ability to evaluate its options during program design, particularly when choosing to implement a compensation model versus a rehabilitation model. Another top state official in Louisiana expressed frustration that HUD encouraged the state to be creative only to get "stuck" in trying to do so because of insufficient guidance from HUD on the nuances related to CDBG disaster funds. In that official's opinion, it would have been more helpful if HUD's role was less prescriptive but still provided a clear sense of direction to the states. Louisiana officials suggested that HUD representatives could work in state agencies for a couple months at a time, rather than providing technical assistance by phone—which was typically the case after the 2005 Gulf Coast hurricanes. The former top OCD official said that they never had HUD on the ground with them in that capacity.

Officials in both states expressed frustration with CDBG as a funding delivery mechanism, and were critical of its effectiveness in disaster recovery programs. According to one key state official, CDBG is a totally inappropriate source for funding disaster recovery efforts and it is not well-designed to meet the immediate needs of residents. Other top state officials were critical of HUD's assistance to the state because of HUD's approach of force-fitting the program rules and regulations applicable to traditional CDBG programs to state disaster recovery programs. In the states' view, the magnitude of the 2005 Gulf Coast hurricanes made many of the traditional CDBG rules that were not already waived or modified impractical and slowed the process. Additionally, state officials noted that in some instances there appeared to be disagreements between the stated policies of top HUD management and the technical assistance provided by mid-level HUD staff during program implementation.

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## Conclusions

Although CDBG has been widely viewed as a convenient, expedient, and accessible off-the-shelf tool for distributing federal assistance funds to states, it proved to be slower, less flexible, and more difficult to manage than expected. The experiences in Louisiana and Mississippi provide insights when considering the effectiveness of adapting an existing funding delivery mechanism like CDBG when responding to catastrophic disasters. For example, broad discretion was granted to the states to tailor fit a CDBG program to their needs. However, when Louisiana took its specific approach to provide compensation to homeowners and encourage

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rebuilding, state officials encountered federal environmental requirements that made such a housing recovery approach impractical. While the environmental requirements were outlined in law and regulations, it was unclear as to which cases the requirements would apply. The lump-sum compensation design that both Louisiana and Mississippi ultimately chose channeled CDBG funds to homeowners with fewer assurances to the states that people would actually rebuild and contribute to community development.

In Louisiana, state officials were challenged by the inconsistent and conflicting guidance they received from different federal entities when coordinating different federal funding streams. When states are faced with navigating the numerous complexities of a funding delivery mechanism like CDBG, along with other federal disaster recovery funds, it is critical that federal guidance and assistance be clear, concise, and consistent to help minimize misunderstandings, confusion, and program delays. This is particularly important when states are developing their approaches to disaster recovery. This is also true when states are managing other sources of federal funds, some of which may or may not be combined for projects of similar purpose. Louisiana's experience with HMGP raises questions about the need for federal regulations or operational guidance that clearly outline the options and the limitations of coordinating different disaster-related funding streams in the aftermath of a catastrophic event. Valuable opportunities also exist for the federal government—primarily HUD, FEMA, and the Office of the Federal Coordinator—to reflect upon lessons learned to improve federal assistance to states devastated by a catastrophic disaster.

At the state level, any disaster that creates such catastrophic damage and devastation will present state authorities with the immediate need and challenge of building additional human capital capacity. The steps Louisiana and Mississippi state officials took to address such challenges, including the creation of a policy-making and coordinating entity to lead recovery efforts and hiring experienced disaster recovery staff, provide valuable lessons at both the federal and state level for future disaster recovery efforts.

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## Recommendations for Executive Action

We recommend that the Secretary of the U.S. Department of Housing and Urban Development take the following two actions:

- Develop and issue written CDBG disaster assistance program guidance for state and local governments to use as they begin to

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develop plans for housing recovery efforts and disbursing federal assistance to residents after natural and man-made disasters. Specifically, this guidance should clearly articulate what constitutes an acceptable rehabilitation program versus a compensation program, including an explanation of the implications of each program design; clarification of the legal and financial requirements with which states must comply; and an explanation of the types of program elements that may trigger federal environmental and other requirements.

- Coordinate with the Federal Emergency Management Agency to ensure that the new guidance clarifies the potential options, and limitations, available to states when using CDBG disaster assistance funds alongside other disaster-related federal funding streams.

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## Agency Comments and Our Evaluation

We provided a draft of this report to the Secretary of the Department of Housing and Urban Development (HUD) and the Secretary of the Department of Homeland Security (DHS) for comment. We received written comments from HUD, which are provided in appendix II.

In a letter signed by the General Deputy Assistant Secretary for Community Planning and Development, HUD partially agreed with our recommendation that the department issue written disaster recovery program guidance and improve coordination with FEMA to clarify the appropriate uses of CDBG funds with other disaster-related federal funds, such as HMGP funding. In short, HUD agreed to provide a report describing the four housing compensation programs that have been implemented in the past. The department also agreed to make its forthcoming multiyear evaluation report of the housing compensation programs in Louisiana and Mississippi publicly available. HUD did not agree that providing further technical or binding guidance comparing housing compensation and housing rehabilitation designs was the correct action at this time. The department also feels that additional coordination with FEMA will be far more useful if the role of the CDBG program in disaster recovery is regularized.

While HUD stated that it had no issues with the general direction of the recommendation, the department provided additional comments expressing three main concerns. These concerns are outlined below along with our response.

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First, HUD stated that compensation programs are not an eligible CDBG activity—except when acquiring property for a public purpose—unless the Secretary grants a statutory waiver to allow it. While HUD has issued guidance covering all aspects of housing rehabilitation programs, the department stated that it has issued no formal guidance for compensation programs because such programs have been seldom used and each compensation design has been different. Furthermore, because the requirements for compensation programs are tailored to the grantee’s specific program design, HUD does not consider this to be a “fruitful area for general guidance.” However, HUD agreed that it may be useful to compare already implemented housing compensation programs to a typical rehabilitation program to identify key areas where policies have differed and examine the application of environmental reviews and other requirements. As stated in our report, we note that compensation programs have been rare. In our view, that fact helps highlight the importance and need for the development of written CDBG disaster assistance guidance for housing compensation program design. While each compensation program may have its own unique design features, we continue to believe that HUD could improve its assistance to states by issuing guidance that clearly articulates the applicable legal and financial requirements, as well as the types of program elements that may trigger federal environmental and other requirements. We support HUD’s suggestion to compare past compensation programs with a typical rehabilitation design to identify differences in policies and the application of environmental requirements. The results of such a comparative study would contribute to the department’s development of new written guidance.

Second, HUD stated that it is currently conducting a multiyear evaluation of the housing compensation programs in Louisiana and Mississippi—the results of which are expected to clarify whether HUD will support housing compensation programs in the future. For this reason, the department hesitated to develop guidance that would be “premature” if issued prior to completion of the evaluation. Hopefully, the results of HUD’s evaluation will provide valuable insights on the effectiveness of compensation programs for disaster recovery. We agree that HUD should wait to develop guidance until it completes its evaluation. However, if the department chooses to continue to allow housing compensation programs, we continue to stand by our recommendation that the department issue written guidance. Similar to the comparative study discussed earlier, the results of this multiyear evaluation would help to inform HUD’s efforts to develop written guidance for housing compensation programs.

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Third, HUD stated that the CDBG program is not a formal part of the federal government's disaster recovery programs. The department anticipates that upon a presidential review of disaster recovery programs, the current administration may choose to either relieve the CDBG program of any disaster recovery role or grant it a permanent place among the array of federal assistance programs available to states for disaster recovery. If the latter happens, HUD stated that it would issue permanent regulations and supporting guidance. In addition, the department stated that it would be better positioned to coordinate with FEMA in advance of an event, rather than waiting for Congress to grant CDBG disaster assistance funds in the aftermath of an event. As we noted in our report, Congress has turned to the CDBG program to provide disaster assistance to states at least 20 times over the past two decades. In response to HUD's comment, we recommend that the department continue to engage the presidential administration on this issue. If the CDBG program continues to assume a disaster recovery role, we reiterate our recommendation that HUD issue written guidance for housing compensation programs, including, among other things, an explanation of program elements that trigger federal environmental reviews.

We continue to believe the issuance of written HUD guidance that clearly articulates the differences between a compensation program and a rehabilitation program—including an explanation of the types of program elements that may trigger federal environmental reviews—will better aid state and local governments as they develop their plans for housing recovery efforts and disburse federal disaster assistance to residents. In addition, as long as the CDBG program continues to be a primary vehicle for distributing federal disaster assistance, we believe increased coordination between HUD and FEMA to ensure that the new guidance clarifies the potential options and limitations of using CDBG disaster assistance funds alongside other disaster-related funds would further aid state and local governments as they navigate the complexities of multiple federal disaster recovery program resources. Together, the implementation of these two recommendations should help to create clear, concise, and consistent federal messages to state and local governments and help to minimize the misunderstandings, confusion, and program delays that Louisiana officials experienced after the 2005 Gulf Coast hurricanes.

DHS provided only technical comments, which were incorporated as appropriate. We also provided drafts of the relevant sections of this report to Louisiana and Mississippi state officials involved in the specific

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examples cited in this report. Both states provided technical comments, which we incorporated as appropriate.

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As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the date of this letter. We will then send copies of this report to the Secretary for Housing and Urban Development, the Secretary of Homeland Security, other interested congressional committees, and state officials affected by the 2005 Gulf Coast hurricanes. We will make copies available to others upon request. In addition, the report will be available at no charge on GAO's Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or at [czerwinski@gao.gov](mailto:czerwinski@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Individuals who made key contributions to this report are listed in appendix III.



Stanley J. Czerwinski  
Director, Strategic Issues

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# Appendix I: Objectives, Scope, and Methodology

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To examine how Gulf Coast states allocated their share of Community Development Block Grant (CDBG) funds, we focused our review on the states of Louisiana and Mississippi—the states most directly affected by the 2005 Gulf Coast hurricanes. To determine how the two states prioritized their rebuilding efforts and allocated their share of CDBG funds, we first identified the amount of funds provided to each state by reviewing *Federal Register* notices and the housing damage estimates that were used to determine each state’s allocation. Housing damage estimates were based on data from the Federal Emergency Management Agency (FEMA) and the Small Business Administration and were compiled in cooperation with the Office of the Federal Coordinator for Gulf Coast Rebuilding within the Department of Homeland Security and the Department of Housing and Urban Development (HUD). We also reviewed federal statutes, regulations, and notices governing the use of CDBG funds and interviewed officials in HUD’s Community Planning and Development division regarding their roles and responsibilities in allocating and distributing CDBG disaster funds to the states. To identify Louisiana’s and Mississippi’s priorities and how those priorities changed over time, we obtained and reviewed state planning documents and budget data from April 2006 to September 2008 and interviewed state program and budget officials responsible for administering and managing CDBG programs in Louisiana and Mississippi. We assessed the reliability of the budget data by reviewing the data for completeness and internal consistency, verified totals, and interviewed state officials responsible for preparation of budget reports. We observed changes in states’ budget data format and categories over time. For example, each state categorized its unallocated amount of CDBG funds differently and changed the reporting format between 2006 and 2008. To present the data from both states in a common set of budget categories, we consolidated periodic reports to obtain cumulative values and collapsed or disaggregated budget categories. We also consulted with state officials to verify interpretation of budget categories and reporting periods, to verify identification of instances where reporting formats changed, and to obtain confirmation that our reformulation of categories and amounts were acceptable. Note that periods covered are not exactly the same, but the difference in periods covered does not exceed one month. We determined that the data were sufficiently reliable for the purposes of this report.

To determine what challenges states faced with their housing recovery programs, we relied primarily on testimonial evidence from key federal officials at HUD headquarters in Washington, D.C.; HUD field offices in New Orleans, Louisiana and Jackson, Mississippi; the Office of the Federal Coordinator for Gulf Coast Rebuilding; and FEMA, as well as key state

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officials in Louisiana and Mississippi. We corroborated testimonial evidence with documents and data that we received from key federal and state officials including federal guidance and regulations related to HUD's CDBG program and FEMA's Hazard Mitigation Grant Program (HMGP), relevant environmental statutes and regulations, state planning documents, state program and budget data, and intergovernmental correspondence. We also interviewed staff from ICF International—the contractor Louisiana hired to manage the state's Road Home housing program.

To examine the human capital challenges Louisiana and Mississippi encountered and their efforts to address those challenges, we interviewed state program and budget officials responsible for administering and managing CDBG disaster funds. We obtained and analyzed information on state agency CDBG budgets, staffing levels, and organizational changes undertaken by the two states in the aftermath of the 2005 Gulf Coast hurricanes. We reviewed reports completed by the HUD Inspector General and HUD's Community and Planning Development division and interviewed key staff to capture their observations.

In addition, we reviewed relevant congressional statements and testimonies and coordinated our work with the HUD Inspector General and with state audit offices. We also drew upon previous work we have conducted on Gulf Coast rebuilding efforts, emergency response, capacity issues and CDBG-funded disaster programs.

In Louisiana at the state level, we spoke with officials at the Louisiana Office of Community Development (OCD), which was the official grantee of HUD CDBG disaster funds for the state. Within OCD, we met with officials in the Disaster Recovery Unit, which was the agency division responsible for administering and managing the state's share of CDBG disaster recovery funds. We met with officials at the Louisiana Recovery Authority, which served as a policymaking and coordinating body for recovery efforts throughout the state. We also met with officials in the Governor's Office of Homeland Security and Emergency Preparedness, which was the agency responsible for administering FEMA HMGP funds provided to the state for mitigation projects. In addition, we met with key staff in the Office of the Louisiana Legislative Auditor to discuss their past and ongoing work evaluating the state's housing recovery program and their observations on OCD's human capital challenges.

In Mississippi at the state level, we spoke with officials at the Mississippi Development Authority (MDA), which was the official grantee of HUD

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CDBG disaster funds for the state. We met with key staff in the Governor's Office of Recovery and Renewal, which served as a policymaking and coordinating body for recovery efforts throughout the state. Also, we met with officials at the Mississippi Emergency Management Association, which is the entity responsible for administering FEMA HMGP funds provided to the state for mitigation projects. In addition, we met with the Mississippi Office of the State Auditor to discuss their observations of the state's housing recovery program and their relationship with the HUD Inspector General's office on audits of MDA's human capital capacity.

We conducted this performance audit from June 2007 through April 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We requested comments on a draft of this report from the Department of Housing and Urban Development and the Department of Homeland Security. We received written comments from HUD, which are included in appendix II. DHS provided only technical comments, which were incorporated as appropriate. We also provided drafts of the relevant sections of this report to state officials in Louisiana and Mississippi and incorporated their technical comments as appropriate.

# Appendix II: Comments from the Department of Housing and Urban Development



ASSISTANT SECRETARY FOR  
COMMUNITY PLANNING AND DEVELOPMENT

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-7000

**MAY 11 2009**

Mr. Stanley J. Czerwinski  
Director, Strategic Issues  
U.S. Government Accountability Office  
441 G St., NW  
Washington, DC 20548

Dear Mr. Czerwinski:

The Department thanks GAO for this opportunity to respond to the draft report entitled Gulf Coast Disaster Recovery. It recommends that HUD provide additional guidance related to housing compensation and rehabilitation. The Department appreciated the discussions with GAO of issues related to long-term disaster recovery in the Gulf Coast following the hurricanes of 2005 and of more general issues related to the design and implementation of future long-term recovery programs. As GAO is aware, HUD has made every effort to speak frankly and openly with the hope that the lessons learned, even if they were uncomfortable, could be applied to good purpose in the continuing Gulf Coast recovery and any future events.

The final recommendation is that HUD issue written disaster recovery program guidance differentiating housing compensation and housing rehabilitation and describing what constitutes an "acceptable" program of either design. The report also recommends that HUD coordinate with FEMA to ensure that CDBG disaster recovery assistance works well with other recovery programs. HUD has no issues with the general direction of the guidance, which looks to increased guidance prior to catastrophic events and greater coordination.

That said, the Department finds it difficult to entirely agree with the GAO recommendation. GAO has recommended that HUD issue guidance about the ways in which the "housing compensation model" differs from the "housing rehabilitation model", with the apparent idea that this guidance will help with program design and launch following future disasters. This recommendation overlooks some key points of our discussions.

First, housing compensation is not an eligible activity under the Community Development Block Grant (CDBG) program. Housing rehabilitation is eligible, and HUD has issued a tremendous amount of guidance over the past 30 plus years covering all aspects of implementing housing rehabilitation programs. Rehabilitation remains a useful eligible activity, with literally hundreds of program variations among the 1,200 regular CDBG grantees around the country. For housing compensation, HUD has issued no formal guidance because it has been used so seldom (four times) and because no two programs have had the same design.

[www.hud.gov](http://www.hud.gov)

[espanol.hud.gov](http://espanol.hud.gov)

Because housing compensation is not an eligible CDBG activity (outside of acquisition of property for a public purpose), a grantee may use CDBG funds for that purpose only if the Secretary of HUD grants a statutory waiver to allow it. Such waivers are granted on a case-by-case basis, after a review of case-specific needs. The alternative requirements are tailored to the grantee's specific program design. For a case in point, the housing compensation waivers granted to Mississippi and Louisiana are not identical because the states designed different programs and requested different waivers. So, this is not a fruitful area for general guidance, but HUD does agree that it may be useful to compare the disaster recovery housing compensation programs that have occurred with a fairly typical housing rehabilitation program and identify key areas where policies have differed and states have taken different paths that affected the application of environmental review and other requirements.

Second, although HUD has a great deal of information about the operation of housing rehabilitation programs, HUD has not yet completed the evaluation of the housing compensation programs in Louisiana and Mississippi. In a multi-year evaluation, HUD is assessing the extent to which these housing compensation programs have resulted in disaster recovery. Until HUD has this information, it will not be clear whether such a waiver should be granted again. Thus, providing guidance for future disaster recovery efforts may be pre-mature.

Third, HUD has made disaster recovery CDBG grants under a series of supplemental appropriations laws, no two of which are the same. CDBG is not a formal part of the federal government's disaster recovery programs. It is possible that review of disaster recovery programs under this administration will result in CDBG being removed from this role, or in it being given a permanent place in the federal assistance made available after catastrophes. If the former, providing guidance on the difference between compensation and rehabilitation will not be necessary; if the latter, HUD would issue permanent regulations and supporting guidance as a matter of course. HUD would also be better positioned to coordinate with FEMA in advance of an event, rather than waiting to see whether Congress intended to make disaster recovery CDBG available following an event.

In short, HUD agrees that it is appropriate and feasible to provide a report describing the housing compensation and incentives programs as implemented by Mississippi, Louisiana, New York, and Grand Forks. HUD also will complete the evaluation of the housing compensation programs on the Gulf Coast and make the resulting report publicly available. HUD does not agree that providing further technical or binding guidance comparing and contrasting housing compensation and housing rehabilitation is the correct action at this time. HUD also feels that additional coordination with FEMA will be far more useful if the role of the CDBG program in disaster recovery is regularized.

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**Appendix II: Comments from the Department  
of Housing and Urban Development**

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Thank you again for the opportunity to provide our comments on the draft report. Please contact me if you have further questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Nelson R. Bregón". The signature is stylized with a large, sweeping initial "N" and a distinct "B" at the end.

Nelson R. Bregón  
General Deputy Assistant Secretary

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Stanley J. Czerwinski, (202) 512-6806 or [czerwinkis@gao.gov](mailto:czerwinkis@gao.gov).

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## Staff Acknowledgments

Major contributors to this report were Michael Springer, Assistant Director; David Lutter; Susan Mak; and Leah Q. Nash. Jessica Nierenberg, Melanie Papasian, Brenda Rabinowitz, and A.J. Stephens also made key contributions to this report.

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