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BGR REPORTS...

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The "Road Home" Takes a Wrong Turn

Misplaced Priorities in Louisiana's Road Home Housing Programs Threaten Recovery

The Louisiana Recovery Authority has released for comment a draft of the Road Home Housing Programs, its proposed allocation of disaster recovery funds for southeast Louisiana. The program allocates funds under two scenarios. The baseline scenario assumes that federal funding is limited to the $6.2 billion Community Development Block Grant already authorized by Congress. The more optimistic scenario assumes that Congress will approve an additional $4.2 billion of funding. $4.6 billion of the initial allocation would be dedicated to various housing initiatives, with the balance available for infrastructure and economic development. All of the supplemental authorization would be devoted to housing.

Unlike Mississippi's recovery program, which focused on compensating homeowners for their losses, Louisiana's program directs the lion's share of recovery resources to low-income housing. In fact, under the baseline scenario, most of the middle class is excluded from participation in the disaster recovery program. Louisiana's program is also more ideological than its Mississippi counterpart, heavily promoting mixed-income development.

Abandoning the Middle Class

In the baseline scenario, Louisiana restricts eligibility for homeowner compensation to homeowners located outside the flood plain, and homeowners who make 70% or less of area median income. Although the language is unclear, LRA staff informed BGR that the income requirement applies only to homeowners in the flood plain.

Most of St. Bernard, Plaquemines, and Orleans parishes are in the flood plain. Therefore, in those hard-hit parishes, only homeowners making less than $36,610 would be eligible for compensation. This means that many middle-class residents in those parishes will be completely excluded from the recovery program unless additional funds are forthcoming.

This is unfair and bad public policy. Literature on metropolitan areas and healthy cities emphasizes the important contribution of the middle class and the adverse consequences that ensue when it departs. Indeed, many of the ills of the inner city are attributed to the exodus of the middle class, and the resulting decline in the tax base, diminished job opportunities, and concentration of poverty.

The rebuilding plan itself recognizes the pivotal role of the middle class by embracing the concept of mixed-income developments. Yet, the plan itself acts as if this community does not exist, leaving them to struggle on their own with damaged or destroyed properties and the debt incurred to acquire them.

Limiting the homeowner program to families making below $36,610 is a misguided policy that will hinder the redevelopment of healthy communities. We strongly recommend that the LRA revise its plan to include all homeowners with major damage or destroyed homes. This can be done by doing one or both of the following:

- Spreading the limited resources over a broader base. This would involve limiting each homeowner's compensation to a percentage of eligible damages and/or reducing the cap.

- Expanding the pool of funds available to compensate homeowners. One option is to reallocate other Community Development Block Grant funds, such as those designated for infrastructure, economic development, or mixed-income developments. As a matter of policy, we believe that funds should be directed to those who have suffered a loss, rather than to developers.

Mixed-Income Development: Theory Meets Reality

Under the baseline scenario, the LRA's plan would dedicate $400 million of its housing funds to mixed-income developments. According to advanced social theory, such developments offer remarkable economic and social benefits to low-income residents. Through them, poverty is diffused and the poor are introduced to a more stable lifestyle, greater job opportunities, and in some cases better schools.

Such developments are, however, more expensive than other low-income developments for a number of reasons, including larger unit sizes, higher construction standards to make low-income units indistinguishable from the market-rate ones, and supplemental social services needed to incorporate the poor into a more stable social environment. In addition, according to the LRA's report, additional incentives may be needed to attract higher income residents.

The proposed mixed-income developments would include 6,000 units of very low-income housing. Subsidies would be allocated according to a sliding scale with estimated averages: $93,000 for units housing families earning less than 20% of median income, $65,000 for units housing families earning between 20% and 30% of median income, and $13,000 for units housing families earning between 30% and 40% of median income.

While these per-unit subsidies are substantial in and of themselves, they are only a portion of the public investment that would be provided for the mixed-income developments. The program contemplates combining the per-unit allocations with low income housing tax credits and other subsidies, such as Section 8 vouchers, and grants for land and infrastructure. When the value of these subsidies is aggregated, the public's investment per low-income unit could meet or exceed the cost of constructing an affordable rental apartment unit. The public's investment could even exceed the total development costs of the affordable units.

While we acknowledge that mixed-income housing developments may provide economic and social benefits to low-income residents, we note that there is a clear trade-off in the current circumstance. The program transfers to developers recovery resources that could otherwise be used to ameliorate the losses and restore the home equity of storm victims. In addition, it concentrates heavy public investment in a small number of affordable units for very low-income people. There is virtually no leveraging of the public's investment in the low-income units, and no requirement for private equity (other than low income housing tax credits).

Given the limited amount of funding available and the scope of the need, the mixed-income housing program should be scrapped and the resources redirected to compensating homeowners, encouraging affordable home ownership, or developing smaller, less expensive rental units. The LRA's proposal indicates that rental housing, including affordable rentals, could be redeveloped with a public investment in the range of $25,000 to $75,000 per unit.

If the mixed-income development remains in the plan, the program should be changed to reduce the public investment. Basic steps in that direction include the following:

- Rather than providing average per-unit subsidies, the LRA should take a competitive approach, making the amount of public subsidy requested by developers a factor in awarding grants and contracts. This would encourage better leveraging of public funds and enable the community to provide a greater number of affordable units.

Double Jeopardy

The LRA has proposed investing $492 million in a Small Rental Property Repair Program. Landlords of small, multi-family buildings with 10 or fewer units would be eligible for interest-free loans, due only on sale of the property or failure to comply with program requirements. To receive the loans, they must agree to rent restrictions. The amount of assistance would range from $25,000 to $75,000, with the higher amount available to landlords who commit to the most severe rent restrictions.

Landlords who also live in the building would have to choose between participation in the homeowner assistance program or the rental assistance program. If they participate in the homeowner program, they can receive compensation up to $150,000 for damages to the owner-occupied unit but nothing for the rental unit. If they participate in the Small Rental Property Repair Program, compensation for the owner-occupied unit would be subject to the same funding limits as the other rental units (*i.e.*, a $25,000 deferred loan).

The number of owner-occupied doubles is unusually high in New Orleans. For many, the ability to derive some rental income from their property helped offset their mortgage costs. To a great degree, the revitalization of New Orleans depends on the adequate restoration of these properties. This will be hampered if such homeowners are forced to choose between funding for their homes or loans for their rental unit. We recommend that the LRA:

- Allow owner-occupants of doubles to participate in the homeowner assistance program and receive adequate assistance to repair the rental unit.

Conclusion

The Road Home has been converted from a disaster relief program to an affordable housing program. The LRA should go back to the drawing board to create a program that uses the federal disaster relief funds for the intended purpose: providing those who have suffered major damage with the means to rebuild their property and lives. Leaving out the middle class, while transferring scarce funds to developers, is unfair and poor public policy.

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