

GulfGov Reports:

Three Years after Katrina and Rita, Challenges Remain



Field research sites shown on the map above

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GulfGov Reports

Three Years after Katrina and Rita, Challenges Remain

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Preface

With the *GulfGov Reports* hurricane recovery research project nearing an end, this latest report departs from the format the project has followed since its inception in 2006. Specifically, it takes a step back to assess some of the wider implications of the rebuilding process through an examination of some of the continuing misconceptions about the recovery that persist more than three years after Katrina and Rita struck.

In this last phase of the research series, the partnering research organizations are publishing independent final reports. This report by the Public Affairs Research Council of Louisiana is a regional analysis of ongoing issues related to the recovery. The Nelson A. Rockefeller Institute of Government will publish a separate white paper that will focus on the national implications of the recovery and on the federalism and governance issues in particular.

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Introduction

2008 was supposed to be the “year of bricks and mortar” for recovery efforts in the wake of hurricanes Katrina and Rita, as one local official described it. From Cameron, Louisiana, to Bayou La Batre, Alabama, officials talked of finally gaining some much-needed traction for rebuilding. Plans were in place, money was available, and progress was evident.

Then, with the capriciousness coastal residents understand only too well, Mother Nature dealt that optimism a sharp blow. Three days after the third anniversary of Hurricane Katrina, Hurricane Gustav rolled ashore on September 1, 2008, at tiny Cocodrie, Louisiana, in Terrebonne Parish, which is west of New Orleans. While Gustav’s surge badly damaged parts of the central Louisiana coast, the storm’s high winds and slow speed wreaked havoc across virtually the entire state. Less than two weeks later, on September 13, 2008, Hurricane Ike blew ashore over Galveston, Texas, with a storm surge that devastated both Galveston Island and Cameron Parish in southwest Louisiana and produced coastal flooding from Alabama to south Texas.

The net effect of the two 2008 hurricanes was to temporarily sidetrack the post-Katrina and Rita recovery work in Mississippi and Louisiana, but not stop it. Three years after the twin blows of Katrina and Rita, the recovery is progressing. The signs range from large to small. In New Orleans, for instance, the

population has reached roughly 70 percent of its pre-Katrina size, and approximately \$4 billion in public and private projects are in the pipeline. In the New Orleans metro area, which encompasses Jefferson, Orleans, Plaquemines, St. Bernard, St. Charles, St. John the Baptist, and St. Tammany parishes, about \$20 billion in construction projects have been announced or are under way.

In St. Bernard Parish, Louisiana, the parish council was finally able to move back into its renovated chambers during the summer of 2008, and the first of the parish's newly rebuilt fire stations is now operational. In Bayou La Batre, Alabama, work is under way on a housing development for residents who lost their homes in Katrina. In Lake Charles, Louisiana, work has begun on a variety of projects aimed at revitalizing the downtown and lakefront areas. In Gulfport, Mississippi, officials are embarking on an ambitious, albeit controversial, plan to remake the city's port into a world-class facility that can compete on a national scale for business. And in Biloxi, Mississippi, the casino industry continues to provide much-needed revenue and employment.

At the same time, more recovery work remains to be done. A few thousand residents remain in FEMA trailers; affordable, available housing continues to be in short supply; and employers still struggle to find qualified workers to fill available job openings. In addition, the ongoing national and global downturn and a new administration in Washington, D.C., also could have an impact on how the recovery progresses.

In this latest report in the *GulfGov Reports: Study of the Recovery, Role, and Capacity of the States and Localities Damaged by the 2005 Hurricanes* project, the focus is on some of the misconceptions that continue to come up three years after Katrina and Rita washed ashore. These misconceptions are a challenge for state and local officials in the affected communities because they make it harder for them to combat the “Katrina fatigue” that exists in Washington, D.C., and across the nation. Quite simply, many officials and citizens are tired of hearing about the ongoing need for assistance. While the federal government has allocated an unprecedented amount of disaster aid for the Gulf Coast states — roughly \$120 billion — the reality is that amount is the total for five states (Alabama, Florida, Louisiana, Mississippi, and Texas) and three hurricanes (Katrina, Rita, and Wilma) and includes immediate aid to individuals, National Flood Insurance Program payouts, tax breaks, and emergency education, health care and highway funding. It also includes funding allocated to the Community Disaster Loan program and the Small Business Administration loan program. Some of the broad categories of aid include:

- IRS tax benefits
- FEMA Individual Assistance
- FEMA Public Assistance
- Health Care
- Education
- Community Development Block Grants
- National Flood Insurance Program
- Small Business Administration loans
- Hazard Mitigation Grant Program
- Community Disaster Loan program

With the recovery work in the hardest hit communities expected to last a decade, more assistance will be needed, and state and local officials in these areas will have to spend considerable time and resources making their cases for that aid as they work to rebuild. While it is now three years since Katrina and Rita devastated a large swath of the Gulf Coast, the issues raised by this report remain as timely and relevant as ever. If anything, they have become even more important as officials in those communities devastated by hurricanes Gustav and Ike come face to face with many of the same bureaucratic obstacles, challenges, and frustrations Louisiana and Mississippi officials have encountered since Katrina and Rita.

The Public Affairs Research Council of Louisiana and the Nelson A. Rockefeller Institute of Government developed the *GulfGov Reports* research series to provide a broad look at how hurricanes Katrina and Rita have changed communities along the Gulf Coast across a wide spectrum of areas. This has been an ongoing project that has been tracking the progress these communities are making — or not making — over time (see Appendix). The jurisdictions chosen for the project were representative of the areas that were devastated by the storms and of the areas that have benefited from them. They cover three of the four states affected by Katrina and Rita — Louisiana, Mississippi, and Alabama. The previous reports in this project were developed from uniformly structured field research reports put together by a network of researchers from a range of backgrounds and social science disciplines. Throughout this project, the field researchers have collected and analyzed data and reports and interviewed public officials, leaders of nonprofit and community organizations, and members of the community. The field researchers' reports then were submitted to the central research staff, reviewed, and compiled into summary reports.

This latest report, *GulfGov Reports: Three Years after Katrina and Rita, Challenges Remain*, draws upon the same body of research but uses a more interpretive approach in examining information that was collected through interviews, official reports, other studies, Internet databases, and media accounts.

Misconceptions

The following misconceptions are by no means exhaustive but they are ones that continue to surface in one form or another either in media accounts or in conversations with ordinary people, particularly those who live outside the affected areas. As noted in the Introduction, the persistence of these misconceptions poses a problem for state and local officials because they are at best a distraction from the ongoing recovery work and at worst an obstacle to convincing federal officials of the need for continued assistance.

1. **Misconception:** The allocation of recovery money equals distribution of recovery money.
Reality: There is a delay between the time federal recovery money is allocated and the time it is disbursed to the local governments.
2. **Misconception:** The federal government has a mechanism in place to rationally and equitably distribute long-term recovery money.
Reality: The federal government has several programs in place from which it can distribute disaster aid money, but none of them is geared specifically toward catastrophic disasters. In addition, Congress created a program designed to help boost economic development recovery efforts in areas affected by Katrina and Rita, but it does not apply to other communities that have suffered disasters, and it is scheduled to end in 2010.
3. **Misconception:** With so much federal money involved, massive fraud and misuse of funds were inevitable in Louisiana and Mississippi.
Reality: There have been instances of fraud and abuse, but not to the degree feared by many, and federal, state, and local authorities have been aggressive in their efforts both to prevent fraud and to prosecute it.
4. **Misconception:** Louisiana's homeowner grant assistance program — known as the Road Home Program — has been a failure, while Mississippi's program — known as the Homeowner Assistance Program — has succeeded in addressing that state's recovery housing needs.
Reality: Neither program has succeeded in resolving the acute housing shortage both states face as a result of Katrina and Rita, nor has either program produced a template that could be used to address housing issues created by future disasters.
5. **Misconception:** The Mississippi Gulf Coast has completely recovered.
Reality: Certain segments of the Mississippi Gulf Coast have recovered, but more recovery work remains to be done.
6. **Misconception:** Disasters of this scale devastate state revenues.
Reality: There is an initial loss of revenue before recovery work begins, but then revenues increase sharply.
7. **Misconception:** Hurricane Katrina was solely a natural disaster for New Orleans.
Reality: Hurricane Katrina was both a natural disaster and a man-made disaster for New Orleans.

1. Misconception: The allocation of recovery money equals distribution of recovery money.

Reality: There is a delay between the time federal recovery money is allocated and the time it is disbursed to the local governments.

As state and local officials discovered, just because the federal government has designated money for relief and recovery efforts does not mean those funds are immediately accessible. Instead, there is a lengthy, complex, and often frustrating process that must be followed before actual dollars flow into state and local coffers. In addition, because the money comes from multiple federal sources, state and local officials have had to contend with different sets of regulations and paperwork requirements — all of which have delayed the distribution of recovery funds. In Lake Charles, Louisiana, for instance, the city endured a two-year process that involved dealing with a multitude of federal agencies before it finally received the permission and funding it needed to demolish an empty downtown building and start construction on a mixed-use development that will include housing units.

The process involved in accessing FEMA Public Assistance money demonstrates the problem officials have had. The Robert T. Stafford Act is the mechanism that allows the Federal Emergency Management Agency (FEMA) to disburse the Public Assistance funds being used to help affected communities rebuild their infrastructure, including roads and bridges, water and sewer systems, and public buildings. The advantage of the PA funds is that there is no limit on how much communities can receive for eligible projects. The disadvantages include the reimbursement nature of the program, the federal-local cost-share split required under the program, and the complicated project worksheet process required for every project.

In practice, the requirements of the PA program mean that communities must receive FEMA approval for each project first, pay for their share of each project up front, and then seek reimbursement for their expenses afterward. For communities that lose most or all of their economic base in a catastrophe, those requirements make it almost impossible to begin recovery in a timely way. With no revenue coming in, it is difficult for devastated communities to pay for recovery work to begin.

In addition, FEMA has different rules for what it will approve, depending on whether a structure must be rebuilt from the ground up or whether it can be repaired. Under the rules, structures that are destroyed in a disaster may be rebuilt in a more improved, up-to-date manner. Structures that can be repaired — meaning they sustained less than 50 percent damage — may only be restored to the condition they were in at the time of the disaster. That has led to situations where common sense sometimes seemed to be sacrificed to regulatory expediency. In New Orleans, for instance,

local officials and FEMA representatives argued and negotiated for months over whether it was possible to tell which leaks in the water and sewer system were attributable to Katrina and which were attributable to the city’s poor maintenance. Eventually FEMA agreed to pay for the necessary repairs, but the city lost valuable time when it could have been moving forward with the crucial repairs. FEMA and the state of Louisiana also have squared off over the Charity Hospital building in New Orleans. The state is seeking nearly \$500 million from FEMA to help build a new \$1.2 billion facility. FEMA, on the other hand, says the Charity Hospital building can be repaired and has authorized approximately \$23 million for that purpose. More than three years after Katrina, the two sides still are trying to resolve the disagreement.

In terms of actual numbers, FEMA reported that as of October 2008, Louisiana had disbursed \$3.84 billion in Public Assistance money to local communities. That is approximately 53 percent of the \$7.29 billion in FEMA Public Assistance money that has been obligated to the state. In Mississippi, officials had disbursed \$1.54 billion, or 54 percent, of their total \$2.87 billion in Public Assistance money. And in Alabama, the state had paid out \$112.77 million, or 97 percent, of its \$115.79 million in Public Assistance money (see Table 1).

Table 1. FEMA Public Assistance Funding

	Louisiana	Mississippi	Alabama
Estimated number of projects	44,818	22,750	4,375
Number of projects in pipeline	43,995	22,727	4,319
Total amount of money obligated to state	\$7,294,268,617	\$2,867,345,490	\$115,790,908
Total amount of money disbursed by state	\$3,835,856,606	1,539,161,547	\$112,786,137
Percentage of obligated money that has been disbursed	53%	54%	97%

Source: www.fema.org

2. Misconception: The federal government has a mechanism in place to rationally and equitably distribute long-term recovery money.

Reality: The federal government has several programs in place from which it can distribute disaster aid money, but none of them is geared specifically toward catastrophic disasters. In addition, Congress created a program designed to help boost economic development recovery efforts in areas affected by Katrina and Rita, but it does not apply to other communities that have suffered disasters, and it is scheduled to end in 2010.

Right now the federal government has no specific funding mechanism in place to handle the recovery needs of communities faced with a catastrophic disaster. As a result, the damage left behind by hurricanes Katrina and Rita compelled the federal government to find creative ways to provide the unprecedented amounts of financial aid necessary to help local communities with their recovery efforts. Among the tools in the federal arsenal are the FEMA Public Assistance program discussed previously, the Community Development Block Grant (CDBG) program, and the Gulf Opportunity Zone (GO Zone) program.

The most flexible of the three has proved to be the CDBG program overseen by the U.S. Department of Housing and Urban Development, despite the fact that it never was intended to be used for disaster aid. The federal government created the CDBG program in 1974 by consolidating seven pre-existing grant programs. The goal of the CDBG program was to help deteriorating communities by providing extra money for public projects that would stimulate redevelopment. Since 1974, the Mercatus Center reports, the federal government has distributed more than \$118 billion to communities across the country for infrastructure, social service, and community-based projects. While disaster aid does not fall under the original mandate of the CDBG program, federal officials searching for a relatively accessible, flexible source of recovery funds in the wake of Katrina and Rita decided that the program also could serve that need.

As noted in *GulfGov Reports: Spending Federal Disaster Aid*, the CDBG program requires officials to determine which projects will receive the available money. Federal officials set the amounts available to spend on the front end, while state and local officials are responsible for identifying the entities and individuals in need, coordinating funding requests, and ensuring that federal guidelines are met. In general, the CDBG funding is being used to pay for projects or portions of projects that neither FEMA Public Assistance nor any other type of public or private insurance will fund. Most notably, CDBG money has been and continues to be used to fund Louisiana's and Mississippi's homeowner assistance programs. While the CDBG money has the most leeway in terms of what it can be used for, the paperwork requirements that must be met before any distributions are approved are daunting. The required forms fill two binders roughly 4 inches thick and must be filled out for each project. In addition, another barrier officials faced in

trying to distribute the CDBG money was the requirement that environmental assessments be done for each eligible project. The lack of a waiver for the requirement from the federal government meant project approvals were delayed while the necessary assessments were performed, further slowing the recovery process.

Another federal program, the Gulf Opportunity (GO) Zone Act, was created by Congress in 2005 to help devastated Gulf Coast communities rebuild their economies in the wake of hurricanes Katrina, Rita, and Wilma. Under the provisions of the act, state governments along the Gulf Coast were allowed to allocate money from four tax incentives: \$14.9 billion in tax-exempt private activity bonds; \$330 million in low-income housing tax credits (LIHTC); \$350 million in GO Zone tax credit bonds; and \$7.9 billion in additional advance refunding bonds. Alabama, Louisiana, and Mississippi were allowed to take advantage of the three bond initiatives, as well as the LIHTC program, because of the scale of the damage they suffered, while Florida and Texas were limited to the LIHTC program. In total, Louisiana received \$12.7 billion in GO Zone allocations, Mississippi received \$7.1 billion, and Alabama, \$3.4 billion.

The goal of the GO Zone program is to encourage developers to go back into devastated areas and to provide incentives for those developers who might have difficulty obtaining funding for their projects. Use of the program and its incentives is limited to those areas that were included in the federal government's disaster declarations. In Louisiana, 37 out of 64 parishes are eligible to take advantage of the GO Zone Act provisions, while in Mississippi, 49 out of 82 counties are eligible, and in Alabama, 11 out of 67 counties are eligible.

Through mid-June 2008, the three states had allocated 87 percent of the \$14.9 billion in tax-exempt bonds, while all five states in the program had allocated 95 percent of the \$330 million in low-income housing tax credits. But some concerns have emerged, and the U.S. Government Accountability Office described some of them in a July 2008 report. For example, Mississippi, Louisiana, and Alabama used a first-come, first-served process to award their tax-exempt private activity bonds and made little effort to give priority to projects that would benefit the most damaged areas. As a result, many developers in minimally damaged areas moved quickly to take advantage of the GO Zone incentives for their projects. Other developers in harder hit areas took longer to get their projects organized because of the disruptions caused by the hurricanes and were unable to obtain GO Zone funding. Louisiana officials eventually designated some of their GO Zone incentives specifically for the hardest hit areas in response to complaints that New Orleans and some of the other badly damaged areas were being left out.

Another problem with the GO Zone program has been its broad definition of what constitutes an acceptable project. One of the most contentious uses of the GO Zone program, for instance, was for construction of a luxury condominium development near the University of Alabama football

stadium in Tuscaloosa, Alabama. Under the requirements of the GO Zone Act, the project was eligible, but Tuscaloosa is approximately 180 miles from the Alabama coast, and it could be argued that the project is of no benefit to those communities most affected by the hurricanes. That same disconnect has played out in Mississippi and Louisiana as well. State officials defend the use of the GO Zone program for projects whose impact on the most affected areas is not immediately apparent on the grounds that any economic development in the state is good for all residents. How much the GO Zone program will help encourage redevelopment and rebuilding in the affected areas is unknown at the moment, but what is clear is that the program likely will not be as effective as it could have been in boosting economic development because of the way it was designed.

3. Misconception: With so much federal money involved, massive fraud and misuse of funds were inevitable in Louisiana and Mississippi.

Reality: There have been instances of fraud and abuse, but not to the degree feared by many, and federal, state, and local authorities have been aggressive in their efforts both to prevent fraud and to prosecute it.

At this point, Katrina has the distinction of being the costliest hurricane in U.S. history, with insurance industry damage estimates reaching \$43.6 billion. The next costliest storm, according to the insurance industry, was Hurricane Andrew in 1992, whose damage cost approximately half that much — \$22.9 billion. Hurricane Rita ranked seventh on the list, with \$6 billion in damages, while Wilma was third at \$10.9 billion (see Table 2 for the 10 most expensive hurricanes in U.S. history). The damages from hurricanes Gustav and Ike still are being tallied, but early projections put them on a level with Andrew.

The federal government eventually allocated some \$120 billion for relief and recovery efforts across the five states most affected by the three 2005 hurricanes, which raised questions about whether adequate safeguards were in place to ensure the money was used for its intended purpose. In particular, critics pointed to Louisiana's well-known history of public corruption. In reality, however, most of the hurricane-related fraud cases investigated and prosecuted since Katrina and Rita have involved individuals — not public officials.

At the federal level, the U.S. attorney general organized the Hurricane Katrina Fraud Task Force in September 2005 to investigate Katrina-, Rita-, and Wilma-related fraud complaints. The task force, which is still in operation, is a joint effort that combines the resources of the federal, state, and local governments, and focuses on government contract and procurement fraud, public corruption, government-, and private-sector benefit fraud, identity theft, fraudulent charitable solicitations, and insurance fraud.

Through August 2008, 907 individuals in 43 federal judicial districts across at least 25 states have been indicted on an assortment of fraud charges. In addition, state and local law enforcement agencies are pursuing other criminal cases involving hurricane fraud.

While 907 is a sizable number of indictments, in the context of the hundreds of thousands of people who have received financial assistance or insurance payouts or who have obtained government contracts for relief and recovery work, it is not an indicator of corruption on a vast scale. Rather, the number of indictments shows that the oversight mechanism is working.

Table 2. Costliest U.S. Hurricanes¹

Rank	Hurricane	Dates	States affected	Cost
1	Katrina	8/25-8/30/2005	AL, FL, GA, LA, MS, TN	\$43.6 billion
2	Andrew	8/24-8/26/2005	FL, LA	\$22.9 billion
3	Wilma	10/24/2005	FL	\$10.9 billion
4	Charley	8/13-8/14/2004	FL, NC, SC	\$8.2 billion
5	Ivan	9/15-9/21/2004	AL, DE, FL, GA, LA, MD, MS, NJ, NY, NC, OH, PA, TN, VA, WV	\$7.8 billion
6	Hugo	9/17-9/22/1989	GA, NC, PR, SC, VA, U.S. Virgin Islands	\$7 billion
7	Rita	9/20-/926/205	AL, AR, FL, LA, MS, TN, TX	\$6 billion
8	Frances	9/3-9/9/2004	FL, GA, NY, NC, SC	\$5 billion
9	Jeanne	9/15-9/29/2004	DE, FL, GA, MD, NJ, NY, NC, PA, PR, SC, VA	\$4 billion
10	Georges	9/21-9/28/1998	AL, FL, LA, MS, PR, U.S. Virgin Islands	\$3.6 billion

Source: ISO’s Property Claims Services Unit; Insurance Information Institute

¹Although the damage estimates still are being compiled, early figures put the cost of Hurricane Ike at roughly \$20 billion, which would make it the third costliest hurricane in U.S. history. Early figures for Hurricane Gustav estimate approximately \$10 billion in damage.

4. Misconception: Louisiana’s homeowner grant assistance program — known as the Road Home Program — has been a failure, while Mississippi’s program — known as the Homeowner Assistance Program — has succeeded in addressing that state’s recovery housing needs.

Reality: Neither program has succeeded in resolving the acute housing shortage both states face as a result of Katrina and Rita, nor has either program produced a template that could be used to address housing issues created by future disasters.

The two programs were designed differently from the outset. Mississippi’s program was smaller in scale, while Louisiana’s program was much broader in scope.

Mississippi made the decision early on to focus on providing grants of up to \$150,000 only to those homeowners who lived in areas outside the federally designated flood plain who suffered storm surge damage. In addition, before they could be deemed eligible, these homeowners had to show proof of homeowners insurance. Those who received the grants were required to rebuild according to FEMA elevation standards and to sign up for the National Flood Insurance Program.

Those homeowners who suffered only wind damage were not eligible to apply for the grants. The thinking behind this decision was that homeowners insurance should take care of wind damage. If a homeowner had elected not to carry insurance, then the state was not going to reward his or her irresponsibility.

By limiting eligibility to these homeowners, Mississippi necessarily limited the size of its program, which made it easier to get under way. Despite a successful pilot program in early 2006, however, actual implementation proved more problematic, and Mississippi’s program suffered some significant delays after its official rollout in March 2006. By the summer, however, the program was processing applications numbering in the thousands, and through November 2008, it had provided grants totaling \$1.4 billion to 18,360 homeowners.

Since Mississippi did not spend all of its money in the initial phase of the grant program, it set up a second phase designed to aid low-income homeowners who lived along the coast, regardless of whether they had insurance or whether they lived inside or outside of the flood plain. That phase had provided grants of up to \$100,000 to 5,852 applicants as of November 26, 2008, for a total of \$405 million. Mississippi still is processing applications for both phases of the program, although the deadline has passed for applying, and expects to finish disbursing its money by the end of 2008.

In Louisiana’s case, state officials determined that they wanted to help as many homeowners as possible, so they opened up the program to all homeowners regardless of whether the damage they

suffered was wind- or water-driven and regardless of whether they had insurance or lived inside the flood plain. The decision was not without controversy. State officials maintain that they told federal authorities how they planned to structure the program. Federal officials say they did not realize initially that Louisiana intended to provide financial assistance to those homeowners who suffered only wind damage and if they had known, they would not have allowed it.

The program was designed to provide grants of up to \$150,000 to eligible homeowners and gave them the choice of repairing or rebuilding their home, selling their home to the state and moving elsewhere in Louisiana, or selling their home to the state and moving out of Louisiana.

In addition, Louisiana officials were very cognizant of the state's reputation for public corruption and graft, so the program was designed with multiple layers of checks in an attempt to minimize any fraud. Homeowners were required to provide extensive documentation of ownership, insurance, appraisal value, and other information, which was difficult since most had lost their paperwork in the floodwaters that engulfed most of southeast Louisiana. That documentation then had to be verified by ICF International, the contractor running the Road Home Program.

Compounding the problems were an unexpectedly high number of applicants, more expensive damage estimates than originally anticipated, and a program management company overwhelmed by the process. The practical effect was to paralyze the program. By December 2006, only 100 grants had been approved.

At that point, the state made some changes in the property appraisal component of the program to try to speed up the process. Then in March 2007, the U.S. Department of Housing and Urban Development ordered Louisiana to distribute lump-sum payments to homeowners without mortgages. Originally, the state had mandated that any grants awarded to homeowners had to be placed in escrow accounts from which they could draw the money to pay for repairs. That was done to try to ensure that homeowners actually used the money to repair their homes and to minimize contractor fraud. Mississippi, in contrast, disbursed its grants in lump-sum form from the start.

The pace of grant approvals and disbursements picked up in Louisiana after that, but homeowners continued to complain about the unresponsiveness of the contractor and about the conflicting and confusing information they received. Through November 2008, 120,155 homeowners had received grants totaling \$7.4 billion. The application deadline for the program has long since passed, and ICF is concentrating on closing out the final cases. As of November 27, 2008, roughly 15,000 homeowners still were waiting for final decisions on their grant applications. That is about two-thirds of the total number of homeowner grants Mississippi has disbursed since its program started.

Table 3. Homeowners Assistance Programs

	Louisiana	Mississippi
Total amount of CDBG money allocated	\$10.4 billion	\$5.5 billion
Amount of CDBG money allocated to homeowner assistance grant program	\$9.4 billion	\$3 billion
Amount of money disbursed to homeowners by November 2008	\$7.4 billion	\$1.8 billion
Number of homeowners whose grant applications have been closed	120,155	24,212
Number of homeowners waiting to close on applications	15,334	1,395

Source: Louisiana, www.road2la.org; Mississippi, www.mshomehelp.gov

In addition to houses, Katrina and Rita devastated the rental market in Louisiana and Mississippi. Approximately 82,145 rental units were damaged or destroyed in South Louisiana, 51,681 in New Orleans alone. The state established three programs to encourage rebuilding of these rental units — the Large Rental Program, which is financed by low-income housing tax credits, and CDBG “piggyback” funds for multi-family developers; and the Small Rental Repair Program for small property owners. Most of the rental units built under these programs were to be designated affordable, and mixed-income developments were encouraged.

The problem is that the allocations as they currently stand will replace only two out of every five affordable rental units lost statewide, and only one in three rental units lost in the New Orleans metro area where a disproportionate number of residents were renters. In other words, affordable housing will continue to be in short supply.

In Mississippi, where rental units are also in short supply, state officials have put together a plan that blends CDBG money, GO Zone development incentives, and U.S. Department of Agriculture loans and grants to address the affordable housing question. Nearly \$1 billion will be directed into programs to build long-term workforce housing, small rental housing, and public housing. Ultimately, the state plans to build more than 27,000 housing units for low- and moderate-income families, which would be an increase over what was available pre-Katrina.

Both Louisiana and Mississippi also received money from the federal government to set up pilot programs to build temporary housing that could be used instead of travel trailers to provide shelter for those who lost their homes in the storms—the so-called Katrina Cottages. The states were required to submit proposals to FEMA, and the agency determined which ones to fund. The result was that Mississippi received approximately \$280 million for its program, while Louisiana received \$74.5 million. Louisiana officials protested the awards vehemently, arguing that the state suffered significantly more damage and lost considerably more housing stock than Mississippi. FEMA refused to budge, and in the time since the money was allocated, Mississippi has built 2,818 Mississippi Cottages. In addition, a few of the communities along the Gulf Coast have decided to allow the permanent placement of the cottages, thereby providing another affordable housing option. In contrast, more than three years after the storms, Louisiana has yet to build its first Louisiana Cottage.

5. Misconception: The Mississippi Gulf Coast has completely recovered.

Reality: Certain segments of the Mississippi Gulf Coast have recovered, but more recovery work remains to be done.

Specifically, the casino industry has come back stronger than it was before Katrina hit. Gambling revenues have set several records in the past three years, and more casino projects are in the planning and building stages, although the current national financial crisis may cause some delays.

The successful recovery of the casino industry has not yet translated to other segments of the Mississippi Gulf Coast economy, however. A drive along U.S. 90, also known as Beach Boulevard, is still a drive along mostly vacant parcels of land in Hancock and Harrison counties. Very few of the homes that once lined the road have been rebuilt and only a handful of businesses other than casinos have reopened. Those include some freestanding hotels, a few restaurants, and two gas stations.

At the same time, the coastal communities in these counties all have rebuilding plans in place that address infrastructure improvements and economic development projects. Some of the infrastructure work has begun with the disbursement of FEMA money and other recovery funds, but the economic development component has been slower to get under way, and the ongoing federal financial upheaval is not helping the process. Most of the economic development growth that has occurred has been along the Interstate 10 corridor, as business owners look for more protected areas in which to build.

In addition, housing construction continues to be a major issue for these communities. Relatively few of the homeowners who lived along the coast have rebuilt because of the expense involved with construction, elevation requirements, and insurance. In fact, there has been a significant shift

in population with more residents moving to areas north of Interstate 10 and into the three counties directly north of Hancock, Harrison, and Jackson counties.

6. Misconception: Disasters of this scale devastate state revenues.

Reality: There is an initial loss of revenue before recovery work begins, but then revenues increase sharply.

Immediately after Katrina and Rita, there was a decline in state revenue collections because of the displacement of residents and businesses in the hardest hit communities. In response, Louisiana officials made deep cuts in the state's 2005-2006 budget in anticipation of a long-term revenue loss. But almost as soon as the crisis phase of the disaster was over, revenue collections began to increase sharply as people started buying items to replace what was lost, and recovery workers filled local hotels and motels. In addition, as the recovery work began, the state took in more revenue from the construction necessary to rebuild the damaged or devastated areas. State coffers also received a boost from federal disaster funds.

As a result, Louisiana ended the 2006 fiscal year with a \$1 billion surplus, the 2007 fiscal year with a \$1 billion surplus, and the 2008 fiscal year with an \$865 million surplus. While a large portion of that surplus came from taxes on the escalating price of oil and gas, a significant part came from rebuilding and replacement activities, as well as the distribution of federal recovery money. For the current budget year, however, replacement spending is no longer the revenue generator it has been, the price of oil and gas is declining, and the influx of federal recovery money eventually will end. As a result, state economic officials now are projecting Louisiana will face a \$1.3 billion budget deficit by the end of the 2009 fiscal year.

In Mississippi, the economic boom did not last as long as in Louisiana. The state finished its 2006 budget year with a \$70 million surplus, but faced a deficit in both its 2007 and 2008 budget years due primarily to the larger share of Medicaid spending it had to absorb. In the first quarter of the current budget year, revenues are 2.3 percent behind where they were last year, or \$24.8 million short. If the trend continues, the state could face a 2 percent across-the-board cut before the budget year ends in 2009. In addition, Mississippi's governor has told state agency directors to cut their budget requests for the 2009-2010 budget year by 4 percent. Even the robust casino industry is seeing the growth in revenues begin to taper off. Recently released figures, for instance, showed a 26 percent drop in revenues in September 2008, compared to September 2007.

The problem for officials involved in disaster recovery is twofold — predicting how long the revenue boom will last and determining the best way to use the extra money without becoming dependent on it.

7. **Misconception: Hurricane Katrina was solely a natural disaster for New Orleans.**

Reality: Hurricane Katrina was both a natural disaster and a man-made disaster for New Orleans.

There is no question the city would have experienced some flooding during the storm as a result of the overtopping of levees. The fact that the city has been sinking since it was first built means that many of the levees also have sunk and are appreciably lower than when they were first erected. Overtopping, particularly with a wind-driven storm surge, was expected. And some flooding was expected in those parts of the city that typically flood during any sort of storm.

What was not expected was the collapse of portions of some of the city's most vital canals. The city's growth throughout the 20th century, in fact, had been predicated on the belief that the canals and levees would hold through a Category 3 storm. Once the breaches occurred and the water from Lake Pontchartrain began pouring in, the city's geography worked against it with a vengeance. The bowl-shape nature of New Orleans' geography meant that little could be done to stop the flooding until the water level in the lake matched the water level in the city. When that finally happened, the U.S. Army Corps of Engineers began the dual jobs of sealing the breaches and pumping water out of the city — processes that took weeks.

Half of New Orleans is at or below sea level, according to a 2007 study by Tulane and Xavier Universities' Center for Bioenvironmental Research. The study examined data collected between 1999 and 2001 through the use of a special light imaging technology. Among the areas at or above sea level are those neighborhoods that did not flood during Katrina — the French Quarter, the Garden District, and parts of Uptown New Orleans.

Historically, the city has flooded numerous times since it was settled in 1718, usually as a result of river flooding. When the French established New Orleans, they did so on what was the highest ground in the area — a ridge created by soil deposits left behind every time the Mississippi spilled out of its banks. Two main ridges were created by the flooding and receding river water — the Metairie and Esplanade ridges — and are where the city's growth initially was concentrated. As the city continued to grow, more and more river levees were built to shield it from flooding. The problem was that the city continued to flood periodically as the water found its way around the levees and came in from behind via the low-lying swampland between Lake Pontchartrain and New Orleans. Canals eventually were built out to the lake to provide drainage for the city and a system of pumps was created at the turn of the 20th century to help pull the water out of the city and dump it into the lake. The development of an effective drainage system meant that the city could reclaim much of the existing swampland and open it up for expansion. Ultimately, all of this work created the much-talked-about bowl effect with the city essentially surrounded by levees and canals.

In the 20th century, the city grew, reaching the peak of its population of roughly 650,000 in the 1960s before beginning a slow decline. At the same time the population was growing, builders changed the way they constructed homes. The traditional elevated-house-on-pilings design was abandoned in favor of slab construction. That change proved to be a problem in Katrina as many homes were washed off their slabs in the flooding. In the wake of the storms, FEMA mandated increased elevation requirements for rebuilt homes to help protect them against storm surge flooding. How high those structures must be depends on where they are located. While the criticism of those requirements has been vehement, Hurricane Ike showed that elevated structures are more resistant to flooding from surges than those that are not. Newly built elevated homes in lower Cameron Parish, for example, survived relatively intact as opposed to the mobile homes many property owners installed.

Despite this, many argue that the problem in New Orleans is not so much one of elevation as it is one of how sound the levees and canals are. The primary reason 80 percent of the city flooded in Katrina was because of the collapse of the canal walls. Were it not for that, the city would have suffered some damage as a result of Katrina's winds and levee overtopping, but it would have been able to recover quickly.

Conclusion

At the heart of these misconceptions lies the problem of communication — communication between different levels of government, between government and people, and between government and the media. As has been well-documented in numerous reports, the almost complete breakdown of communications in the days after Katrina struck exacerbated what was already a disaster unlike any this country had faced before. Local officials found themselves cut off from the outside world because of the failure of vital communications infrastructure, while state officials initially were unable to get past the bureaucratic roadblocks created by the federal government's disaster response process. With little to no communication happening, much of the relief work was delayed and rumors exploded.

As relief efforts finally gave way to long-term rebuilding work, the communication problems continued, as state and local officials struggled with the federal government's one-size-fits-all recovery process. Such factors as the 25 percent match requirement and the reimbursement nature of the FEMA Public Assistance program stalled the recovery until state officials succeeded in persuading President Bush to waive the match and in coming up with a process to front recovery money to the devastated communities so they could tap into the Public Assistance funds. Efforts to convince federal officials of the need to view each community as a unique entity when it comes to disaster recovery have, for the most part, fallen on deaf ears, and frustrated officials and residents alike. Nor have state and local officials been able to effectively dispel the myths and misconceptions that continue to plague the recovery work. The media, who proved

to be a valuable ally in drawing much-needed attention to the crisis immediately after Katrina, have turned their attention elsewhere, and officials have struggled to correct the misinformation. That, in turn, has made it much more difficult for them to convince Congress that the recovery will take many years and require more assistance from the federal government.

Still, there has been progress — painstaking at times — but progress nonetheless. Piece by piece, the Gulf Coast communities in Louisiana, Mississippi, and Alabama are recovering. Rebuilding is evident, but so is the work that remains to be done. Housing, insurance, and flood elevations continue to top the list of obstacles with which state and local officials must contend. And just as the recovery appeared to gain the traction officials and residents have been seeking in the three years since Katrina and Rita struck, hurricanes Gustav and Ike threatened to undo much of the work that has been accomplished. As is clear now, most of the communities so badly damaged by Katrina and Rita only received a glancing blow from Gustav and Ike with the exceptions of Cameron Parish and Lake Charles, Louisiana.

What was markedly different this time in Louisiana and Mississippi was the improvement in communication, coordination, and cooperation among federal, state, and local officials both before and immediately after Gustav and Ike. For example, nearly 2 million people were evacuated from coastal Louisiana before Gustav struck, and pre-arranged shelters helped officials avoid the frantic search for such facilities that characterized the Katrina evacuation. The state also had a plan to bring residents back in an organized fashion.

There were some problems as well. For example, while Louisiana's traffic flow plan for evacuation was effective, evacuees still found themselves stuck in traffic for hours, and the situation was compounded by Mississippi's decision to prevent travelers from exiting Interstate 59, one of the primary routes out of the area. Another problem arose with federal relief supplies. Essentially they did not arrive as quickly as promised because of some questionable staging decisions by FEMA personnel, but state officials actively worked with their federal counterparts to resolve the issue. In addition, Louisiana's return plan broke down at the local level, most notably in New Orleans, where local officials scrambled to provide accommodations for those residents who returned to find their homes uninhabitable.

Compared to the chaos surrounding Katrina, however, these problems were minor and can be resolved through more planning and discussion among federal, state, and local officials.

These same improvements in the communication and coordination processes have yet to reach the long-term recovery work, however. Three years after Katrina and Rita, state and local officials in the Gulf Coast states know well where the pitfalls in the recovery process are. Now is the time for officials at all levels of government to develop a more effective communications framework that can help speed up the recovery process, not block it.

Appendix

Recap of previous studies and their findings

In May 2006, the Public Affairs Research Council of Louisiana and the Nelson A. Rockefeller Institute of Government began their joint research project *GulfGov Reports: Study of the Recovery, Role, and Capacity of the States and Localities Damaged by the 2005 Hurricanes*. The project was designed as an ongoing look into how 22 communities from Cameron, Louisiana, to Bayou La Batre, Alabama, were recovering from hurricanes Katrina and Rita. Nearly two and a half years later, the *GulfGov Reports* project has published six studies examining various facets of the recovery.

The first report, *GulfGov Reports: One Year Later*, was released in August 2006 on the first anniversary of Hurricane Katrina and found that:

- What Katrina and Rita took away from the coastal areas, they gave in abundance to communities farther inland. Communities out of range of the storm surge saw their economies grow sharply because of increased population and revenues, while the hardest hit areas were faced with rebuilding their economies from scratch.
- The slow pace of recovery after one year could be tied to the limited progress these communities had made in putting together rebuilding plans. A few communities had plans in place by the first anniversary of the storms, but many more — including New Orleans — did not. Without specific information about how their communities planned to rebuild, many residents found it difficult to make their own decisions about rebuilding.
- Housing and labor shortages existed all across the region. Not enough workers were available to fill vacant jobs, nor was there adequate housing to accommodate them.

In the end, the report found, Katrina and Rita produced two disasters. The first was the immediate crisis created when the hurricanes made landfall. The second was the difficulty various levels of government had in working together to respond to the crisis. It was this second disaster that proved to be the more dangerous of the two because the inability to work well together spilled over into the recovery efforts, with ordinary citizens caught in the middle. The long-term impact was predicted to be the haphazard rebuilding of the devastated communities, the repetition of mistakes, the exclusion of segments of the population, and the loss of a rare opportunity to reshape a region for the better.

The second study, which was released in April 2007, was a special report that examined public school districts in several communities across Louisiana, Mississippi, and Alabama and the effect of the storms on those districts.

GulfGov Reports: Education found that the condition of the school districts in the affected areas tended to mirror the state of the recovery in their communities. In many of the hardest hit districts, enrollment had not yet recovered to pre-Katrina levels in the hardest hit districts, while districts in the inland communities were filled to capacity, sometimes exacerbating pre-existing shortages in teachers, substitute teachers, and school bus drivers. School officials also faced such challenges as the time lag for FEMA reimbursements and insurance payments, the rising cost of construction, the difficulty in replacing large numbers of books, desks, and other school supplies at the same time, and the constantly changing number of students.

In addition, the study showed that in those districts where significant progress had been made in the recovery, officials had a few built-in advantages. Among them:

- Pre-positioned contracts in place to help with clean-up and repair
- Adequate insurance coverage for district facilities
- A healthy cash reserve fund

The third report, which also was released in April 2007, focused on the role of local governments in the recovery efforts and what factors were helping or hindering the process. That study, *GulfGov Reports: A Year and a Half after Katrina and Rita, an Uneven Recovery*, found that there was progress in the recovery and rebuilding efforts. Even in the hardest hit areas, overall conditions were markedly better than they were in the months immediately after Katrina and Rita. But the recovery was uneven and the progress each community had made seemed to be dependent on:

- How effective its local leaders were in making decisions about what direction the recovery should take.
- How badly its business and economic infrastructure was damaged.
- How quickly it was able to tap into state and federal aid flows.

What the third study made clear was how closely housing availability and a functioning economic infrastructure were intertwined.

The fourth report in the series, which was released in September 2007, was another special report and focused on federal disaster monies being distributed to Mississippi and Louisiana. *GulfGov Reports: Spending Federal Disaster Aid* was an analysis of the two major types of aid that were being used for reconstruction and economic recovery funding in the affected communities.

This analysis examined FEMA Public Assistance (FEMA PA) grants and Community Development Block Grants (CDBG) and demonstrated many of the intergovernmental problems the federal, state, and local officials continued to navigate at the two-year mark of the recovery work.

Among the report's findings were:

- The amount of federal aid provided to Mississippi and Louisiana was not proportional to the amount of damage each state suffered.
- The sluggishness of aid distribution continued to be the primary concern of state and local officials in both states.
- The reimbursement nature of the FEMA PA program generally meant that local governments had to pay for work out of their own pockets first. For those local governments left with little to no tax base or revenue sources, that meant much of the recovery process stalled because they did not have the money to start the federal aid flow. While both states eventually offered mechanisms for local officials to obtain advance payments to get work started, the effort required further slowed the recovery process.
- The federal disaster aid programs now in place were never designed to handle the scale of catastrophic damage left behind by hurricanes Katrina and Rita. While the federal government tried to adapt existing programs to get the money flowing to the affected areas, it was evident from the continuing slow pace of the recovery more than two years after the storms that other avenues need to be explored.
- The two phases of the aftermath of a disaster — response and recovery — involve different logistics and politics. Response and recovery needs differ throughout the Gulf region, and federal aid programs and policies need to be cognizant of these differences.

The series' fifth report, which was released in October 2007, focused on the important role the nonprofit community has played in hurricane recovery efforts across Louisiana, Mississippi, and Alabama. *GulfGov Reports: Response, Recovery, and the Role of the Nonprofit Community in the Two Years Since Katrina and Rita* examined the work of the nonprofit sector in the recovery, what impact hurricanes Katrina and Rita had on the work of these organizations, and what changes they made to handle the next disaster that strikes.

The study showed that the scope of the nonprofit response to the hurricanes, both in the immediate aftermath and in the longer-term recovery work, was unprecedented. It included everything from national foundations investing millions of dollars in recovery efforts to out-of-town groups making frequent rebuilding trips to locally based organizations lobbying for policy changes. More than two years after the storms, the study found that these organizations remained as important ever in the recovery efforts.

The report also revealed some common issues and concerns:

- The wide-ranging impact of hurricanes Katrina and Rita required the nonprofit sector to be adaptable to rapidly changing circumstances. It was not so much the missions of these groups that had to be altered. Rather, it was the scope of the work that changed as the demand and the need for services exploded.
- The critical need for a disaster response and recovery plan was reinforced. Many nonprofit organizations did not have such a plan before Katrina and Rita. Now they do. Other groups that had plans found they had to revise them.
- Funding sustainability was a serious problem. More than two years after hurricanes Katrina and Rita, many groups were running out of the money they needed to keep providing elevated levels of service.
- The role and coordination of volunteers are major concerns for state and local governments. Everything from work assignments to housing, food, and transportation must be coordinated so that volunteers can be sent where they are most needed. That encompasses both the response and recovery phases of disasters.

The sixth report was released in June 2008. *GulfGov Reports: The Role of Community Rebuilding Plans in the Hurricane Recovery* examined the regional and local recovery planning efforts undertaken in both Mississippi and Louisiana. The study found that the recovery momentum finally seemed to be accelerating. Rebuilding projects were well underway in most of the hardest hit communities, while areas that experienced rapid growth had expansion and improvement projects in place.

Initially, the rebuilding and growth plans examined in the study provided a way for members of the public to get involved in making decisions about the future of their communities. Now, the plans are providing the framework for the direction of the recovery. The study concluded that none of these plans was really necessary for recovery to take place. The communities damaged in the storms have been rebuilding in one way or another since the immediate danger passed. Local officials did not need a plan, for instance, to restore roads, water and sewer service, electricity, and other essential services. But they did need a plan to rebuild their communities in safer, stronger, and smarter ways.

The study also outlined some steps officials and residents can take that may help them begin the rebuilding process more quickly the next time a disaster strikes. Among them:

- A clearly defined disaster response plan should be in place well before a disaster strikes in an effort to shorten the time it takes a community to move into the long-term recovery aspect of a catastrophic event.
- The long-term recovery planning process should be started almost as soon as the immediate danger from the disaster has passed.
- Specific people within state and federal recovery offices should be designated as liaisons for local officials. These liaisons would be the key contacts for local officials as they try to navigate all the paperwork and other bureaucratic requirements necessary to gain access to recovery money.
- Federal recovery funding rules should be revised so that a new category is created to handle large-scale disasters. In addition, the application and disbursement procedures for that new category should be designed so as to allow the government to disburse recovery money as quickly as possible.