Hurricane Katrina

Is Mississippi Building Back Better Than Before?

Problems and Solutions Regarding Mississippi's Use of CDBG Disaster Recovery Funds

The Steps Coalition

August 29, 2008

Introduction

Will Mississippi "Build Back Better Than Before?"[1]

One year ago, the Steps Coalition released a Community Development Block Grant (CDBG) Recovery Fund Report Card, evaluating whether the state was meeting its federal mandate to spend at least half the funds to primarily benefit low and moderate income Mississippians.[2] It recounted that Mississippi:

- redirected over 75 percent of federal funds designated for lower-income storm victims to other uses
- paid nearly all of its disaster funds to date to wealthier homeowners, utilities, and insurance companies, spending only 13 percent on lower-income persons, and
- risked violating fair housing laws by implementing programs that disproportionately under-serve lower-income and minority storm victims

At the third-year anniversary, where does Mississippi's housing recovery stand? Too few signs of progress on these measures are apparent, and too many frightening trends continue. Mississippi still:

- has over 75 percent of its programs exempted from income targeting,
- has spent only 13 percent of its disaster funds on lower-income storm victims,
- lags badly in creating and implementing the programs designed to serve housing-challenged storm victims.

Overall, when it comes to housing for the state's most vulnerable storm victims, the Steps Coalition concludes that Mississippi's performance still does not deserve a passing grade, and certainly does not qualify as "building back better than before." Given that only six months remain before all FEMA housing assistance terminates, Mississippi faces its greatest challenge yet.

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[1] See After Katrina: Building Back Better Than Ever, Mississippi Governor's Commission Report, December 31, 2005, http://www.mississippirenewal.com/documents/Governors_Commission_Report.pdf

[2] http://www.stepscoalition.org/downloads/news/reports/2008ReportCard.1.pdf, (updated January, 2008)

OVERVIEW

The under-funding of the needs of lower-income Mississippians remains the single greatest failure of the Mississippi recovery.

In the twelve months since the second anniversary of Hurricane Katrina, Mississippi has allocated substantially all of its remaining CDBG recovery funds. However, the inequity remains between income-targeted (low- and moderate-income families) and non-income-targeted allocations. In order to circumvent the federal requirement to spend at least 50 percent of the federal funds to benefit lower-income Mississippians, Mississippi sought waivers of the requirement from the Department of Housing and Urban Development. Table 2 shows that Mississippi's use of funds subject to waivers rose slightly from 77.8 percent to 78.2 percent.[3]

Table 1: Comparison of Program Allocations

	2007	2008
INCOME WAIVERS		
Phase I	$1,970,000,000	$1,525,000,000
Elevation	$250,000,000	$95,500,000
Ratepayer/Windpool	$440,000,000	$440,000,000
Infrastructure	$578,000,000	$641,075,000
Economic Development	$340,000,000	$335,000,000
Community Revitalization	$150,000,000	$300,000,000
Ground Zero	$0	$200,000,000
State Port	$0	$600,000,000
subtotal	$3,728,000,000	$4,136,575,000
INCOME TARGETED		
Phase II	$700,000,000	$434,000,000
Small Rental	$258,500,000	$262,000,000
LTWF Housing	$0	$350,000,000
Public Housing	$105,000,000	$105,000,000
	$1,063,500,000	$1,151,000,000
TOTAL	$4,791,500,000	$5,287,575,000
PERCENT WAIVER FUNDS	77.80%	78.23%

Source: September 30, 2007 CDBG Disaster Recovery Expenditure Overview and June 16, 2008 MDA CDBG Program Overview

[3] This report counts the Port Diversion funds in the waived programs because the State obtained a waiver of the public benefit spending limit of $35,000 per permanent job created. See MDA Port of Gulfport Restoration Action Plan Amendment 5, December 12, 2007, p. 9. http://www.mississippi.org/UserFiles/File/Home_Owners_Assistance_Program/PortofGulfportFinal12-12-07.pdf The Port Diversion would spend $600 million to create 1,300 permanent maritime jobs by 2015. Ibid., p. 4. This equals $461,538 per permanent maritime job created.

The overall balance between economic development and housing remains unchanged, and so, as expected, there was no improvement in the percentage of funds Mississippi spent on persons of low- and moderate-income. In fact, the funding allocation to lower-income needs fell slightly from 13.21 percent in September, 2007 to 13.14 in March, 2008.[4] As shown in Table 2, 83 percent of funds spent were in programs that primarily benefited wealthier homeowners[5], private utilities, and insurance companies.

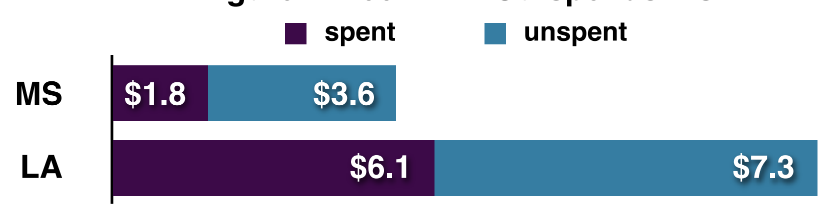
Table 2: Funds Spent on Programs With Income Waivers Benefit Primarily Wealthier Interests

program	expenditure
Phase I Home Grants	$1,299,368,429
Utility/Windpool Subsidies	$440,000,000
total non-income targeted	$1,739,368,429
Total expenditures to date	$2,091,334,774
percent	83%

Source: Mississippi Development Authority Program Summary, June 10, 2008, p. 4.

Mississippi may have outpaced Louisiana as of the first anniversary, but this no longer remains true today. As of December 2007, Mississippi has spent only $1.8 billion, or 33 percent of its $5.48 billion in disaster CDBG funds. By the end of 2007 Louisiana managed to spend **45** percent of its $13.4 billion in allocations. As of May 2008 Mississippi had spent $2.1 billion or **38** percent.

Figure 1: 2007- LA Outspends MS



Data Sources: December 31, 2007 Mississippi CDBG Disaster Recovery Expenditure Overview, Louisiana Disaster Recovery Grant Reports, December, 2007, http://www.doa.louisiana.gov/cdbg/drreports.htm

[4] The official DRGR percentages differ from the MDA Program overview data due to discrepancies in the data.

[5] Homeowners earning more than 80% of area median income are projected to receive $1.067 billion out of a total of $1.3 billion, or 77 percent of all Phase One Home Grant dollars. Mississippi DRGR Performance Report, March, 2008, pp. 24-25. http://www.mississippi.org/content.aspx?url=/page/3707&

Short Changing the Poor

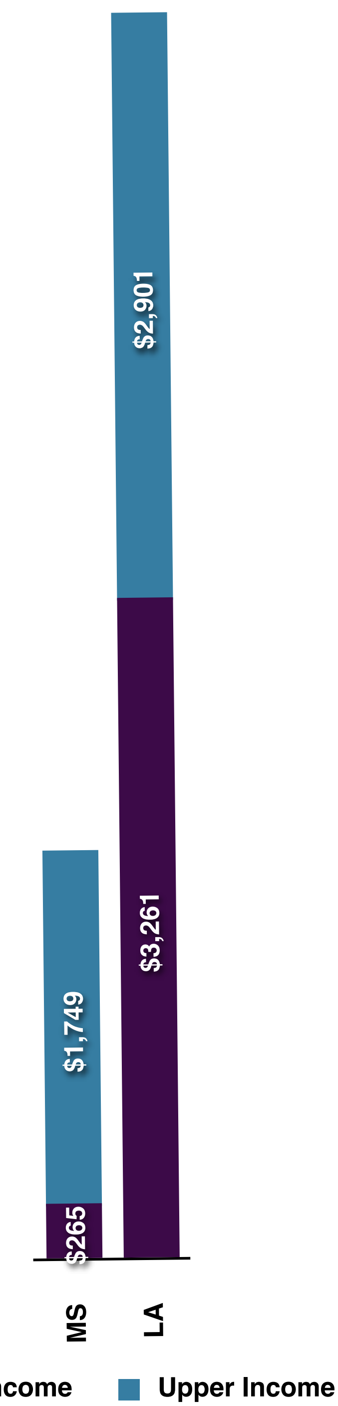
According to the Governor's Commission Report, Hurricane Katrina "had a particularly devastating impact on low-wealth residents who lacked an economic safety net" but the disaster also "presented a unique opportunity to correct decades of inequitable development."

Mississippi's performance on targeting lower-income households is unacceptable. According to data Mississippi filed with HUD, only **13** percent of total funds spent through March 2008 benefitted low and moderate income households.[6] In contrast, as of December 2007, Louisiana has spent **53** percent of its funds to assist lower-income storm victims.[7] Figure 2 illustrates the stark difference.

Three years after Hurricane Katrina, it is clear that Mississippi is not coming close to building back better than before the housing of its lower-income residents.

In the following sections of the report, we will analyze where Mississippi's housing recovery programs fall short and what is needed to turn them around.

Figure 2: MS spends 13% on lower income families to LA's 53% (Millions)



[6] Ibid., p. 1

[7] Louisiana Disaster Recovery Grant Reports, December, 2007, http://www.doa.louisiana.gov/cdbg/drreports.htm

HELP FAMILIES WITH WIND-DAMAGED HOUSES

Problem: In the past twelve months, Mississippi has pulled $1 billion in appropriations out of homeowner assistance, a 35 percent reduction. This loss of funds is fatal to the recovery of those whose homes had major to severe damage from Hurricane Katrina's winds. In South Mississippi, this means over 7,300 households with major to severe windstorm damage have been left out of the recovery effort.[8]

Table 3: Wind-Damaged Households - Coastal Counties

	major	severe	major	severe	total
	insured		uninsured		
Hancock	506	306	240	154	1206
Harrison	2,790	358	1014	263	4425
Jackson	1,072	114	425	60	1,671
total	4,368	778	1679	477	**7,302**

Mississippi chose to deny homeowner assistance grants to storm victims like Joe Stevens, 52, described in a recent Clarion Ledger article[9]:

> **Stevens "used to be a commercial fisherman - until diabetes took his legs. He used to have a daughter, until her suicide left him caring for 2 of her 3 children. He used to have a house in the Lyman community until a tornado spun from Hurricane Katrina took that too."**

Mississippi asserts that this exclusion was part of the bargain for receiving the disaster aid, but it appears nowhere in the legislation or regulations. If Joe lived in Louisiana, he would be eligible for housing grant assistance, so why should recovery from this Nation's largest natural and housing disaster turn on which state you live in?

Solution: Mississippi should funnel funds for wind-damaged homeowners through long term recovery organizations to help lower-income homeowners still in need. If additional funds are required to meet the demand, Mississippi should restore some of the funding diverted to economic development or request additional funding from Congress, just as Louisiana did when its home grant program fell short of the need.

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[8] HUD/FEMA Gulf Coast Housing Damage Estimate, February, 2006, pp. 28-30.

[9] Chris Joyner, "Katrina Victims Will Lose Homes When FEMA Ends Temporary Housing Efforts," Clarion Ledger, A-1 , June 1, 2008.

RESTORE MORE SMALL RENTAL HOUSING

Problems:

More Small Rental Housing Was Damaged
Katrina-displaced Mississippi renters are twice as likely to have lived in lower-density housing (10 units or less) than in apartment complexes. Figure 3 shows that two-thirds of all storm-damaged rentals were single family units. Figure 4 shows that over one-fourth of smaller rental units suffered major to severe damage. For this reason, housing advocates have emphasized the importance of a small rental assistance program that ties affordability requirements to funding.

Mississippi's Program Is Too Small

Unfortunately, Mississippi's Small Rental Assistance Program is forecast to restore only 46 percent (6,300) of these units statewide, and leave 54 percent (7,500) unrepaired. Over 33,000 more rentals with limited damage will not be repaired by this program.

Small Rental Shortfall on MS Coast

After all grants are awarded, and assuming current trends continue, the Steps Coalition estimates that Small Rental Assistance Program would restore 6,170 units in the three coastal counties. This will leave over 42 percent (4500 units) with major damage unrepaired.

Figure 3: Number of Damaged Units

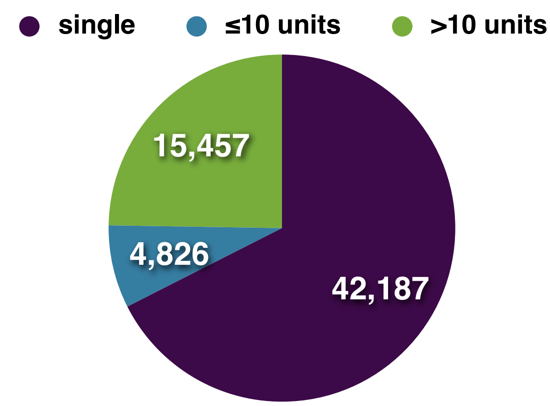


Figure 4: Degree of Damage

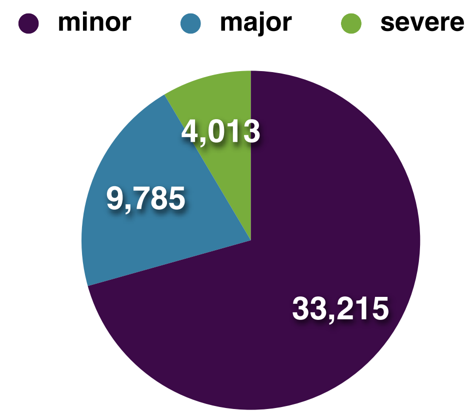
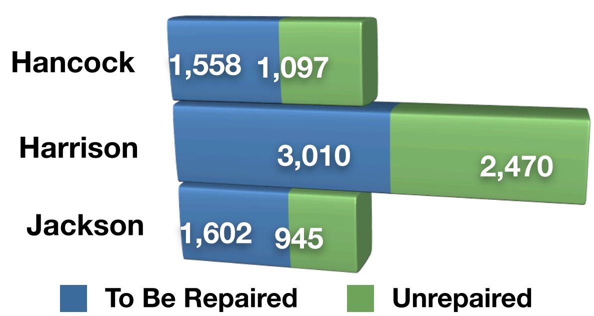


Figure 5: Small Rental Shortfall

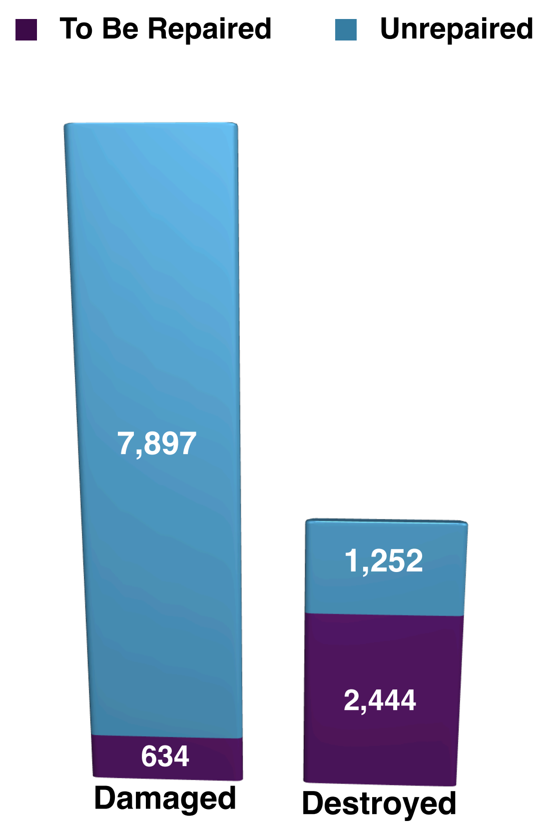


Sources: HUD/FEMA February 2006 Damage estimates,
MDA Program Summary, June, 2008. Projections for total based on allocations under Round 1.

Solutions:

Increase Focus on Repairing Rentals
Round One of the state's program (about $136 million) is forecast to repair less than a tenth of rentals on the Mississippi coast with major damage, and to restore only two-thirds of destroyed rentals through new construction. Greater emphasis must be placed on repairing existing structures. New construction generally faces higher environmental, zoning and permitting hurdles. Repair of existing structures faces fewer barriers, mends the fabric of the community, and decreases the transportation burden of renters who locate closer to work.

Figure 6: Large Shortfall on Repairs



Data Source: MDA Program Summary June 2008; HUD/FEMA damage assessment February 2006

Target Non-Professional Landlords
The majority of funding in Round 1 of the Small Rental Assistance Program went to new construction,more likely than not by professional real estate investors. The Steps Coalition urges Mississippi to target non-professional landlords with a case-managed program modeled on the Rental Relief Program administered by the Lutheran Episcopal Disaster Service.

Increase the Amount of Support The Steps Coalition has consistently urged the State to increase the amount of the grant to $70,000 per unit to increase participation and increase affordability for tenants.

Eliminate Duplication of Benefits- Currently, landlords who participate in the Small Rental Assistance Program are barred by federal law from leasing to lower-income renters and FEMA trailer occupants (like Joe Stevens) who only can pay with vouchers. This prohibition should be waived.

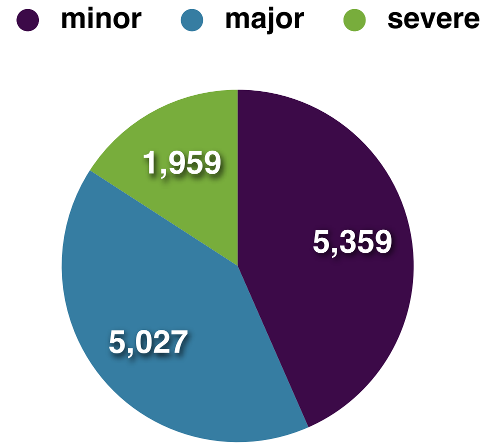
Use Local Buffer Zones for Propane Tanks- Currently, federal housing regulations require a larger buffer zone between housing and above-ground propane storage tanks than that required by national fire safety standards. This onerous federal regulation should be waived for the Small Rental Assistance Program provided there is compliance with national fire safety standards.

Discourage NIMBYism- Increase efforts to discourage tightening of local zoning restrictions for lower-density subsidized rental housing.

Restore More Affordable Apartment Complexes

Problem: Two-thirds of multifamily rentals prior to Hurricane Katrina were rented at or below $600 per month.[10] Post-Katrina rentals have gone up by 30 percent or more. As a result, the housing burden from Katrina's damage falls more heavily on lower-income renters. Mississippi has staked restoration of this housing segment almost exclusively on the success of the Low Income Housing Tax Credit Program.

Figure 7: Degree of Damage



Source: February, 2006 HUD/FEMA damage estimates

Widespread Damage to Apartment Complexes

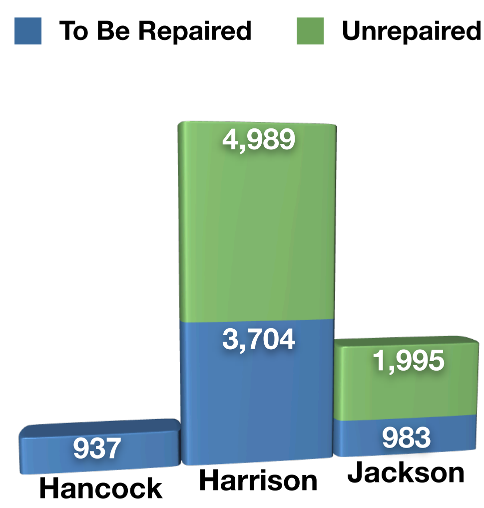
The three coastal counties had damage to 12,345 units in higher-density apartment complexes, over half of which (6,986) had major to severe damage. See Figure 7. Repairs to higher-density complexes generally are comprehensive, regardless of degree of damage.

Affordable Apartment Complex Shortfall

The state's low-income tax credit allocation for the three coastal counties is forecast to restore 42 percent (5,624) of all units, leaving 58 percent (6,721) unrepaired in Harrison and Jackson County.[11] See Figure 8.

The actual shortfall likely will exceed these estimates due to a variety of barriers to completion, including devaluation of tax credits, permitting, zoning, and NIMBYism. Today, only approximately 218 tax-credit financed units have certificates of occupancy, according to research by Steps Coalition allies. Last year, the number was 95.

Figure 8: Apartment Complex Shortfall



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[10] Post-Katrina Recovery of the Housing Market Along the Mississippi Gulf Coast, Rand Gulf States Policy Institute, Kevin McCarthy, Mark Hanson, (2008), p. 15, Table 2.5.

[11] US GAO, Gulf Opportunity Zone- States Are Allocating Federal Tax Incentives to Finance Low-Income Housing and a Wide Range of Private Facilities," July, 2008 (GA)-08-913), p. 49; February, 2006 FEMA/HUD estimates.

Solutions:

"Piggyback" Funds- Mississippi should allocate some CDBG funds to tax-credit funded developers with shortfalls. This approach has provided important support to Louisiana developers struggling with the national credit crisis and the devaluation of tax credits.[12]

Mixed Income Developments- Local governments have blocked tax credit developments out of neighboring landowners' fears of concentrations of lower-income tenants. However unjustified these fears may be, one solution is to provide for a range of incomes in tax-credit financed apartments, in sufficient number as to not displace existing residents.

Coordinated Education Effort to Combat NIMBYism- Representatives from the Advocacy Community and the business community should jointly pressure local officials in every responsible developer's effort to secure permit and zoning approval from local government.

WORK FORCE HOUSING WILL NOT FILL THE GAP

Problem: The state's forecast of housing production from its Long Term Work Force Housing program is over optimistic- 11,000 to 12,850 housing units from a $350 million dollar program. In comparison, Mississippi's 17,800 Phase One home grants cost the state over $1.335 billion.[13] Reaching the 11,000 unit housing goal will be very unlikely even with matching contributions by employers or volunteer labor. Also, the work force housing programs also assist newly arrived employees, and do not exclusively target storm-damaged workers. As a result, the units of housing from the workforce housing program do not reduce the unmet need of storm victims on a one-to-one basis.

Solution: Maintain primary focus of workforce housing upon restoring hurricane-damaged employees and meeting resource needs of long term recovery organizations. After these needs are met, then turn to providing additional capacity for new arrivals to the Mississippi coast labor market.

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[12] Kalima Rose et al, "A Long Way Home, The State of Housing REcovery in Louisiana 2008," Policy Link, p. 23. http://www.policylink.org/threeyearslater/

[13] MDA Homeowner Assistance Phase I- (August 21, 2008), http://www.mississippi.org/content.aspx?url=/page/3358&

IS THERE GOOD NEWS? *YES, BUT...*

From "The FEMA Shuffle" Anita Lee, Sun Herald,
Sunday August 16, 2008

Uncertainty and distress accompany their shuffle from one temporary home to another, including hotel rooms, almost three years after Hurricane Katrina. So far FEMA has spent more than $11 million in Mississippi on hotel rooms and catered meals.

"I'd give anything if I could go back pre-Katrina," she said. "You don't know how much I miss it. I'm a shadow of what I used to be."
Running through her mind on a daily basis are the questions familiar to other Coast residents who have received help and moved on.
Marsh asks herself: "Who am I going to call next? Who's going to call me? Where am I going to go? How am I going to eat?"

Surge-damaged homeowners- Over 22,800 homeowner assistance grants have been paid out totaling over $1.335 billion in Phase I and $352 million in Phase II.[14]
- *But, Mississippi refuses CDBG assistance to 7,300 households with major to severe wind damage on the Mississippi Coast.[15]*

FEMA Trailer Population reduced- Over the past eight months, the number of Mississippi households in FEMA trailers has gone from 13,022 to about 4,000 in trailers, hotels, and other temporary housing.[16]
- *But, all transitional housing programs will terminate in March, 2009, and the permanent affordable rental housing programs are not forecast to open 4,000 rental units over the next six months.*
- *Tracking the whereabouts of the hardest-to-house storm victims will be extremely difficult without greater coordination between HUD and FEMA, and without an integrated report covering all those in transitional housing.*

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[14] See footnote 13 for Phase I and the following link for Phase II. http://www.mississippi.org/content.aspx?url=/page/3525&

[15] See footnote 8.

[16] FEMA Mississippi Individual Assistance Program Report, August 21, 2008, http://www.fema.gov/pdf/hazard/hurricane/2005katrina/ms_iag.pdf

Mississippi Cottages - 2,722 Katrina cottages are now occupied by households.[17]

- *But, these cottages must be vacated by March 2009 unless the occupant purchases it and solves the local zoning, elevation, and foundation requirements. Since 58 percent of current occupants make less than $20,000 per year,[18] and the annual costs of ownership are around $4,500 per year,[19] financing will be extremely difficult.*

Advocates' solutions gaining wider acceptance- In August, 2008, a Housing Working Group of the Gulf Coast Business Council presented a series of recommendations to Mississippi Governor Haley Barbour. These recommendations included:

- additional funding to assist storm-damaged households through long term recovery organizations, including wind-damaged households
- increased per-unit amount for small rental program, and targeting non-professional landlords
- funding for hardship-case home buyers
- coordinated effort to combat NIMBYism
- increased support for land trusts and other alternative housing developments
- accelerating the pace of removing barriers to participation in housing programs by citizens with disabilities, including, set-asides to cover additional costs of accommodation.

- *The Steps Coalition is gratified that many policy initiatives its members have supported are now forming the basis for a consensus plan going forward. The real test, however, will be whether Mississippi puts these recommendations into action.*

WHAT IS NEXT?

March, 2009 Deadline- Mississippi faces a difficult task to find sufficient affordable permanent housing within the next six months to absorb the remaining displaced residents of the area. The usual iconic FEMA trailer count will no longer be a useful measure of the large numbers of families the federal CDBG funds never helped.

Reallocate Resources as Originally Intended- Over the next 18 months, HUD has a statutory duty to reexamine the waivers from the low-income benefit requirement granted to Mississippi. The Steps Coalition urges HUD to reallocate unobligated funds to cover unmet low-income housing needs in every case where the State fails to deliver on promises made in exchange for the waivers. Any future requests for appropriations by Mississippi for disaster recovery or mitigation should include measures to restore funds diverted from the homeowners' assistance program.

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[17] Mississippi Alternative Housing Pilot Program Lender Roundtable, July 29, 2008, Attachment 1.

[18] Ibid., p. 2.

[19] Ibid., Attachment 3.

This report was prepared for the Steps Coalition by the Mississippi Center for Justice with contributions from Back Bay Mission. The Steps Coalition is an alliance of non-profit public interest, civic, and faith-based groups that share the goal of a just, equitable, and sustainable recovery following Hurricane Katrina. For more information, go to the websites for the Steps Coalition, www.stepscoalition.org, the Mississippi Center for Justice, www.mscenterforjustice.org, and Back Bay Mission,www.backbaymission.com.