
Revised February 27, 2006

HOUSING NEEDS OF MANY LOW-INCOME HURRICANE EVACUEES ARE NOT BEING ADEQUATELY ADDRESSED

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Summary

Federal responses to last year's hurricanes have fallen well short to date of meeting the needs of many of the low-income families and individuals who were displaced by the storms. While the weaknesses in the federal effort have created problems for rich and poor alike, these weaknesses present particular difficulties for low-income households. Such households are much less likely than their higher income counterparts to have the resources needed to avoid hardship and, in some cases, homelessness when the erratic federal evacuee housing assistance system fails them. They also are less likely to have the necessary resources to cover gaps between what federal homeowner assistance is providing and the cost of rebuilding or replacing a home, or to be able to cope with the sharp increases in rental costs that have occurred in a number of the areas damaged by the hurricanes as a result of the large decline in the supply of habitable rental housing in these areas.

Congress has the opportunity to improve the federal response significantly as it considers the Administration's new supplemental appropriations request and other hurricane-related legislation. Congress should place priority on measures to meet the needs of the storms' neediest victims. Such measures could include:

- **Have HUD, not FEMA, provide continuing rental assistance to disaster victims.** After Hurricane Katrina struck, the federal government established two separate rental assistance programs for displaced families. Both programs have suffered from confusion over who should be assisted and how. In December, Congress folded one of these programs (HUD's Katrina Disaster Housing Assistance Program) into Section 8, HUD's regular housing voucher program, which has the benefit of clear, tested rules. Congress should do the same for the other new program, which is operated by FEMA.

That program will exhaust its current funding this spring, and the Administration now has requested an additional \$9.4 billion for FEMA's disaster relief fund, in part to continue providing housing assistance to victims of the 2005 Gulf hurricanes. (Displaced families may receive rental assistance for up to 18 months.) Congress should not simply provide the requested funds; it should accompany the funds with a revamping of the FEMA housing assistance program. The FEMA housing assistance program has been beset by serious management problems throughout the period since the hurricanes hit. Particularly for families

that need assistance beyond the three months that FEMA's initial rental assistance checks are designed to cover, housing assistance should be provided under Section 8 rules and the necessary funds should be transferred from FEMA to HUD. A February 23, 2006, White House report on the response to Katrina recommends that HUD — because of its superior experience and capacity in providing housing assistance — be designated as the lead federal agency for the provision of temporary housing to evacuees. But this recommendation applies only to responses to *future* disasters, not to the programs responding to the still considerable needs of evacuees from last year's storms.

- **Help owners repair easily fixed apartments in the disaster area.** FEMA's primary strategy for making housing available in damaged areas has been to install trailers. This has occurred at an extremely slow pace — in New Orleans, only 3,000 trailers reportedly had been installed by early February out of 21,000 requested.

Estimates indicate that about 20,000 vacant apartments in New Orleans that cannot be occupied today could be made habitable with relatively modest repairs. Because nearly half a year has elapsed since the hurricanes hit and these repairs have not been made (despite the much higher rents that now prevail in the area), it is likely that many of the owners of these rental properties are having difficulty obtaining the needed funds. The federal government should provide owners with loans, loan guarantees, or grants to enable them to make these repairs. In return, the owners would agree to make units available to displaced families for at least the usual 18-month period for which FEMA housing assistance can be provided to such families. To carry out the initiative most efficiently, funds should be transferred from FEMA's disaster relief fund for distribution through HUD's existing HOME program in areas that are continuing to experience severe housing shortages.

- **Restore the pre-hurricane supply of federally subsidized housing.** Much of the subsidized housing in the region hit by the hurricanes was destroyed or severely damaged. Not all of those units should be rebuilt on their former sites, in part because some of the former developments concentrated large numbers of poor people in isolated locations with little access to jobs or services. But given the shortage of affordable housing in the area, the total number of affordable units — including housing made affordable through subsidies to private owners as well as public housing — needs to be returned to the pre-hurricane level. Based on HUD estimates, at least \$450 million will be needed for this purpose, but the Administration asked for no additional funding to meet this need in the recent supplemental appropriation request or its fiscal year 2007 budget.

A portion of the cost of replacing damaged public housing could be covered through funds Congress has already provided for HUD's HOPE VI program, without any added appropriation. HOPE VI is designed to promote the creation of mixed-income neighborhoods by providing funding for the demolition and reconstruction of seriously deteriorated public housing and could be readily used to support restoration of public housing damaged by the hurricanes. The Administration's new budget calls, however, for eliminating HOPE VI funding in 2007 and also for rescinding all \$99 million that Congress appropriated for the program in 2006. Instead, these 2006 funds should be redirected to housing agencies in the Gulf Coast region that can use the funds to replace public housing damaged by the hurricanes and to provide badly-needed housing units for poor families, elderly individuals and people with disabilities.

- **Authorize additional housing vouchers to ensure that a share of rebuilt private housing is affordable to poor households.** The Low-Income Housing Tax Credit (LIHTC) was created in 1986 to expand the supply of affordable private housing units by providing financial incentives to developers to build or rehabilitate housing that includes units affordable to low- or moderate-income households. In December 2005, Congress authorized a large increase in the authority of the hurricane-damaged states to issue these tax credits. The increase could result in the construction or rehabilitation of about 54,000 rental units.

These tax credits are usually insufficient by themselves to reduce rents to the point where poor households can afford them. An additional subsidy normally is required to bridge that gap, and Section 8 housing vouchers are well suited to this purpose. Accordingly, Congress should provide housing authorities on the Gulf Coast with at least 13,500 additional “project-based” housing vouchers to be assigned to housing units financed with the new tax credits or to supportive housing units for people with disabilities financed with other capital funds. These 13,500 vouchers would enable 25 percent of the 54,000 rental units that can be constructed with the tax credits to be made available to poor families. The initial cost of these vouchers — approximately \$100 million — potentially could be met by setting aside for this purpose a portion of an appropriation for Section 8 included by the Administration in its recent hurricane recovery supplemental request.

- **Help low-income homeowners repair or replace damaged homes.** The federal government is providing significant assistance to owners of homes that were damaged by the hurricanes. Much of this assistance, however, is structured in a manner ill-suited to assisting homeowners with low incomes.

The Small Business Administration provides recovery loans of up to \$200,000 to homeowners, in some cases with reduced interest rates. Applicants qualify for the loans based on demonstrated ability to repay them, and low-income households often have difficulty meeting the repayment criteria. The Gulf Coast states also plan to use much of the \$11.5 billion in Community Development Block Grant (CDBG) funds they received under a supplemental appropriation passed in December 2005 to provide grants and loans to homeowners. But, particularly in Louisiana, these funds as well are likely to fall well short of the need.

The Administration recognizes that the CDBG funding Louisiana is now slated to receive is inadequate and has recently proposed \$4.2 billion in added CDBG funds for the state as part of its new supplemental appropriation request. Even with this added amount, it is not certain from the available information that CDBG funding would be adequate both to fill the gaps in homeowner assistance and to meet additional needs for restoration of certain types of severely damaged rental housing and other purposes. (Few other resources are available to meet these needs). The Administration’s \$4.2 billion request should be viewed as the minimum needed to meet the most glaring gaps in available federal resources.

If these funds are not provided, many households — and particularly low-income households — would not be able to rebuild or replace their homes. As a result, tens of thousands of low-income, disproportionately African-American households would be left with their primary asset destroyed and little means of restoring it.

Response So Far Fails to Provide Needed Assistance to Low-Income People

The hurricanes displaced rich and poor alike. Higher income households are far better equipped than lower-income households, however, to rebound from the storms and rebuild their lives. They are much more likely to have insurance, significant non-housing assets, and the ability to obtain private loans. The federal government has done little to address the problems that low-income households are facing in these areas.

In addition, the provision of temporary federal housing assistance to evacuees has been ineffectively and erratically administered. This has posed particular problems for low-income families, which have fewer resources available to fend off homelessness if federal disaster assistance falls through.

Furthermore, while substantial resources are being committed to aiding homeowners with damaged homes and to rebuilding rental housing in the disaster area, this assistance has not been appropriately designed to provide adequate assistance to the neediest homeowners and renters. Many low-income homeowners consequently could find themselves unable to rebuild or replace their homes, and many displaced homeowners and renters who are poor may be unable to find apartments in their home towns at rents they can afford. As a result, they may be stranded for very long periods of time in other parts of the country or in temporary trailer parks.

The Administration's fiscal year 2007 budget requests virtually no resources to help address the shortcomings of the recovery effort for low-income families. In fact, the budget proposes to cut, or to rescind previously appropriated funds from, several programs that could help to address these problems.

On February 16, 2006, the Administration submitted to Congress a request for \$19.8 billion in supplemental appropriations for hurricane recovery. The request includes significant funds that would fill some gaps in the federal assistance currently available, but would leave other important needs unmet. In considering this appropriation as well as in other legislation, Congress now has the opportunity to take important steps to rectify ongoing problems with the federal response to the hurricanes and to help set the damaged region on a path to a sustainable recovery for residents in all income categories.

Merge FEMA Rental Assistance with HUD Disaster Voucher Programs

More than three weeks after Hurricane Katrina struck, FEMA initiated two separate rental assistance programs for displaced families, a FEMA cash assistance program intended to provide most households with the means to rent housing on a temporary basis and the HUD Katrina Disaster Housing Assistance Program (KDHAP) for those evacuees who had been receiving HUD housing subsidies, or were homeless, before the storm.¹ FEMA's decision to rely primarily on rental

¹ HUD's KDHAP voucher program has been funded by FEMA through a special mission assignment, which placed specific constraints on the design and operation of the program. As explained below, HUD has recently terminated KDHAP and replaced it with a new Disaster Voucher Program (DVP) funded through a direct appropriation of Section 8 funds from Congress. In addition, FEMA has funded rental assistance for some displaced families indirectly through programs administered by cities and states that are being reimbursed through FEMA's public assistance program.

assistance to help families secure transitional housing was sensible. But both the FEMA program and KDHAP have suffered from design flaws that have limited their effectiveness for large numbers of displaced families, especially those with low incomes. In addition, FEMA's administration of the cash assistance program has been plagued by delays and confusion, perhaps reflecting FEMA's lack of experience in administering rental assistance programs on this large a scale.

FEMA's cash rental assistance program, which operated under the authority of the agency's Individuals and Households Program (IHP), has provided initial cash payments to nearly 700,000 households to help them rent temporary housing. Most families received initial payments of \$2,358, an amount intended to cover their rent for roughly three months. Since the time that FEMA began issuing these payments during the last week of September, there has been widespread confusion about who is eligible for assistance, how the assistance is to be used, and whether the assistance would be extended at the end of the three-month period.

Many families received initial checks from FEMA weeks before receiving any communication clarifying how the assistance was to be used. As a result, some families used the initial payments partly to purchase food, clothing, and other necessities, only to learn later that, under FEMA rules, the funds could be used only to pay rent. FEMA also has provided families with little guidance on their eligibility for continued assistance beyond the initial three months, even though FEMA regulations and the Stafford Act (on which these regulations are based) make clear that displaced families may receive up to 18 months of housing assistance as long as certain conditions are met. This lack of guidance has caused many families to worry they will not be able to remain in the temporary housing they have secured with FEMA's help.

FEMA's cash rental assistance program also has several weaknesses that limit its effectiveness for some families, especially those with very low incomes. First, FEMA will not allow rental assistance to be used for security deposits or utility costs (unless such costs are included in the rental charge). This creates substantial burdens for displaced families that have little income and no savings or other assets. Second, FEMA has capped the amount of rental assistance it provides at the local Fair Market Rent (FMR), a standard that is set annually by HUD. Evidence shows that rental assistance at the FMR level is insufficient in some markets to enable families to rent an apartment, particularly in markets where rental costs have risen sharply in recent months because the hurricanes substantially reduced the stock of inhabitable rental housing, or because an influx of evacuees seeking housing has pushed rental prices upward.² Rental assistance that is limited to the local Fair Market Rent level also is frequently inadequate for certain types of households, such as people with disabilities who may need modestly more expensive housing with special accommodations.

Because HUD and the local housing agencies that administer the KDHAP voucher program have extensive experience in running rental assistance programs, KDHAP has been well run in comparison to FEMA's rental assistance program. FEMA rules have, however, placed restrictions

FEMA has announced that the latter program will be phased out and replaced with cash rental assistance under the Individuals and Households Program beginning March 1, 2006.

² HUD has acknowledged that rents have risen sharply in many communities in and near the disaster regions and has granted housing agencies in those areas the authority to raise voucher payment standards up to 120 percent of the Fair Market Rent. It has not raised the now-outdated FMRs themselves, however, and FEMA continues to require adherence to those FMRs.

on the design of KDHAP itself, and as a result, KDHAP has shared the inflexibility and certain other weaknesses of the FEMA rental program that can make it difficult for families to use this assistance successfully to secure adequate, stable housing.

In supplemental appropriations legislation enacted in December 2005,³ Congress wisely addressed problems with the KDHAP program by providing \$390 million to continue rental assistance to previously HUD-assisted and homeless households *under the regular Section 8 voucher program*, thereby placing this assistance under the Section 8 program's normal rules (with limited exceptions). Congress also directed HUD to use a portion of these funds to assist families displaced by Hurricane Rita. HUD issued a notice dated February 3, 2006, implementing this change. As a result, displaced families that received HUD-funded housing assistance or were homeless prior to the hurricanes now will simply receive "disaster housing vouchers" through Section 8 and have the benefit of clear, consistent, tested rules on policies ranging from rent ceilings to minimum housing quality standards.

The rules of the Section 8 voucher program provide flexibility to allow rental assistance to cover utility costs. They also provide local housing agencies with flexibility to make adjustments in the amount of assistance provided to ensure that people with disabilities can afford housing that meets their needs. In addition, local housing agencies have the authority to raise the payment standard for disaster vouchers somewhat above the local Fair Market Rent, if necessary, in order to ensure that voucher holders can compete for apartments in tight housing markets where rents are rising. (HUD has given housing agencies in the disaster areas somewhat broader discretion to increase voucher payments than other state and local housing agencies have, in light of the likelihood that rents will increase as a result of the destruction of so much of the housing stock.)

In the legislation enacted in December, Congress also sought to improve the FEMA housing assistance program. It did so by instructing FEMA to issue guidance by January 13 explaining whether, and under what conditions, it will continue to provide housing assistance to low-income evacuees whose initial three months of assistance are running out. More than a month after the January 13 deadline, however, FEMA has failed to issue such guidance. This has left displaced families with uncertainty about whether they will continue to receive assistance in the months ahead.⁴

Spending trends indicate that FEMA will run out of funds for evacuee housing and other disaster relief at some point in the spring of 2006. The Administration requested \$9.4 billion for these activities in its recently submitted supplemental request. *Congress should provide the portion of these funds needed for evacuee housing in the same manner in which it provided funds to continue the KDHAP program in the December supplemental appropriations bill: through the Section 8 voucher program.* This would have the effect of merging the FEMA program into the HUD disaster voucher program and placing all evacuees receiving rental assistance under the same coherent and effective program structure. (Note: Some families may expect to need rental assistance for only a few additional months and may prefer not to have to enter into a voucher lease that could restrict their ability to move back home. It would make

³ The supplemental appropriations were provided as part of P.L. 109-148, the Department of Defense Appropriations Act for fiscal year 2006, enacted on December 30, 2005.

⁴ See Douglas Rice and Barbara Sard, *FEMA Misses Congressional Deadline to Issue Guidance on Continued Housing Assistance for Hurricane Katrina Victims*, Center on Budget and Policy Priorities, January 31, 2006, available on the internet at <http://www.cbpp.org/1-31-06hous.htm>.

sense to allow families like these to opt out of the transfer to a HUD-administered voucher program and to continue to receive rental assistance from FEMA.)

This proposal would require *no additional funding*, beyond the \$9.4 billion requested by the Administration. It would entail redirecting some of these funds from FEMA to HUD to provide continuing housing assistance through more effective channels. Roughly, we estimate that \$3.5 billion should be shifted from FEMA to HUD to cover rental assistance for families displaced by Hurricanes Katrina and Rita for up to 18 months.

A February 23, 2006, White House report on the response to Katrina recommends that HUD — rather than FEMA — be designated as the lead federal agency for the provision of temporary housing to evacuees in future disasters. The report cited HUD's "extensive experience providing housing resources for those in need" and "extensive network of regional offices and State and local housing agencies" in explaining why HUD is the agency best suited to play this role. The Administration has not proposed, however, to put those capabilities to work for evacuees from last year's hurricanes by immediately transferring provision of temporary evacuee housing to HUD. Similarly, the report recommends that changes be made to permit routine payment of utility fees (as would occur if evacuee housing were provided under Section 8) for evacuees in the future, but the Administration has taken no steps to help currently displaced hurricane evacuees meet these costs.

Repair of Apartments in Disaster Area that Could Be Made Available Quickly to Evacuees

Rental assistance payments enable displaced evacuees to rent modest apartments in the communities in which they now are located. Such payments are the best intermediate-term tool for ensuring there are roofs over the heads of the large number of people uprooted by the hurricanes. These payments do not, however, address the severe shortages of housing in the areas where the hurricanes destroyed large segments of the housing stock.

Making housing close to home available to evacuees can help damaged communities come back to life in a number of ways. Enabling evacuees to return home adds to the labor force available for reconstruction in the areas damaged by the hurricanes, provides markets for local businesses, and enables evacuees more readily to participate in decisions about the shape their rebuilt home towns will take. The lack of available housing is widely seen as one of the largest obstacles to recovery in the New Orleans area and coastal Mississippi.

FEMA's primary strategy for making housing available in damaged areas has been to install trailers, both in concentrated trailer parks and for individual homeowners on their lots. The pace at which trailers have been provided has been slow in many areas, in part because of difficulties identifying sites for trailer parks that are acceptable to local governments. In New Orleans, for example, a February 9 press report indicated that only 3,000 trailers had been installed out of 21,000 requested.⁵

⁵ Jennifer Steinhauer and Eric Lipton, "Storm Victims Face Big Delay to Get Trailers," New York Times, February 9, 2006.

One important approach to making housing available quickly in damaged areas has so far received little attention. Estimates indicate that as many as 20,000 vacant apartments in New Orleans alone cannot be occupied because they were damaged in the storm or in poor condition beforehand, but could be made habitable with relatively modest repairs. In late January, FEMA announced plans to house several hundred evacuees in apartments in New Orleans under a pilot program, but it is not clear whether this plan has yet led to any actual repair work being undertaken.⁶

Under the Stafford Act, however, FEMA lacks the authority to directly fund rehabilitation of existing available housing units.⁷ FEMA's plan appears to assume it is possible for owners of these rental properties to obtain the resources to repair the apartments on their own and that owners will do so in exchange for monthly FEMA payments to house evacuees in the repaired buildings for 18 months.⁸ But since these owners have not repaired their apartments in the nearly half a year since the hurricanes hit, despite the fact that rental housing is in demand in these areas and rents have increased sharply in response, it is likely that many of these owners have encountered obstacles to obtaining the resources needed for the repairs.

Owners may be unable to obtain sufficient resources to fund rehabilitation for several reasons. Some owners may not yet have received insurance payments for their properties or may lack insurance (including some owners who went without flood insurance because their buildings were not within the federally-designated flood plain). If insurance payments are not sufficient to support rehabilitation, existing debt may make it difficult for owners to obtain additional financing in the private market or from the Small Business Administration's disaster loan program. In addition, uncertainty about which areas will be eligible for flood insurance could deter both lenders and the owners themselves from investing resources in a building's rehabilitation.

Such factors have prevented many owners of large apartment buildings from carrying out repairs, and these factors are even more likely to pose obstacles for small landlords. That carries particular significance because more than two-thirds of the rental units in the most severely damaged areas of Louisiana and Mississippi are located in properties with fewer than five units.

Upfront funding for repairs would make many more apartments available in the near term. Such funding could take the form of direct government loans (as long as the application criteria were sufficiently lenient to help owners facing the obstacles described above), loan guarantees, or grants.⁹ In some cases, rehabilitation could be carried out at a lower cost than FEMA is reportedly paying for

⁶ Anne Rochell Konigsmark, "FEMA to Put Some Katrina Homeless in Apartments," USA Today, January 31, 2006.

⁷ Funding the repair of rental units as a means of providing temporary housing assistance is not specifically addressed in the Stafford Act. The Act specifically prohibits construction of new permanent housing in the continental United States, and authorizes funding repairs of owner-occupied units up to a maximum of \$5,000 per unit. In light of the limitation on repair of owner-occupied homes, FEMA may reasonably conclude that even if it has the statutory authority to fund the repair of rental units to use them as temporary housing, that it cannot pay more than \$5,000 per unit without specific approval from Congress.

⁸ This would be a form of "direct" FEMA assistance, like the provision of trailers or mobile homes, rather than part of the FEMA program of rental assistance payments to evacuees discussed earlier in this analysis.

⁹ Measures should be taken to ensure that the funds do not duplicate other forms of disaster assistance or insurance payments and that owners who need the funds because they are waiting for insurance claims to be settled pay back to the administering agency the amount of any insurance payments they subsequently receive.

trailers, and rehabilitation would have the advantage of making a long-term investment in the local housing stock and integrating families into communities to a degree that large trailer parks cannot. The recent White House report on the response to Katrina recommended that reimbursement for repair of existing available units be used to help house evacuees after future disasters, and that Stafford Act regulations be amended to permit this. The Administration has not taken any steps, however, to put such a direct rehabilitation funding approach in place in the near term to address the urgent housing shortages on the Gulf Coast.

A rehabilitation funding program could be administered by FEMA (if it were given authority overriding the Stafford Act), but would likely be more efficient and effective if it were provided through HUD's existing HOME program of grants to state and local governments. HOME funds can, and often are, used for moderate rehabilitation of rental housing. Moreover, HOME funds are tied to requirements that units have affordable rents so they provide a long-term source of housing for lower-income households.¹⁰ Because HOME funds normally can be used for a range of housing-related purposes, a special provision would need to be put in place to *require* that the additional funds be used for rehabilitation of rental units and that the rehabilitated units be reserved for occupancy by displaced families for an initial period. A portion of the \$9.4 billion requested by the Administration for FEMA's disaster relief fund, which is used in part to meet housing needs of displaced families, could be redirected for this purpose.

Restore Pre-Hurricane Affordable Housing Stock

About 20,000 housing units in the areas most heavily affected by last year's hurricanes were receiving subsidies before the storms through the public housing program or HUD programs that provide housing subsidies through private owners. It appears from the limited information available that the majority of these units were destroyed or severely damaged. Most of the buildings in which these units were located were insured, but the insurance often was far below what is needed to finance reconstruction.

Congress enacted a special provision as part of the December supplemental appropriations bill that allows housing agencies to use the annual allocations they receive through the housing voucher program and the public housing operating fund in 2006 to support rebuilding. Public housing capital funds also can be used for this purpose. Given the degree of destruction, however, these funds are likely to meet only a modest share of the need.

HUD staff have indicated that after insurance payments are taken into account \$200 million is needed to restore privately-owned subsidized housing for low-income renters and \$190 million is needed to restore public housing in Louisiana alone. In Mississippi, HUD has estimated damage to public housing alone to be at least \$114 million. This Mississippi figure does not reflect an estimate

¹⁰ Rental units subsidized through HOME must have rents below the lower of 30 percent of the income of a household with an income at 65 percent of the median income in the area or the HUD-determined Fair Market Rent for the area. In addition, 20 percent of rental units subsidized through HOME must have rents that do not exceed 30 percent of the income of a family with income equal to 50 percent of the local area median income. Generally, 90 percent of the families initially receiving rental assistance under HOME must have incomes below 60 percent of the area median income. To ensure that the units can be used to house the full range of the evacuee population, Congress could allow HUD to waive this income targeting requirement for the period that repaired units are used to meet FEMA's temporary housing obligation.

of rebuilding costs after insurance payments are taken fully into account, but it suggests that the total amount needed for public housing is at least \$250 million, and the total for all HUD-subsidized housing is at least \$450 million. The Administration did not include funds for restoration of the federally-assisted housing stock in its recent supplemental appropriations request.

Some pre-hurricane assisted housing is located in neighborhoods prone to future flooding. It is uncertain whether any development will be permitted in some of these areas. In addition, some of the housing developments that were heavily damaged or destroyed concentrated large numbers of poor people in isolated locations with little access to jobs or needed services. It may not be possible — or desirable — to rebuild some of the developments on the same sites. If that is the case, such developments should be replaced by new units that are affordable to families with incomes below the poverty line.

As noted above, the hurricane-damaged areas are experiencing severe housing shortages, and many of these areas have seen sharp rent increases. These housing shortages and continued high housing costs are likely to persist for some time and will make it difficult for many low-income families who lived in the area before the hurricanes to find affordable housing there. The stock of federally-subsidized apartments in place prior to the storms could offer an important resource to help some of these families return home. This stock should be retained, either in the same locations or in new, mixed-income developments in the same cities or areas.

Targeting HOPE VI Funds on Hurricane-Damaged Public Housing

The Administration's fiscal year 2007 budget requests no funds specifically for restoring affordable housing in the hurricane-damaged areas. Moreover, it would reduce funding substantially for two existing programs, the Community Development Block Grant and the Public Housing Capital Fund, that could be used for this purpose. Funding for a third such program, the HOPE VI public housing revitalization initiative, would be terminated. The budget also asks Congress to rescind \$99 million that it appropriated for the HOPE VI program in 2006.

The proposed rescission of HOPE VI funds is particularly striking because it involves funds that HUD could award promptly for the purpose of revitalizing public housing on the Gulf Coast. HUD is authorized to distribute HOPE VI funds to agencies that it selects, rather than through a formula that requires the funds to be distributed to housing authorities across the country. Many damaged housing projects on the Gulf Coast would score well under the selection criteria laid out in the HOPE VI law, which include the need for affordable housing in the community and the inability of the local housing authority to revitalize the development without HOPE VI funds. HUD could make rebuilding of public housing in hurricane-damaged areas a priority and use the full \$99 million appropriated for 2006 for this purpose. Based on its proposal that Congress rescind these funds, however, it appears that HUD has no intention of distributing the funds at all.¹¹

¹¹ The Administration's fiscal year 2006 budget similarly proposed to cut HOPE VI funding in 2006 to zero and rescind funds that Congress had appropriated for the program in 2005. Congress did not adopt these proposals, and HUD requested applications for the funds late in the year. If a similar outcome occurs this year (which is widely seen to be likely in the absence of Congressional action in the supplemental appropriation bill to direct HUD to use the funds), some hurricane-damaged agencies could eventually receive a portion of the HOPE VI funds. But HUD would not necessarily target the funds on hurricane-damaged agencies, and whatever funds are awarded would be delayed significantly.

In the upcoming supplemental appropriations bill, Congress could direct HUD to grant the \$99 million appropriated for HOPE VI in 2006 promptly to housing agencies that will use the funds to restore public housing severely damaged by last year's hurricanes. Using the funds in this manner would not meet the full need of \$250 million or more to restore damaged public housing (and would not provide any of the \$200 million needed to rebuild or replace privately-owned assisted housing), but it would meet a share of the need without requiring an additional appropriation.

HOPE VI funds have customarily been used to convert public housing projects into mixed-income developments. Such conversions could have particularly important benefits in New Orleans, where some public housing projects have concentrated their largely poor tenants in isolated locations. Congress should require that any reduction in units affordable to the lowest-income households on the site of a public housing project be made up for by the addition of similarly affordable units elsewhere.

Make a Share of Rebuilt Housing Affordable to Poor Households

In December 2005, Congress provided a major increase in the authority of the hurricane-damaged states to issue Low-Income Housing Tax Credits (LIHTC) in 2006, 2007, and 2008. These added credits could result in the construction or rehabilitation of approximately 54,000 rental units. The LIHTC program, which is administered by state housing finance agencies, requires that rents for units it helps to finance be set at a level affordable to a household with an income at 60 percent of the median income in the area. As with most federal housing programs, the LIHTC rules assume that a family can afford to pay 30 percent of its own income for housing.

Rents for units financed with the help of the tax credit remain, however, beyond the reach of many low-income households. Sixty percent of median income in New Orleans is \$27,540 for a family of three, or more than \$10,000 above the poverty line. Under LIHTC rules, the rent (including utility costs) for a tax credit-funded two-bedroom apartment in New Orleans could be set as high as \$689, which would require a family of three that lives at the poverty line to pay more than half of its income for rent. In addition, paying a rent of \$689 would be virtually impossible for a full-time worker who earns the minimum wage; that would require such a worker to spend 77 percent of his or her income on rent. And an elderly person or a person with a disability relying on the federal Supplemental Security Income (SSI) program would need to spend virtually *all* of his or her monthly SSI benefit to cover the one-bedroom LIHTC rent of \$574 allowed for LIHTC-assisted units in New Orleans.¹²

The relatively high limit on rents for units financed through the tax credit is not the only reason that tax credits, by themselves, generally do not provide housing that is affordable to poor households. Because of restrictions on the costs that the tax credit can cover, the credit alone usually will not provide a sufficient subsidy to get rents down to a level where poor households — and especially minimum wage workers, senior citizens and people with disabilities relying on SSI,

¹² The LIHTC rents listed here are based on HUD estimates of area median incomes for fiscal year 2005. HUD has not yet released the area median income levels for fiscal year 2006.

and others with incomes well below the poverty line — can afford them. An additional subsidy is required to bridge the gap.

The most effective way to provide the additional subsidy needed to make such housing affordable for poor families is through project-based Section 8 housing vouchers. Vouchers pay the difference between the rent for a modest apartment and approximately 30 percent of a household's income, so they provide subsidies that can enable the poorest households to afford a unit financed through the tax credit.

Most vouchers are “tenant-based” — that is, they are used to enable tenants to rent units of the tenant's choice in the private market. However, housing agencies have been permitted in recent years to “project-base” a portion of their vouchers by requiring those vouchers to be used in particular buildings. Because they are tied to specific buildings, project-based vouchers could be used in conjunction with the funding from the Low-Income Housing Tax Credit to guarantee that one of every four units built with the hurricane-related tax credits that Congress has provided be made affordable to poor households.

Project-based vouchers are designed to avoid concentrating large numbers of poor people together. No more than 25 percent of the units in a housing development generally may have project-based voucher assistance, and housing agencies are required to ensure that decisions regarding the location of project-based voucher sites are consistent with the goal of deconcentrating poverty. In addition, after one year, project-based voucher holders are permitted to exchange that voucher for a tenant-based voucher when one becomes available, allowing the family to move to any neighborhood it chooses where it can find housing (subject to ceilings on the amount of rent that the voucher can cover).

As noted, the hurricane-recovery tax credits can be used to fund approximately 54,000 housing units in the five Gulf Coast states.¹³ Hence, 13,500 project-based vouchers are needed to make 25 percent of these units available to low-wage working families, elderly and disabled SSI recipients, and other needy households.¹⁴ To promote effective coordination between the allocation of the tax credits and the allocation of project-based vouchers, these new vouchers should be provided through state-level agencies (either the state housing finance agency or another agency within the

¹³ This includes an estimated 7,700 units in Alabama, 28,000 in Louisiana, 17,100 in Mississippi, and 600 each in Florida and Texas. For 2006, 2007, and 2008, the Gulf Opportunity Zone Act of 2005 (P.L. 109-135, enacted on December 22, 2005) provides Alabama, Louisiana, and Mississippi with \$18 in additional tax credits per year for each pre-hurricane resident of the primary Hurricane Katrina disaster area. It provides Texas and Florida with \$3.5 million in added credits in 2006. The estimates of the number of units that can be built with these credits are based on population data from the 2000 Census (resulting in credit allocations of \$15 million in each of the three years to Alabama, \$56 million to Louisiana, and \$34 million to Mississippi) and assume an average total tax credit-funded cost of \$60,000 per unit. The amount of credit needed per unit is dependent on construction costs in the area and other factors. As a result, the number of units that can be built in each state could turn out to be somewhat higher or lower than the figures listed here.

¹⁴ In addition to being needed to make tax credits affordable to poor households, project-based vouchers could also play an important role in providing supportive housing for people with substance abuse, mental health, or physical health problems. As many as 10,000 additional vouchers beyond the 13,500 needed for tax credit units could be provided for use in supportive housing developments. Whatever number of vouchers is provided, states could be given the option to use the vouchers in conjunction with tax credits or in supportive housing developments built with funding from other sources.

Governor's office) rather than through local housing agencies.¹⁵ None of the three states that have received the bulk of the added tax-credit funds — Alabama, Louisiana and Mississippi — currently has a state-administered voucher program, but more than 30 states around the country do, and similar programs could be initiated in the Gulf Coast states.

Under normal circumstances, only 20 percent of the voucher assistance that a housing agency provides may be project-based; the remainder must be tenant-based. Those rules could be eased here.

For example, the state agencies could simply be authorized to administer all of the newly allocated vouchers as project-based vouchers. Because these agencies would administer no regular tenant-based vouchers, a special provision would be needed to ensure that voucher holders have the option (as other project-based voucher holders do) to move to a different unit after living in the initial unit for at least a year. This option is important, because it gives tenants the choice to move closer to job opportunities, better schools, or needed caregivers. Households benefiting from the new, state-administered project-based vouchers could be accorded the option (after a year) to use the next tenant-based voucher that becomes available at a local housing agency in the area to move to an apartment of the family's choosing.

To a significant degree, the added vouchers would merely replace affordable housing resources that have been lost either temporarily or permanently in the hurricane-damaged areas. The bulk of the approximately 19,000 households who were using vouchers in the most heavily affected counties and parishes before the storms likely were displaced. Like other evacuees, many may never return. Voucher program rules make it difficult for the Gulf Coast agencies that first issued vouchers held by evacuees who do not return to reissue those vouchers to other needy families.¹⁶ As a result, those vouchers may effectively be lost to the damaged regions for as long as the evacuees continue to receive voucher assistance elsewhere.

Moreover, some public housing and privately-owned subsidized buildings damaged by the storm may not be rebuilt or replaced. Under the practice that HUD generally has used in the past, all such units would be replaced by new "tenant protection vouchers," administered by the local housing agency, so that there would be no net reduction in the number of housing subsidies in the community. The Administration proposed in its fiscal year 2007 budget, however, that tenant-protection vouchers be issued only for units "under lease" prior to the decision to demolish the units or terminate the contract. A literal interpretation of this proposal would mean that the hurricane-damaged areas would receive few tenant protection vouchers, since many of the apartments in question will no longer be technically under lease at the time that a final decision is made not to restore them. Even under a broader interpretation, granting tenant-protection vouchers

¹⁵ In the case of Texas and Florida, which received much smaller amounts of added tax credits than the states directly hit by Katrina, the state could be given the option of administering the project-based vouchers through a state agency or assigning them to local housing agencies in the hurricane-affected sections of the states.

¹⁶ The cost of vouchers held by evacuees should be covered temporarily by special Section 8 funds appropriated for this purpose. Funding for the disaster voucher program, however, is due to expire at the end of September 2007. After that, the Gulf Coast agencies that issued the vouchers will generally become responsible for the vouchers' costs even if evacuees who have vouchers continue to live elsewhere. Because Gulf Coast agencies will be forced to divert funds to cover the costs of evacuee vouchers in other parts of the country, they will be able to assist fewer families in the communities they serve.

to tenants who were leasing such units at the time of the hurricanes and can now be located would significantly reduce the number of housing subsidies in the Gulf Coast. Moreover, it is quite possible that HUD will not allocate the tenant protection vouchers for evacuees who have not returned to the Gulf Coast agencies at all, and will instead allocate them to agencies in the areas where the evacuees currently reside.

We estimate that 12 months of funding for 13,500 vouchers (and associated administrative fees) would require \$100 million. (These funds would not actually be spent until 2007 or later.) The Administration's latest supplemental appropriations request includes an additional \$202 million for temporary section 8 vouchers for displaced families that received HUD assistance or were homeless before the hurricanes. This request is premised on the need to provide housing vouchers to 44,000 families for 18 months. In testimony on February 15, 2006, HUD Secretary Jackson indicated that only 15,000 such families have been issued vouchers under HUD's special voucher program for hurricane victims and fewer than 8,000 families actually have been able to use their vouchers to rent housing. If Congress determines it is unlikely that all of the \$202 million in requested funds will be needed for the purpose for which they have been requested, up to \$100 million of these funds could be designated for use for project-based vouchers as part of the rebuilding plan. Or, Congress could include additional funds for this purpose in the forthcoming supplemental appropriations bill.

Using "Thrifty Vouchers" to Provide Assistance More Efficiently

If vouchers were coupled with a production subsidy that covered upfront capital costs and thus greatly reduced an owner's mortgage payments, the amount of funding required to support a project-based voucher tied to a unit in a building subsidized in this manner could be reduced significantly. Using this two-part approach, a larger share of the federal subsidy would be provided at the time that the production subsidy was issued, and the level of annual appropriations needed to cover the costs of vouchers used in these buildings would be lower.

A proposal included in legislation introduced in both houses of Congress and by members of both parties in 2002 would have charted such a course. It would create a special type of project-based Section 8 voucher, called a "Thrifty Voucher," that would carry a lower-per-voucher cost, because these vouchers would be targeted on units in buildings that have received upfront federal subsidies to reduce their capital costs.¹⁷

This proposal could be applied as a demonstration in the hurricane-damaged states, in conjunction with the provision of capital subsidies. By lowering the average costs of a voucher, this could enable Gulf Coast states to provide project-based vouchers for several thousand additional families with the same amount of funding that would otherwise be needed to support the 13,500 vouchers proposed above.

¹⁷ Provisions to create thrifty vouchers were included in the Affordable Housing Expansion Act of 2002, introduced by Sen. Christopher Bond (R-MO) and Sen. Susan Collins (R-ME), and the Housing Voucher Improvement Act of 2002, introduced by Sen. Paul Sarbanes (D-MD). Thrifty Vouchers would reduce costs by tying the amount of rent that the vouchers cover to the cost of operating a housing unit, with other subsidies covering the unit's capital costs. Congressional authorization is required, because operating-cost-based voucher payments are prohibited by the laws that govern the voucher program. Legislation also would be needed to allow Thrifty Vouchers to differ from standard vouchers in other ways.

The Low-Income Housing Tax Credit would not necessarily provide a sufficient capital subsidy on its own to enable the Thrifty Voucher concept to be used. The supplemental appropriations legislation enacted in December, however, provides the hurricane-damaged states with \$11.5 billion in funds under HUD's Community Development Block Grant (CDBG) program, and the Administration has requested an additional \$4.2 billion in CDBG funds for Louisiana. CDBG funds can be used for a range of housing and other purposes. States that allocate some of the funds to supporting affordable housing could provide sufficient capital subsidies — between the tax credit and the CDBG funds — to support Thrifty Vouchers in a broader group of developments.

Creating a New Type of Production Subsidy to Serve Poor Families

An “Affordable Housing Fund” that would be established under legislation that the House of Representatives approved in October 2005 would provide an additional form of funding for housing affordable to very low-income households. The House passed a bill (H.R. 1461) in October that would alter oversight of Fannie Mae and Freddie Mac; one provision of that legislation would require these two entities to set aside a percentage of their profits to create an “Affordable Housing Fund,” which would be used mainly to provide affordable housing for households with incomes at or below 50 percent of the local area median income. The House bill specifies that during the first two years after the legislation's enactment, preference would be given in allocating resources from this fund to people and areas affected by Hurricanes Katrina and Rita. If this legislation is enacted, resources from this fund could provide a valuable complement to the available LIHTC and CDBG funds and the project-based vouchers proposed here — and because it would provide an added capital subsidy, the proposed fund could be used to support use of Thrifty Vouchers.

H.R. 1461 also contains major restrictions, however, on non-profit organizations that receive resources through the Affordable Housing Fund. If such restrictions are retained in full in the final version of the bill, they would substantially reduce the fund's effectiveness, and in particular its ability to be used in combination with other types of federal housing subsidies.¹⁸

Providing Meaningful Assistance to Low-Income Homeowners

The Administration's recently submitted supplemental appropriations request included \$4.2 billion that would be provided to Louisiana under the Community Development Block Grant. This money would supplement the \$11.5 billion in CDBG funds that Congress provided to the five Gulf Coast states through the December 2005 supplemental appropriations bill. CDBG funds can be

¹⁸ The restrictive provisions, which the House voted to add to H.R. 1461 on October 26, 2005, would prevent non-profit organizations whose primary purpose is not housing from receiving funds. It would also disqualify any non-profit that has done non-partisan election-related activities (such as voter registration drives) or lobbying, and forbid non-profits that do receive funds from engaging in such activities for the duration of the grant or even affiliating with organization that do. Even before these restrictions were added, the bill limited use of the funds provided through the new Affordable Housing Fund to uses that directly support affordable housing, so the added restrictions would serve to restrict activities that organizations undertake with private donations and other resources. Because many of the non-profit organizations with the strongest capacity to develop affordable housing have a primary purpose that is not housing (as is the case with faith-based organizations with extensive housing experience but a primarily religious purpose) or engage in some type of lobbying or voter support activities with their own funds, these restrictions would sharply and unnecessarily reduce the pool of organizations able to use resources from the fund — and consequently undermine the fund's effectiveness.

used for a range of purposes related to reconstruction of damaged housing and infrastructure. Under a draft plan released by the Louisiana Recovery Authority (an entity created by the Governor of Louisiana to oversee use of hurricane recovery CDBG funds and other aspects of the state's reconstruction) the bulk of the funds would be used to provide grants and loans to homeowners who did not receive sufficient funds from insurance and other sources to rebuild or replace their homes.¹⁹

The need for such funds is great, because large numbers of households with damaged homes lacked adequate insurance. Some such households held homeownership insurance but not flood insurance, because they lived outside the federally-designated flood plain. Others had insurance policies that covered amounts that will likely be too low to rebuild their homes, particularly in light of more demanding building codes that have been adopted in the hurricanes' aftermath. And still others had no insurance at all. Many households in this last group are low-income working families, elderly people or people with disabilities who went without insurance because they needed the money for food, utilities, home maintenance, property taxes, or other necessary expenses. Those without insurance also may have been disproportionately elderly, since elderly homeowners are more likely to have paid off their mortgages and thus not to be subject to requirements by lenders that they purchase insurance. (They also may have included many families of limited means who were living in homes that were not subject to mortgages because they were inherited; in some cases, these are houses that have been kept in the same family for generations.)

A critical yardstick against which post-hurricane homeowner assistance should be measured is whether it provides homeowners at the bottom of the income scale with similar opportunities to rebuild or replace their homes to those made available to homeowners with higher incomes. Equity in a home represents all or nearly all of the assets of many low-income homeowners. A growing body of research has identified assets as a significant factor in enabling families to escape, or avoid sinking into, poverty, and various policy proposals have been advanced by the Administration and policymakers of both parties to help low-income and minority families build assets. If the federal government does not adequately help low-income homeowners in hurricane-damaged areas to rebuild or replace their homes, it will allow a large step in the other direction, as tens of thousands of low-income, disproportionately African-American households will have lost their primary asset and be left with little or no means to restore it.

The federal government is providing significant assistance directly to owners of homes damaged by the hurricanes, but the assistance is structured in a way that fails to meet the needs of many homeowners, and particularly those with low incomes. The Small Business Administration (SBA) provides recovery loans of up to \$200,000 to homeowners, in some cases with reduced interest rates.

¹⁹ The specific language of the Administration's proposal for the provision of the \$4.2 billion in additional CDBG funds would place restrictions on the funds that — if the language is not modified by Congress — could prevent the funds from being used in the manner outlined in the Louisiana Recovery Authority's draft plan. Under that language, all of the funds would have to be used for the purpose of "flood mitigation." From a housing perspective, this would appear to mean that funds could be used to buy out owners of property in areas that will not be rebuilt and to help such owners buy homes in flood-safe areas. It is not clear whether the funds also could be used for the cost of raising residences to the new elevations likely to be required when FEMA revises the applicable flood maps. The proposed funds could *not* be used to repair homes not being altered to be more flood-resistant. The \$6.2 billion Louisiana received under the December supplemental appropriation was not subject to this restriction, and consequently could be used for purposes other than flood mitigation. It is not clear, however, that the \$6.2 billion alone will be adequate to meet the state's non-mitigation needs.

Applicants qualify for the loans based on demonstrated ability to repay them. Low-income households frequently have difficulty meeting repayment criteria, however, especially if they already have an outstanding mortgage and would need to meet payments on that existing debt in addition to payments on the SBA loan. In January, 2006, SBA reported that it had rejected 78 percent of the recovery loan applications it had processed and that most rejections had stemmed from an assessment that the applicant lacked the means to repay.²⁰ FEMA is able to provide grants to households that are unable to obtain those SBA loans, but the grants generally are capped at \$10,500 for home replacement, well below the amount needed to replace a severely damaged home.²¹

CDBG grants to states offer an important opportunity to fill the gaps in this assistance to homeowners. However, without the added funds proposed by the Administration, the amount of CDBG funds provided to Louisiana in particular would fall far short of what is needed. Louisiana received \$6.2 billion out of the initial \$11.5 billion CDBG allocation. Even if the state used this entire amount to assist homeowners with uninsured losses, it is unlikely that the funds would have been adequate to meet the need. The Louisiana Recovery Authority estimates that its plan for grants and loans to cover uninsured losses would cost \$7 to \$7.5 billion.

Moreover, homeownership assistance is not the only purpose for which CDBG funds are needed. The CDBG funds can also be use for some types of needs related to rental housing and infrastructure development that states would otherwise have difficulty meeting. For example, many owners of rental housing units may receive inadequate resources for rebuilding through insurance, SBA loans, and FEMA grants for reasons similar to those affecting homeowners. LIHTC funds can help rebuild some rental properties, but cannot cover some types of development costs and are not well suited for smaller properties. (And the proposal for HOME moderate rehabilitation funds described above would not reach buildings that were destroyed or severely damaged.)

If Louisiana is not provided with funds beyond the \$6.2 billion in CDBG it received under the December supplemental appropriation, it would have to leave a large portion of these needs for homeownership assistance and other purposes unmet. In the case of homeownership assistance, the state would face substantial political pressure to spread those funds that are available to all homeowners without regard to income. The Louisiana Recovery Authority's current draft plan, for examples, indicates that if the need for assistance exceeds the available funds, the shortfall would be met by prorating assistance for all households. The result would be to leave larger gaps between the amount of assistance households receive and the amount they need; it would be especially difficult for low-income households to make up those gaps with their own resources.

Congress should provide at least the \$4.2 billion in added funds that the Administration requested. It is likely that even the \$4.2 billion would fall short of what is needed. The share of CDBG funding made available to Texas (\$74.5 million) and Florida (\$82.9 million) was low given the extent of damage those states suffered due to Hurricanes Rita and Wilma, so some funds from an added

²⁰ Roger Garland, Office of Disaster Assistance, Small Business Administration, presentation to national conference call on SBA disaster loan programs, January 4, 2006.

²¹ The Administration has also proposed an "Urban Homesteading" initiative, which has been introduced as legislation (H.R. 4515 and S. 2088) in both houses of Congress. The Urban Homesteading plan would provide low-income households in the Gulf Coast region with surplus plots of federal land on which they could build homes. It is unlikely, however, that this initiative could assist more than a few thousand households.

CDBG allocation should be provided to those states. The limited data available also suggest that the allocations for Mississippi (\$5.1 billion) and Louisiana (\$10.4 billion including both the December supplemental and the funds requested by the Administration) could potentially be inadequate when needs for homeownership assistance, rental assistance, and other purposes all are taken into account. (Mississippi has estimated that the \$5.1 billion would be adequate to cover a homeownership aid program and leave more than \$1 billion for other purposes, but this reflects the fact that the state's draft proposal for using the CDBG funds is designed in a manner that will leave many needy homeowners without assistance and omits assistance for rental housing entirely.²²) The \$4.2 billion should consequently be viewed as the bare minimum of added funds that Congress should provide.

Conclusion

The lingering devastation that marks the hardest hit sections of New Orleans and other parts of the Gulf Coast highlights the fact that the task of rebuilding from the hurricanes has only begun. Concern is now mounting that the measures taken so far are likely to leave one segment of the region's population — those with low incomes and few assets — largely without the means to return home.

The Administration has requested additional resources in the form of a \$19.8 billion supplemental appropriation, a helpful step. But neither the supplemental request nor the Administration's 2007 budget include funding needed to ensure that the rebuilt Gulf Coast has a place for those in the pre-hurricane population who have low incomes. Congress needs to include in forthcoming legislation the funds and directives necessary both to provide more effective housing assistance in the near term for displaced families with low incomes and to ensure that a sufficient number of permanent units of affordable housing are made available in the rebuilt communities.

²² The Mississippi Governor's office indicated in a February 6, 2006 press release that the state expected to use approximately \$4 billion of its \$5.1 billion in CDBG funds for a homeowner assistance program that targets households living outside the federally designated flood plain who lacked flood insurance but had basic property insurance, but largely leaves homeowners in other categories without the assistance they would need to restore or rebuild their homes. The Governor's office's draft plans indicate that it intends to use the remaining CDBG funds for infrastructure development, economic development, and assistance to for-profit utilities that experienced damage in the storm. We do not have enough information to evaluate the need for funds for those non-housing purposes, but this suggests that the state would likely require more than \$5.1 billion if it also were to assist other groups of needy homeowners (including those inside the flood plain who lacked flood insurance and outside the flood plain without property insurance) and support restoration of rental housing,