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Louisiana Recovery Authority

Clarifications to The Road Home Affordable Rental Housing Action Plan Amendment for Disaster Recovery Funds (Amendment 11)

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1. Introduction

Hurricane Katrina hit the State of Louisiana on August 29, 2005, and Rita slammed into the state on September 24, 2005. They were the second and third Category 5 hurricanes of the 2005 hurricane season. The storms were deadly and costly to communities throughout the Gulf and particularly destructive to Louisiana. More than 1,100 persons lost their lives in Louisiana; approximately 18,000 businesses were destroyed; roads, schools, public facilities, medical services were washed away; and thousands of people were forced to relocate.

The storms destroyed or severely damaged an unprecedented number of properties.

- 123,000 homes were destroyed or suffered major damage.
- 82,000 rental properties were destroyed or suffered major damaged.
- Housing repair costs are estimated at $32 billion. Some, but not all, of this was insured.
- Of the rental and owner occupied units that are now uninhabitable, a substantial portion were occupied by low income households.

The US Congress has appropriated funds for recovery in two public laws. The first supplemental appropriation, PL 109-148 provided $11.5 billion to the states of Mississippi, Louisiana, Alabama, Florida and Texas through the U.S. Department of Housing and Urban Development's Community Development Block Grant (CDBG) Program. Louisiana received $6.2 billion of those funds. The second supplemental appropriation, PL 109-234, provided an additional $4.2 billion in CDBG funds for Louisiana.

Governor Kathleen Babineaux Blanco has prioritized housing redevelopment, infrastructure rehabilitation, and economic development as the primary uses of the two supplemental appropriations. The supplemental CDBG recovery funds are available to the State subject to HUD approval of Action Plans which describe how the funds will be used. The Louisiana Recovery Authority (LRA) has been charged by the Governor and Louisiana Legislature with statutory responsibility for developing policy and the required Action Plans. The Louisiana Office of Community Development, the agency that administers the State's annual CDBG Program, will administer the supplemental CDBG recovery program.

To promote sound short- and long-term recovery planning at the state and local levels that impact land use decisions and reflect the need for responsible flood plain management and growth, the State, through the LRA, is leading community planning efforts in the most affected parishes. Dubbed *Louisiana Speaks*, this effort is a multifaceted planning process to develop a sustainable, long-term vision for South Louisiana in the wake of the destruction caused by Hurricanes Katrina and Rita. The plans developed locally through *Louisiana Speaks* will be supported by CDBG allocations. The redevelopment of communities will be guided by the plans derived through *Louisiana Speaks* and other local planning efforts.

2. Small Rental Property Program

Before the disaster, a large portion of low income and other working families lived in small rental properties - single-family homes, “doubles” and small, multi-family buildings - that were owned and operated by small-scale owners. A sizeable number of these properties were underinsured or uninsured and no longer available for occupancy. The State proposes to provide up to $869,000,000 in financial assistance to small rental property owners so that they may effectively return an estimated 18,000 affordable and ready to be occupied units to the rental housing market.[1] The primary purposes of this financing program is to enable small-scale rental properties to return to the market while limiting the amount of debt (and therefore debt service) required for the properties so that the owners will be able to charge affordable rents. This Action Plan Amendment clarifies and updates the program description that was previously published as part of the Road Home Action Amendment #1.

The Small Rental Property Program will, on a competitive basis, offer incentives in the form of forgivable loans to qualified owners who agree to offer apartments at affordable rents to be occupied by lower income households. Subsidies will be provided on a sliding scale, with the minimum subsidy provided for units made available at affordable market rents (rents affordable to households with incomes at or below 80% of median) and maximum amount of subsidy going to units affordable to families with incomes at or below 50% of AMI. In addition to funding incentives for providing affordable units in small rental properties, the program will, where practical, make funds available to improve building design and make properties less susceptible to damage from natural events.

Eligible properties will be selected based upon a preference for properties located in well-designed residential communities and in neighborhoods that do not include concentrations of poverty. Each application will be scrutinized by underwriters in light of selection criteria to be developed by the State and based on the proposed project costs. The State reserves the right to negotiate with applicants to seek the best possible outcomes for each project while preserving valuable incentive funds.

In exchange for accepting financial incentives, property owners will be required to accept limitations on rents (with inflation clauses) and incomes of renters for a period ranging between 3 and 20 years, to assure that the assisted housing remains affordable and is occupied by families with incomes corresponding to several tiers of affordable rents. The amount of CDBG financing available will range from $10,000 to $100,000 per unit (with the highest awards available only where special circumstances warrant

[1] The number of units assisted will depend on the average amount of subsidy per unit. In general, the more affordable the rents, the higher the subsidy per unit, and the fewer total units that will be funded.

this level of assistance). In general, higher per unit amounts will be available to property owners who agree to offer lower rents to reflect the lower amount of rental income these properties will receive and their more limited ability to retire debt service. The assistance will be offered as deferred payment loans at 0% interest, due only upon resale of the property or failure to comply with the agreed-upon restrictions on rents and household incomes.

Unlike the *Road Home* Homeowner Assistance Program, funds for the Small Rental Property Program will be insufficient to provide every eligible property owner with enough money to return their rental units to service at affordable rent levels. Prioritization of properties that will be selected for assistance will be based on factors including, but not limited to, the following:

- Property owners demonstrating financial and technical capacity to obtain matching market-rate financing and to provide excellent property management services; and

- Properties that are most cost-effective to bring back into service, and located in areas that have adequate infrastructure and redevelopment activities occurring.

- Properties held by small-scale owners where rental revenue constituted a substantial portion of household income and/or assets so long as these investor-owners meet the threshold requirements for capacity necessary to return their units to service, and then manage their units.

- Small property owners and Louisiana residents and businesses;

Eligible properties include:

- Small Rental Properties
- Small Owner Occupied Properties with one or more rental units

It is anticipated that the majority of buildings assisted through this program will be between one and four units, though multiple properties under the same ownership (whether they are scattered or contiguous) may be rehabilitated as a single, larger project if practical.

Note: Owners of doubles (2-unit properties) who rent one unit and live in the other must decide whether they will receive compensation through the Road Home Homeowner Assistance Program or through the Small Rental Property Program. If the Road Home Homeowner Assistance Program is chosen, the full double-unit structure will serve as the basis for calculation of assistance up to the program cap of $150,000. If the owner elects to <u>compete</u> for funds from the Small Rental Property Program and is selected, the property is eligible for assistance for both units, but is subject to the caps and limitations stated above. Owner occupants who own and live in 3-4 family homes who received pro-rata assistance through The Road Home Homeowner Assistance Program will be eligible to compete for assistance through the Small Rental Property Program for the units not covered in their Homeowner Assistance award.

The State is committed to promoting homeownership opportunities for low and moderate income households. The LRA and the OCD are working with the Louisiana Housing Finance Agency (LHFA) and other partner agencies to promote the use of funding from the *HOME* program and other available sources to foster first time homeowner initiatives. In addition, the Small Rental Property Program application process will be structured in such a way as to accommodate the participation of potential homebuyers (including existing tenants) who are receiving homebuyer assistance through other programs. Also, in order to assist additional homebuyers, the State may develop its own pilot program(s) to provide incentives, not only for repairing damaged rental properties, but converting them to owner-occupied housing. For example, a Lease-Purchase Pilot Program would allow a owner to sell a repaired one-family or two-family rental property to a low- or moderate-income homeowner, rather than rent the home. A Homebuyer Assistance Pilot program would allow low- and moderate-income households to purchase un-repaired one-family and two-family former rental properties and carry the home through the repair process. Creating first-time homebuyers would be a priority, but the pilot program may also serve buyers who have previously owned homes. Homeowners who are exercising the "sell" or "relocate" option under the Road Home Homeownership Program are not eligible to receive additional financial assistance from the State through these pilot programs. Pilot programs will be expanded if successful using funding from the budget for the Small Rental Assistance Program as well as other sources that may become available.

Participants in the pilot programs as well as owner-occupants of small rental properties may have access to expert financial and construction advisors to assist them with refinancing and reconstruction, or if they so desire, to sell their properties to developers using other programs designed to provide affordable housing.
This amendment also clarifies that, in keeping with the program guidelines for the Community Development Block Grant program, Small Rental Property Program funds may be used to support reconstruction, where it is rendered a more feasible alternative to rehabilitation by virtue of the damage to the existing property and the need to make the finished structures less susceptible to hurricane damage and other acts of nature.

Small Rental Property Program funds will be distributed geographically (by Parish) in direct proportion to the number of rental units damaged by Hurricanes Katrina and Rita, based on FEMA Rental Units with “Major” or “Severe” Damages. Applications for assistance will first be sorted by Parish and then scored. Funding reservations will be issued, by Parish, to each project that meets the minimum threshold score, up to the number of projects that can be funded within the Parish’s dollar allocation. If there are unallocated funds remaining in a Parish’s allocation pool after all of the projects that meet minimum score have been funded in a single round, these funds may be “forward allocated” for qualifying projects in other eligible Parishes. However, these funds will be “charged against” the receiving Parish’s total allocation and so will not reduce the overall amount that is available to the Parish that experienced a shortage of applications.