GAO Highlights

DISASTER RECOVERY

Use of HUD Block Grant Funds to Meet Cost-Share Requirements

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A report to the Ranking Member, Committee on Homeland Security and Governmental Affairs, U.S. Senate.

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What GAO Found

Communities that receive Federal Emergency Management Agency (FEMA) disaster assistance are generally required to cover a portion of recovery costs, known as the nonfederal cost share. Community Development Block Grant Disaster Recovery (CDBG-DR) and Mitigation (CDBG-MIT) funds, which are administered by the Department of Housing and Urban Development (HUD), can be used for this purpose.

For disasters occurring from January 2017 through January 2023, grantees budgeted about 7 percent ($3.7 billion) of the $49.4 billion in CDBG-DR and CDBG-MIT funds to meet FEMA cost-share requirements. In addition, four grantees allocated another $2 billion that could be used for cost share. However, as of December 2024, grantees had not yet determined how much of the $2 billion would be used for this purpose.

Different timelines and requirements can make it difficult for grantees to use CDBG-DR or CDBG-MIT funds for FEMA cost share, according to prior GAO work and seven grantees GAO interviewed:

- **Timing of funding availability.** CDBG-DR and CDBG-MIT funds have historically become available later than FEMA funds. This can complicate planning, particularly when projects have already begun.
- **Income requirements.** Grantees generally must use at least 70 percent of CDBG-DR and CDBG-MIT funds to assist people with low and moderate incomes, a requirement that does not apply to FEMA funds. This can be challenging, particularly when the benefits of large FEMA-funded infrastructure projects are difficult to isolate for these individuals alone.
- **Wage and labor requirements.** Grantees must follow federal wage and labor requirements when using CDBG-DR or CDBG-MIT funds for construction, including rules on how much and how often workers must be paid. However, these requirements do not apply to the two FEMA programs for which almost all of the CDBG-DR and CDBG-MIT funds are used to meet cost-share requirements. As a result, FEMA officials said the agency may not cover the additional costs these requirements may impose.

Options for addressing these challenges include aligning HUD and FEMA requirements or eliminating the cost-share requirement altogether. However, these options present trade-offs and may require statutory changes. For example, eliminating the cost-share requirement completely would require congressional action and could result in FEMA funding fewer projects.

Implementing prior GAO recommendations on improving the federal disaster recovery framework could also help address these challenges. In a November 2022 report (GAO-23-104956), GAO recommended that Congress consider establishing an independent commission to propose reforms to the federal government's approach to disaster recovery. GAO also recommended that HUD and FEMA take steps to better manage fragmentation across recovery programs. Implementing these recommendations could help alleviate challenges in using CDBG-DR and CDBG-MIT funds to meet cost-share requirements.

Why GAO Did This Study

Natural disasters affect hundreds of U.S. communities each year, and the federal government provides billions of dollars to support recovery efforts. The Stafford Act generally requires communities to contribute up to 25 percent in nonfederal cost share for assistance provided through FEMA's Public Assistance and Hazard Mitigation Grant programs.

GAO was asked to review the use of CDBG-DR and CDBG-MIT funds to meet nonfederal cost-share requirements. This report examines (1) the portion of these funds that grantees have budgeted to meet cost-share requirements and (2) key challenges selected grantees face in using the funds for this purpose and options to address these challenges.

GAO focused on FEMA programs because they accounted for most of the cost-share funds. GAO collected and analyzed budget data from 52 of the 55 grantees that received CDBG-DR and CDBG-MIT funds for recovery from disasters that occurred from January 2017 through January 2023.

GAO reviewed HUD and FEMA documentation and interviewed officials from both agencies. GAO also interviewed seven grantees. The selected grantees reflected a mix of characteristics, including varying funding amounts, levels of experience with cost share, and type of grant received (CDBG-DR or CDBG-MIT).