

# GulfGov Reports:

## Spending Federal Disaster Aid

Comparing the Process and Priorities in Louisiana and Mississippi  
in the Wake of Hurricanes Katrina and Rita



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## Spending Federal Disaster Aid Comparing the Process and Priorities in Louisiana and Mississippi in the Wake of Hurricanes Katrina and Rita



Public Affairs Research  
Council of Louisiana

Principal Author:  
Jennifer Pike

Research Director,  
Public Affairs Research  
Council of Louisiana



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The Nelson A. Rockefeller Institute of Government  
411 State Street  
Albany, New York 12203-1003  
[www.rockinst.org](http://www.rockinst.org)

Public Affairs Research Council of Louisiana  
4664 Jamestown Avenue, Suite 300  
Baton Rouge, LA 70808-4776  
[www.la-par.org](http://www.la-par.org)

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## Executive Summary

**A**mong the many types of federal disaster aid that have been sent to the Gulf Coast region in the wake of hurricanes Katrina and Rita, two major grant programs stand out both for the amount of money being funneled through them and for the flexibility they offer state and local governments trying to rebuild their communities. Specifically, the Federal Emergency Management Agency (FEMA) Public Assistance (PA) and the Community Development Block Grant (CDBG) programs are being used to help the affected cities, counties, parishes, and states. In some instances that means replacing severely damaged or destroyed buildings and infrastructure. In others, it means providing financial assistance for repairs to structures that can be salvaged. For officials in the devastated communities, the money is essential to their rebuilding processes. Yet the slow pace at which the FEMA PA grants and CDBG awards are being disbursed has proved frustrating to local governments at best and debilitating to their recovery efforts at worst.

*This report highlights some of the roadblocks Louisiana and Mississippi have been grappling with as they steer these somewhat flexible funding sources to the areas in need. Although Texas and Alabama also have received FEMA PA money and CDBG funding to help repair hurricane damage, neither state suffered the level of damage that Louisiana and Mississippi did. Consequently, they received considerably less federal money than the billions of dollars that have been set aside to help Louisiana and Mississippi. For that reason, the decision was made to exclude them from this study.*

*Both the FEMA PA and CDBG programs give state and local officials discretion in spending decisions while at the same time requiring compliance with federal guidelines. This report shows that variations in the process each state has used to set spending priorities have had an impact on the timeliness with which the money is being disbursed. The goal for state and local officials has been to strike a balance between expediency — the need to distribute the money as quickly as possible — and accountability — the need to make sure the money is used as it was intended. But this has proved to be a challenging and, at times, elusive goal.*

*Among the findings of the report:*

- 1. The amount of federal aid provided to Mississippi and Louisiana is not proportional to the amount of damage each state suffered.*
- 2. The sluggishness of aid distribution continues to be the primary concern of state and local officials in both states.*

3. *The reimbursement nature of the FEMA PA program generally means that local governments must pay for work out of their own pockets first. For those local governments left with little to no tax base or revenue sources, that means much of the recovery process is stalled because they do not have the money to start the federal aid flow. While both states now offer mechanisms for local officials to obtain advance payments to get work started, the effort required further slows the recovery process.*
4. *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 has tried to adapt existing programs to get the money flowing to the affected areas, it is evident from the continuing slow pace of the recovery more than two years after the storms that other avenues need to be explored.*
5. *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 nature of catastrophe is that rules that govern normal operations can be broken. Officials at every level of government find themselves in the uncomfortable position of having to balance the need for expediency with the need for accountability. Trying to achieve such a balance can foster creativity, as in the decision to use the CDBG program to distribute financial aid. It also can stall the recovery if officials overcompensate, as is the case with Louisiana’s multiple layers of rules for its homeowner grant program, designed to answer those who maintain the state is too corrupt to be trusted with that much money. In short, no recovery system can be designed to anticipate and accommodate all of these and other challenges of every stricken community. Nevertheless, lessons learned from the Katrina-Rita disaster can and should be studied closely to improve the nation’s disaster recovery policies and practices.*

# Spending Federal Disaster Aid Comparing the Process and Priorities in Louisiana and Mississippi in the Wake of Hurricanes Katrina and Rita

## Introduction

Damage from hurricanes Katrina and Rita has required unprecedented levels of federal disaster aid to the affected states and local governments. From the response to the recovery and rebuilding phase of these twin disasters, the states have relied upon federal aid to fund clean-up and construction projects. Federal aid also is being used for loans, grants, and tax incentives to the businesses and individuals who are working to make the damaged communities whole again. No aid program, however, was designed to meet the needs of such vast destruction as the storms of 2005 inflicted. Close examination of the funding processes and priorities set at the federal, state, and local levels throughout the recovery from these storms can yield important lessons for the future.

This report highlights some of the roadblocks Louisiana and Mississippi have been grappling with as they steer these somewhat flexible funding sources to the areas in need. Although Texas and Alabama also have received Federal Emergency Management Agency (FEMA) Public Assistance (PA) money and Community Development Block Grant (CDBG) funding to help repair hurricane damage, neither state suffered the level of damage that Louisiana and Mississippi did. Consequently, they received considerably less federal money than the billions of dollars that have been set aside to help Louisiana and Mississippi. For that reason, the decision was made to exclude them from this study.

Both the FEMA PA and CDBG programs give state and local officials discretion in spending decisions while at the same time requiring compliance with federal guidelines. This report shows that variations in the process each state has used to set spending priorities have had an impact on the timeliness with which the money is being disbursed. The goal for state and local officials has been to strike a balance between expediency — the need to distribute the money as quickly as possible — and accountability — the need to make sure the money is used as it was intended. But this has proved to be a challenging and, at times, elusive goal.

This report is part of the ongoing *GulfGov Reports* research project conducted by the Public Affairs Research Council of Louisiana and The Nelson A. Rockefeller Institute of Government under a grant provided by the Ford Foundation. The multi-year study is tracking the progress and recovery of several communities across Louisiana, Mississippi, and Alabama. At its conclusion, study researchers will be able to assess and draw conclusions about the governance issues and lessons learned from hurricanes Katrina and Rita.

## Landscape of Federal Disaster Aid

The amount of federal aid to Louisiana and Mississippi can change daily as cost estimates are adjusted and repair and rebuilding projects are approved or disqualified. The basic categories of federal aid include direct and indirect appropriations, FEMA funding to governments and individuals, Community

Development Block Grant funding, hazard mitigation funding, and a variety of loan and tax credit programs. This report focuses on two types of federal recovery aid: Community Development Block Grant funding and FEMA Public Assistance.

It often is reported that the federal government has allocated more than \$110 billion in aid for hurricanes Katrina and Rita. That amount is the total for five states, including immediate aid to individuals, flood insurance payouts, tax breaks, and emergency education, health care, and highway funding. It also includes funding allocated to loan programs like the Community Disaster Loan program and Small Business Administration loans. Some of the broad categories of aid include:

<b>IRS Tax Benefits</b>	<b>\$9.7 billion</b>
<b>FEMA Individual Assistance</b>	<b>\$9.1 billion</b>
<b>FEMA Public Assistance</b>	<b>\$7.0 billion</b>
<b>Department of Defense</b>	<b>\$6.2 billion</b>
<b>Department of Transportation</b>	<b>\$3.0 billion</b>
<b>Health Care</b>	<b>\$2.7 billion</b>
<b>Education</b>	<b>\$2.0 billion</b>
<b>HUD Community Development Block Grants</b>	<b>\$16.7 billion</b>
<b>National Flood Insurance</b>	<b>\$16.1 billion</b>
<b>Small Business Loans</b>	<b>\$10.3 billion</b>
<b>Hazard Mitigation</b>	<b>\$1.5 billion</b>
<b>Community Disaster Loans</b>	<b>\$1.0 billion</b>

SOURCE: “Hurricane Katrina: What Government is Doing,” March 2007, [www.dhs.gov/katrina](http://www.dhs.gov/katrina)

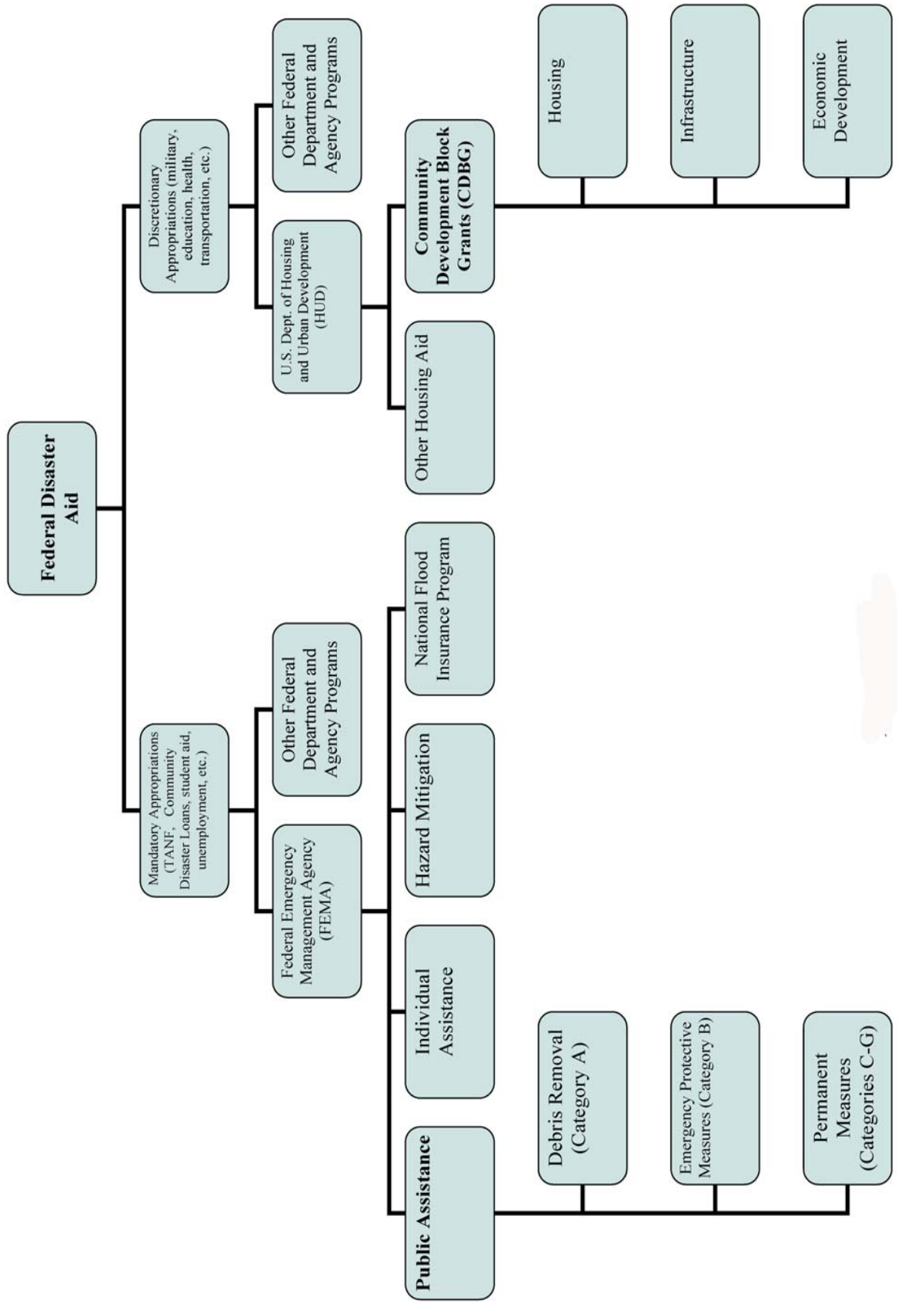
Figure 1 shows how the various types of aid are related.

Under the law, FEMA PA money is a mandatory federal expenditure in response to a disaster. The guidelines that govern its use are outlined in the federal Stafford Act. In essence, it is a cost reimbursement program that pays for debris removal and emergency repairs as well as longer-term aid needed to repair or replace damaged infrastructure. The CDBG program, in contrast, is overseen by the U.S. Department of Housing and Urban Development (HUD) and was not intended to be used as disaster aid. Traditionally, it has served as an annual source of funding to the states, which use the money to disburse grants to local governments and nonprofit organizations to invest in low- to moderate-income communities. Before Katrina and Rita, both Louisiana and Mississippi received an average of \$30 million to \$35 million in CDBG money each year. In the wake of the storms, the federal government determined that the CDBG program offered an accessible source of relatively flexible funding that the states could use to fill the gaps left after other FEMA aid had been allocated.

Since both the FEMA Public Assistance and CDBG programs are project-specific, they best demonstrate federal, state, and local rebuilding priorities. In contrast to other forms of federal aid that are sent directly to state agencies or individuals, the distribution of CDBG and FEMA PA funding is more discretionary in that they both require officials at all levels of government to decide which individuals, business owners, or building projects will receive the money. Federal officials set the amounts available to spend on the front end and can



Figure 1. Landscape of Federal Disaster Aid



rescind that money if they deem it to have been spent inappropriately. State and local officials are responsible for identifying the entities and individuals in need, coordinating funding requests, and ensuring that federal guidelines are met. Because of the level of state control involved, the CDBG and Public Assistance programs are the most visible and often most controversial of the federal aid programs.

In general, the CDBG funding is being used to meet recovery needs that other types of private and federal disaster aid are not. These grants provide assistance for projects or portions of projects that neither FEMA Public Assistance nor any other type of public or private insurance program will fund. Estimates of the amount of money necessary to restore all of the damaged communities span a wide range, but all call for billions of additional dollars beyond what already has been allocated. Although the federal government has set aside CDBG funding for the affected states, state and local officials have been left to determine how best to use those funds within the guidelines established by federal officials and the unique needs of their communities. It is a painstaking process that requires aligning two sets of complex federal regulations. Two years after the storms, projects are still being determined across the affected areas, and damage is still being assessed.

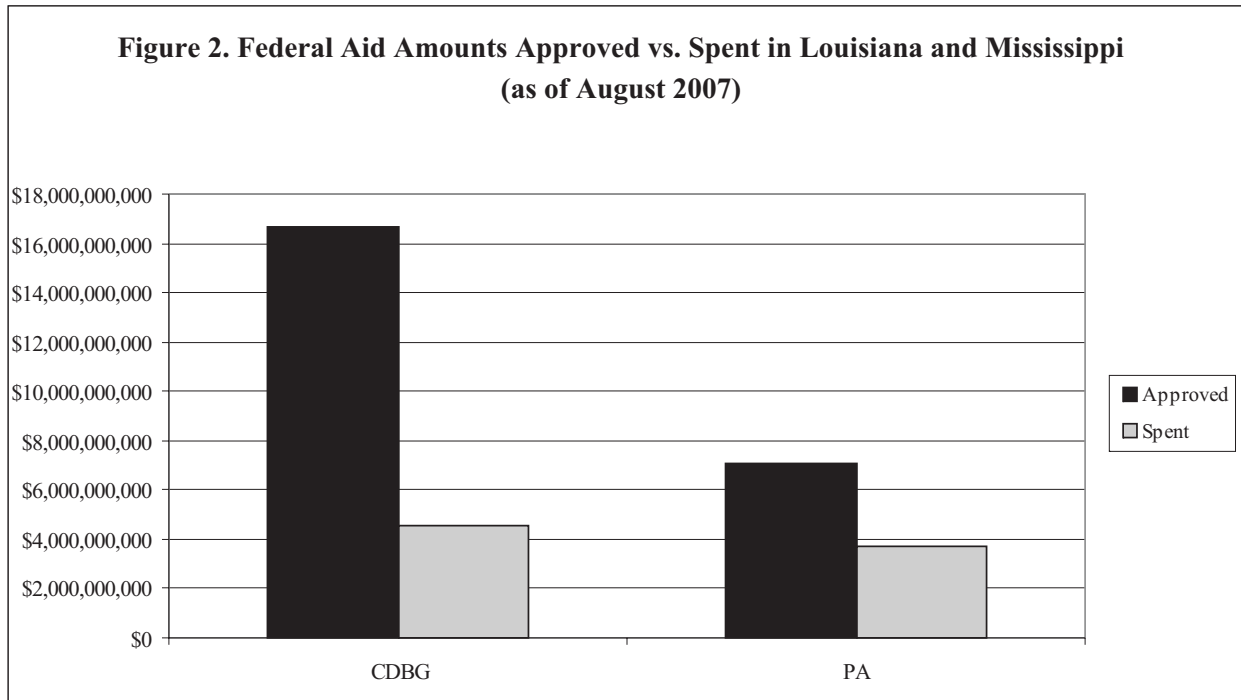
One example of a rebuilding project eligible for funding from these two sources is a destroyed school building. Once the initial project approvals are in and cost estimates are established, FEMA PA funding will reimburse construction costs to rebuild the structure to its pre-storm condition. Reimbursement and pre-storm condition are the important caveats that often leave a major gap in funding the replacement of destroyed public structures. A schoolhouse built in the 1960s with \$500,000 in deferred maintenance costs, for example, cannot be replaced with available FEMA PA funding. Further, to begin reconstruction, local officials must have a separate source of start-up funding.

CDBG funding can be used to pay for costs not covered by FEMA — such as deferred maintenance and modernization. However, to get the money, local, state, and federal officials all must agree on the magnitude and use of the funding. Where state and federal officials come to agreement on guidelines for use, state and local officials must agree on magnitude, which means determining which communities get less and which get more.

Much of the federal disaster aid spent to date has been used to address initial emergency needs like clearing debris, providing shelter, and repairing roadways. But many projects like replacing housing stock and public buildings, providing gap funding for recovering businesses, and repairing damaged infrastructure are barely underway. While Congress has set aside some \$110 billion for aid to all of the states affected by the hurricanes — Alabama, Florida, Louisiana, Mississippi, and Texas — much of it remains tied up in the bureaucratic process, and frustration with the pace of the recovery mounts.

Figure 2 compares the amounts approved for spending in the CDBG and Public Assistance programs to the amounts actually spent by the two states as of August 2007. Most public infrastructure rebuilding projects are still in the planning stages and few homes have been rebuilt.

State by state, it is more meaningful to compare spending processes and priorities rather than pace. Both Louisiana and Mississippi lost lives, homes, buildings, roadways, tourists, and businesses as a result of the storms, but on every measure the counts are higher in Louisiana. The pace of recovery has lagged behind



**SOURCE:** CDBG data from “Semiannual Report to Congress, October 1, 2006 through March 31, 2007,” U.S. Department of Housing and Urban Development, Office of Inspector General and Louisiana Office of Community Development and Mississippi Development Authority; FEMA data from Mississippi Emergency Management Agency (MEMA) and the Louisiana Recovery Authority (LRA).

**NOTE:** CDBG disbursements were calculated using March 2007 totals for all programs but housing. Housing disbursements through August 2007 were included, because housing payments increased greatly between March and August. Disbursements through August for the other programs were unavailable.

expectations in both states, particularly in the hardest hit areas where the sheer numbers of homes and public buildings destroyed make programs designed to rebuild them more cumbersome to plan and implement.

As was noted previously, FEMA Public Assistance is a cost reimbursement program that pays for initial debris removal and emergency repairs as well as longer-term aid. By August 2007, approximately \$7 billion had been obligated to Louisiana and Mississippi with about 70 percent for Louisiana projects. There is no federal cap on the PA program, and all eligible projects are entitled to funding. However, before any money is spent, officials must determine which projects are eligible and how much of their costs will be reimbursed.

The CDBG program was tapped by Congress as a way to funnel additional aid to the states for projects outside of what is paid for by FEMA. Each state was allowed to decide how best to spend these funds within U.S. Department of Housing and Urban Development (HUD) regulations. The \$16.7 billion in funding was made available in two separate congressional appropriations, with \$10.4 billion set aside for Louisiana and \$5.5 billion for Mississippi. Each state is limited to these amounts for the CDBG program unless Congress appropriates additional funding. Table 1 shows how the funding was divided among the states.

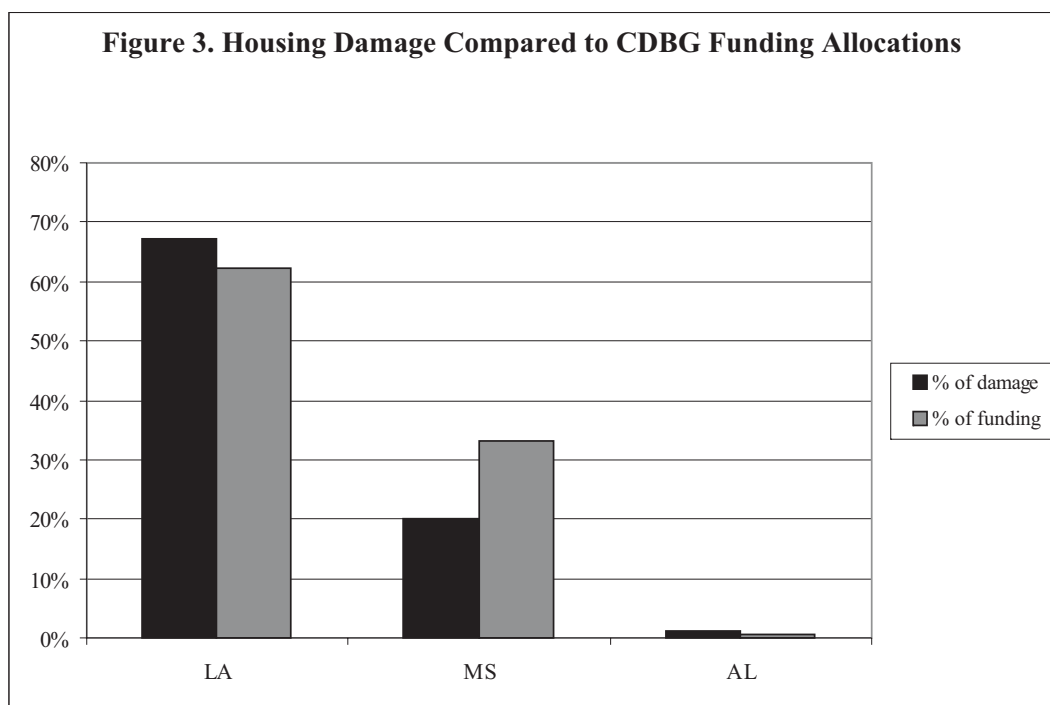
Both states still are determining how best to spend their money. While the bulk of Public Assistance projects at least have been identified and requested in both states and most of CDBG funding has been

	<b>December 2005</b>	<b>June 2006</b>	
<b>LA</b>	6,200,000,000	4,200,000,000	<b>10,400,000,000</b>
<b>MS</b>	5,100,000,000	423,036,059	<b>5,523,036,059</b>
<b>FL</b>	83,000,000	100,066,518	<b>183,066,518</b>
<b>TX</b>	75,000,000	428,671,849	<b>503,671,849</b>
<b>AL</b>	74,000,000	21,225,574	<b>95,225,574</b>
<b>TOTAL</b>	<b>11,500,000,000</b>	<b>5,200,000,000</b>	<b>16,700,000,000</b>

**SOURCE: "Research Works," October 2006 and November 2006, U.S. Department of Housing and Urban Development.**

divided among a handful of broad spending categories, debate continues over how and how much of the money actually will make its way into the pockets of residents.

It is useful to compare the amount of aid allocated in each state to some measure of damage level in order to establish the comparative magnitude of aid. Damage levels are most commonly measured in terms of number of households affected or homes destroyed. Figure 3 shows the housing damage levels in Louisiana, Mississippi, and Alabama, according to a HUD study completed in February 2006.

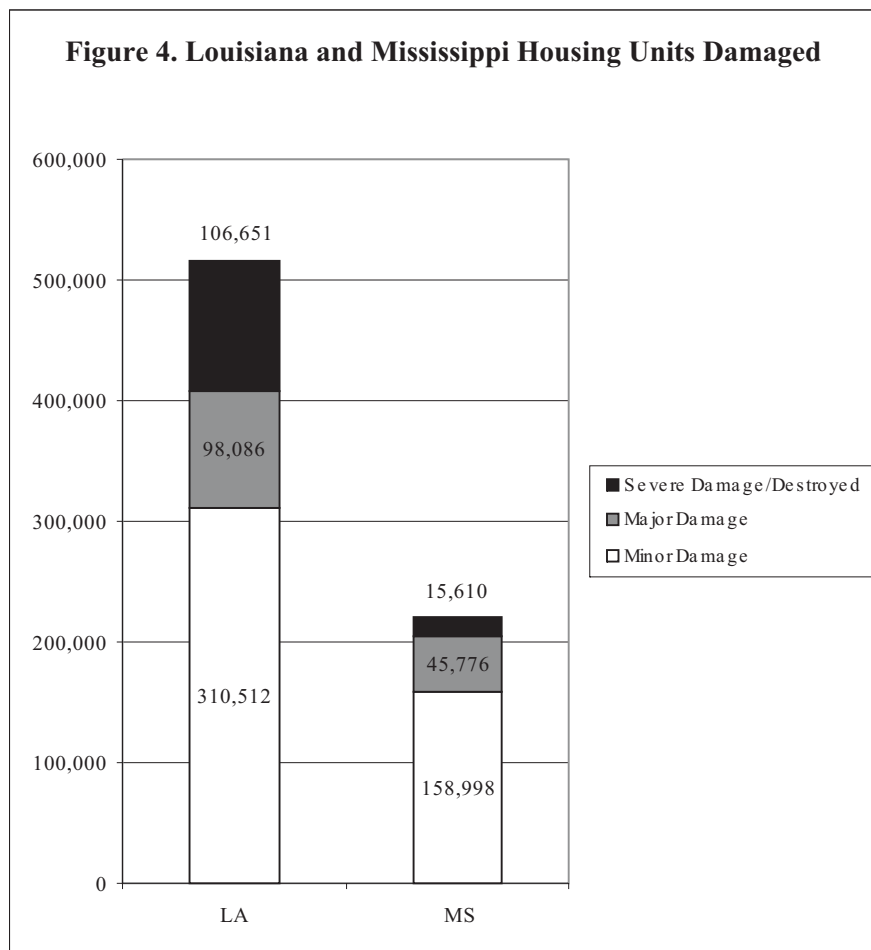


**SOURCE: HUD Current Housing Unit Damage Estimates: Hurricanes Katrina, Rita, and Wilma, February 12, 2006, and "Research Works," October 2006 and November 2006, U.S. Department of Housing and Urban Development.**

Louisiana suffered 67 percent of the major and severe housing damage and received 62 percent of the CDBG funding, while Mississippi suffered 20 percent of the damage and received 33 percent of the funding. Florida, Alabama, and Texas each suffered proportionally more damage than they received in CDBG funding. Housing damage is measured as the percentage of units that received moderate to severe damage from hurricanes Katrina, Rita, and Wilma compared to the total number of units that received such damage in the affected area. The HUD housing damage estimates define the damage levels as follows:

- Minor Damage: It would cost less than \$45,200 to make the home livable but not necessarily fully repaired.
- Major Damage: The extent of damage lies somewhere between minor and severe.
- Severe Damage: The home is half-destroyed or worse.

Figure 4 shows the levels of housing damage in Louisiana and Mississippi. The majority of housing damage in both states was classified as minor, but 40 percent of the damage in Louisiana was classified as major or severe, while 28 percent was in Mississippi.



SOURCE: HUD Current Housing Unit Damage Estimates: Hurricanes Katrina, Rita, and Wilma, Feb. 12, 2006.

## Community Development Block Grants

CDBG funding is considered the most flexible type of federal recovery aid. The primary restriction on CDBG programs is that they must target low- to moderate-income populations. The three broad programmatic categories for which CDBG funding is being used in each state are housing, economic development, and infrastructure. By August 2007, each state had allocated — but not spent — most of the CDBG funding available. In Louisiana, there was about \$158 million left to allocate, and in Mississippi \$131 million.

### Setting Spending Priorities

Each state established its own method to decide how to spend the CDBG money. In Louisiana, the Office of Community Development is normally responsible for CDBG programs, and in Mississippi it is the Mississippi Development Authority. Both offices are tied closely to their respective governor's offices, and in Mississippi the programmatic design process was much the same as it was prior to the storms, though on a much larger scale.

In general, the CDBG grant spending process was set up so that each state develops broad plans — known as partial action plans — for how it will use the available funds. These partial action plans are made available for public comment and then submitted to HUD for approval. Once approved, more specific guidelines for implementation must be developed and approved before programs can get underway.

The major difference in how the two states made CDBG funding decisions is that Louisiana used a consensus-building method and Mississippi used more of a top-down approach with the governor positioned at the top. Mississippi used the existing CDBG decision-making structure to develop its programs for submittal to HUD for approval. In contrast, Louisiana added several layers to the planning process and included its Legislature. The approach taken by Mississippi allowed for a quicker design of spending plans so the programs could start more quickly.

Mississippi's more centralized approach also seems to have generated less debate over spending decisions. Louisiana's process of building consensus among the governor's administration, the Legislature, and the public generated prolonged debate and lobbying efforts as the broad outlines were developed. Further, that level of involvement and critique was sustained into the implementation phase of the programs. Particularly for the housing grant program, the level of scrutiny and controversy in Louisiana was (and continues to be) far greater than that in Mississippi.

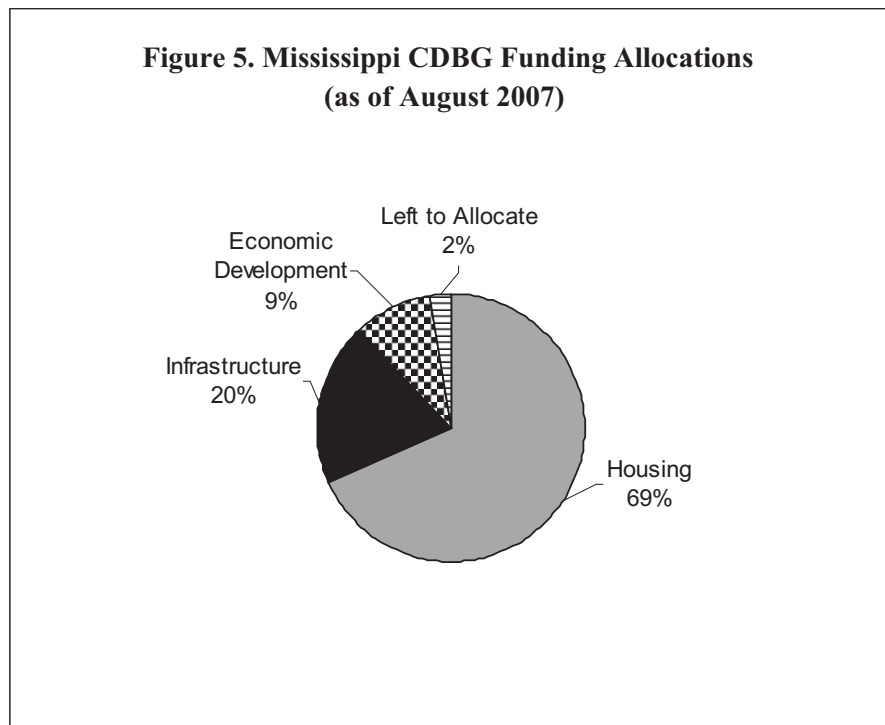
In Mississippi, the Mississippi Development Authority developed the partial action plans under the direction of the governor. From there, the plans went to HUD. At an early point in the recovery process, the Mississippi Legislature sought to have input into the state's CDBG spending decisions, but the governor quashed the effort. In Louisiana, the partial action plans were initiated by the Louisiana Recovery Authority (LRA). The LRA was created in the wake of the storms as the planning and coordinating body for the state's recovery and is made up of a board of four legislators and 33 volunteers appointed by the governor. CDBG spending priorities are researched, developed, and recommended by the LRA. The Louisiana Office of

Community Development, which is under the governor’s office, then drafts the plans and makes them available for public comment. The plans are submitted to the Legislature for approval and then sent to HUD.

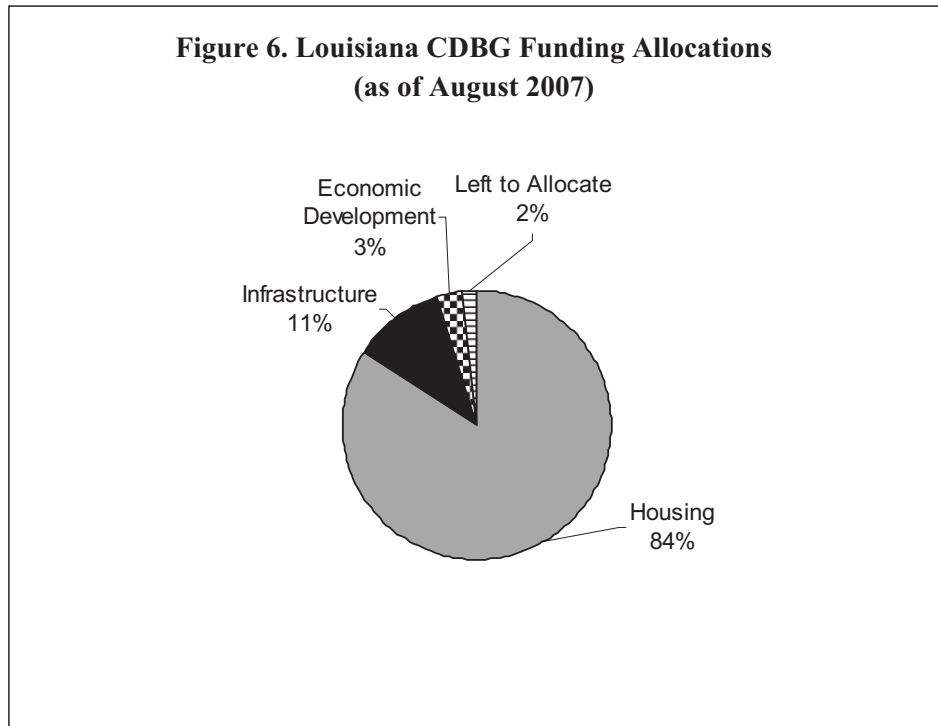
The spending decision process was so politicized in Louisiana that, at one point, it was debated whether submitting the partial action plans to the relevant legislative committees should be required. The decision was made to include committee approval and then the debate turned to one over whether the committees could amend the spending plans. That also was included.

A benefit to Louisiana’s more inclusive approach is that it is transparent — to a point. The LRA held monthly meetings at which public interest groups were allowed to voice their concerns about the spending priorities being recommended and the partial action plans in development. Though time was limited, the overall sense was that most factions were able to offer comments. This was particularly important throughout the development of the housing programs. But, due to the complexity of some of the CDBG programs, even this open process was useful only to those who could spend the time and effort necessary to understand them fully.

Figures 5 and 6 show the basic CDBG funding priorities set in each state.



SOURCE: Mississippi Development Authority (MDA)



SOURCE: Louisiana Recovery Authority (LRA) and Louisiana Office of Community Development.

### Housing Programs

Among the topics discussed in determining how to spend CDBG money in the wake of Katrina and Rita, housing recovery generated the most visible debate. In both Louisiana and Mississippi the housing grant programs account for the majority of the CDBG funding (see figures 5 and 6), and each state took a different approach to designing its grant program. In Mississippi, \$2.3 billion was initially set aside for approximately 35,000 homeowners who were insured and lived outside of the flood plain. In Louisiana, \$6.3 billion was set aside to aid 123,000 homeowners regardless of insurance and location relative to the flood plain. Both programs were expanded in 2007 to cover more applicants.

The Louisiana program was designed to be more comprehensive from the start, while Mississippi started with a more narrowly tailored program and then developed a second phase that expanded eligibility to a different group of homeowners. The Louisiana program offered coverage regardless of the type of damage (wind or flood), whether the home was insured, or whether the home was inside the flood plain. The Louisiana program also applied different calculation formulas depending on whether the homeowner was rebuilding, relocating, or selling the home.

The first Mississippi program was less complex than Louisiana’s and offered grants only to homeowners whose houses were outside the flood plain and were damaged by flood waters. The second phase of the Mississippi program offered grants to low-income applicants in or out of the flood plain, regardless of whether their homes were inside or outside of the flood plain, and regardless of whether they



had flood insurance. By August 2007, \$77 million had been distributed to 1,107 applicants to that program. The program allocation for the second phase is \$700 million.

Demand for the Louisiana program was underestimated initially. By August 2007, there were 184,024 valid applicants to the program, which was designed to meet the needs of 123,000. In the summer of 2007 the state dedicated an additional \$1 billion to the Road Home program to try to meet the estimated \$5 billion funding shortfall. HUD officials blamed the shortfall on Louisiana’s decision to compensate homeowners for damage caused by wind in addition to flood. That program feature had been approved by HUD. Although many — including Louisiana’s Democratic governor — decried the potential policy change as a partisan ploy, the controversy is more indicative of the difficulty the state and federal governments continue to have in communicating with each other.

In an effort to fill the housing program funding gap, Louisiana shifted some of its CDBG allocations from other programs. The state also appropriated \$373 million in state funds to increase funding to the program by a total of \$1 billion as requested by Congress. State officials are counting on additional funding from Congress to fill the remaining gap, so that eligible applicants will not be denied their grant awards.

### ***Implementation Problems of the Housing Programs***

There has been much comparison of the pace with which each state’s program distributed the awards. The number of awards distributed by the Mississippi program, which started in March 2006, quickly reached into the thousands while the Louisiana program stalled at a little over 100 by the end of 2006. The Louisiana program began in June 2006. The delay was due to a need for an additional congressional appropriation of CDBG funding to fund the program fully. The pace of grant distribution did not begin to quicken until spring 2007. As of August 2007, Louisiana had received 227,969 applications, while Mississippi had received 27,279. Louisiana had held 41,910 grant closings compared to Mississippi’s 15,440 and had paid out \$3 billion compared to Mississippi’s \$1 billion.

In late December 2006, Louisiana changed some key aspects in its Road Home program regarding property appraisals to speed up the distribution of grants to homeowners. Nuances in the New Orleans real estate market prevented standard mass appraisal systems from accurately estimating pre-storm values because houses of similar size in similar locations had widely varying market values. The following changes were made as homeowner complaints reached a crescendo and distributions seemed stalled at around 100 grant closings at the end of 2006:

- Accept post-storm appraisals for pre-storm value.
- Incorporate file data from Louisiana licensed appraisers in the storm zone.
- Obtain appraisals performed in the storm areas from Fannie Mae, Freddie Mac, the Federal Housing Administration, and other agencies.

HUD decided in March 2007 to require Louisiana to distribute lump-sum payments to homeowners without mortgages. The plan as originally approved by HUD authorized the state to place grant awards in escrow accounts managed by lending institutions from which homeowners could draw in order to make

repairs. This was an effort to ensure that repairs were made and to limit contractor fraud. The Mississippi program distributed lump-sum awards from the start.

Even after the pace of grant awards quickened by the spring of 2007, homeowners continue to report that calls to program managers often go unanswered, disputes have been difficult to settle, and case managers explain rules and requirements inconsistently. While program officials report statistics to show progress on dispute resolution, the public's dissatisfaction with the results continues. A push by some members of the Legislature to fire the management company was scrapped for fear of causing further delay.

Another weakness in the Louisiana program has been the lack of penalties in the contract for the company overseeing the Road Home program. Its contract was written in such a way that only long-range timelines were established at the outset. Because the scale of the program is so large and unprecedented, state officials allowed a great deal of flexibility in setting performance goals for the company.

Similar complaints about low home value estimates in the Mississippi program led to the implementation of policy changes in October 2006 that allowed additional appraisal methods to be used to recalculate the amount of final awards. Other policy changes in the early stages of the Mississippi program included adjustments to increase grant amounts to cover higher construction costs, extending the appeal deadline, and streamlining the appeal process. Mississippi's program also has come under heavy criticism for giving contracts to three state legislators. HUD officials were not happy about the contracts and indicated they planned to investigate.

### **Other Housing Programs**

The homeowner assistance grant programs are complemented by other housing programs in each state. Table 2 lists all the programs outlined in partial action plans in both states. These programs offer assistance to provide building code enforcement and inspection services, elevate homes, rebuild housing for special needs populations, and prevent fraud. Louisiana also has programs to offer loan and grant incentives to developers, make loans and grants for rental property repair, support faith- and community-based housing programs, and pay for land assembly operations to package property for redevelopment. Mississippi recently started up an assistance program for rental property owners.

## **Infrastructure**

The infrastructure programs funded by CDBG money totaled \$1.046 billion in Mississippi and \$1.1 billion in Louisiana. The bulk of funding for infrastructure in Mississippi was allocated to develop regional water and wastewater management systems. More than \$600 million was allocated to the Gulf Coast Regional Infrastructure Repair program and the emergency fund for regional water, sewer, and storm water utility authorities.

The bulk of infrastructure funding in Louisiana, just over \$900 million, was dedicated to local repair projects — primarily to replace or repair lost and damaged structures. That total was initially larger, but the federal waiver of the matching fund requirement by FEMA for the PA program allowed the state to shift

<b>Table 2. Spending Plans for Community Development Block Grant Funds for Disaster Recovery, MS and LA (as of August 2007)</b>			
<b>MS Programs in millions</b>		<b>LA Programs in millions</b>	
<b>Mississippi Development Authority</b>	<b>\$5,500</b>	<b>Office of Community Development</b>	<b>\$10,400</b>
<i>Housing</i>	<i>\$3,615</i>	<i>Housing</i>	<i>\$8,568</i>
Homeowner Assistance Grant Program Phase I	\$2,300	Homeowner Assistance Grant Program	\$6,973
Homeowner Assistance Grant Program Phase II	\$700	Code Enforcement	\$11
Elevation Grants	\$250	Homeless Shelter Infrastructure and Services	\$26
Local Assistance (code enforcement and inspections)	\$5	Developer Incentives — piggyback	\$581
Office of Fraud Prevention and Investigation	\$5	Supportive Services (special needs housing)	\$73
Public Housing Program	\$105	Housing Development Loan Fund	\$17
Small Rental Assistance Program	\$250	Land Assembly Operations	\$2
		Support to Faith- and Community-Based Programs	\$2
		Small Rental Property Repair Program	\$866
		Start-Up Housing Costs	\$17
<i>Infrastructure</i>	<i>\$1,046</i>	<i>Infrastructure</i>	<i>\$1,132</i>
Emergency Fund (water/sewer/storm water-related infrastructure)	\$25	Local Government Infrastructure	\$475
Gulf Coast Regional Infrastructure Repair Program	\$581	Public Primary and Secondary Education Infrastructure	\$200
Wind Pool Mitigation Program (property insurance)	\$80	Private and Nonprofit Schools, Colleges, and Universities	\$38
Ratepayer Mitigation Program (electric and gas utilities)	\$360	Long-Term Community Planning	\$200
		Utility Relief	\$200
		Fisheries Grants and Infrastructure	\$19

<b>Table 2. Spending Plans for Community Development Block Grant Funds for Disaster Recovery, MS and LA (as of August 2007) (Continued)</b>			
<b>MS Programs in millions</b>		<b>LA Programs in millions</b>	
<i>Economic Development</i>	\$500	<i>Economic Development</i>	\$330
ED Grants and loans for job creation	\$340	Louisiana Bridge Loan Program	\$46
Community Revitalization to rebuild downtowns	\$150	Small firm recovery loan and grant program	\$112
Community Planning for certain counties	\$10	Technical Assistance to Small Firms	\$10
		Long Term Recovery Loan Program	\$68
		Louisiana Tourism Marketing Program	\$29
		Recovery Workforce Training Program	\$38
		Research Commercialization and Educational Enhancement Program	\$29
<i>Administration</i>	\$209	<i>Administration</i>	\$212
<b>Total Allocated</b>	<b>\$5,370</b>		<b>\$10,242</b>
<b>Left to Allocate</b>	<b>\$131</b>		<b>\$158</b>

some infrastructure funds to the housing program. Local officials had hoped the set-aside for matching funds would be shifted to other local rebuilding projects. State officials estimate Louisiana still has more than \$2 billion in unmet infrastructure needs.

Both states set aside large portions of their infrastructure funding for utility repairs. Mississippi’s ratepayer mitigation program offered \$360 million to electric and gas utility companies to reduce the impact of repair costs on ratepayers. Louisiana had a similar program for relief to Entergy-New Orleans, which received \$200 million for repair costs.

Mississippi also established an \$80 million wind pool mitigation program for residential and commercial property insurance relief. Louisiana did not allocate any CDBG funding for insurance relief, although \$239 million in state revenue was set aside to fund a tax credit program to compensate citizens for some rate increases directly related to the storms.

### Economic Development

Another area where the state decision-making process has had significantly different effects is in economic development. Mississippi and Louisiana both dedicated some of their CDBG funds to economic development projects. In Mississippi, that amount totals \$500 million, which is higher than the \$330 million

allocated for economic development in Louisiana. The bulk of the Mississippi funding, \$340 million, is for grants and loans for job creation. The bulk of Louisiana's funding, \$235 million, is set aside for bridge and long-term recovery loan and grant programs for private businesses. Other programs provide funding for tourism marketing and research support at higher education institutions.

## Issues Between States and HUD

A primary goal of the CDBG program at the federal level is to provide assistance for citizens at the low- to moderate-income levels. In normal operating environments, grant recipients are challenged to document carefully the income levels of the clients served by their programs. The low- to moderate-income requirement was expected to hinder development of the disaster programs. Upon initial appropriation of the funding, Congress authorized a general waiver allowing the requirement to be lowered from 70 percent of funding to 50 percent of funding for the amount that must be spent on low- to moderate-income recipients. This adjustment was sufficient for Louisiana, where the affected population was of significantly lower income levels than in Mississippi. Mississippi, on the other hand, has had to seek waivers for many of its programs that will not serve a sufficient number of low- to moderate-income recipients. Mississippi officials said HUD has been cooperative in granting the additional waivers.

Officials in both states said cooperation between community development officials and HUD has been reasonably good — until the criticism of Louisiana's housing program began in the spring of 2007. To that point, HUD had not requested any major alterations to the spending plans developed by the states.

A separate controversy was settled when Louisiana withdrew its request for \$300 million in CDBG money to rebuild the charity hospital in New Orleans. Legislative involvement in the development of the spending plan for the project led to an increase in the allocation from \$74 million to \$300 million, prompting calls from private stakeholders and some state officials for HUD — as final gatekeeper for the funds — to reject the plan at least until a business plan for operation of the facility was developed. Unhappy at the negative reaction the request drew from the U.S. Department of Health and Human Services, Louisiana ultimately decided to use its own money to begin the hospital project.

The charity hospital decision may have set an important precedent as the intergovernmental roles in setting rebuilding priorities and policies are established for future disasters. The question is whether rebuilding funds can or should be used to promote policy reforms and whether federal officials should intervene in the development of those reforms. At stake in the hospital dispute is whether Louisiana should rebuild the centerpiece of what many critics contend is a failed health care system and many proponents argue is the only way the poor can have access to adequate health care.

## Issues Between States and Recipient Entities (Governments, Businesses, Individuals)

The sluggishness of aid distribution is the primary concern of the states and the intended funding recipients. Small business owners in the devastated areas of Louisiana have been calling for quick infusions of cash to keep their operations afloat until their populations return — but the programs were slow to get off

the ground and the resources dedicated have fallen far short of demand. Homeowners are begging for grant payments to begin reconstruction, and the Louisiana rental property repair program was only approved in February 2007. The slow pace of getting the CDBG funds from the federal to local level is influenced by many factors, including fraud prevention measures, understaffing, and multiple layers of bureaucracy — all of which also create delays in the distribution of FEMA PA funding.

## FEMA Public Assistance

### Pace and Magnitude

No state has ever processed the number of FEMA PA grant requests that the storms of 2005 have required. Through August 2007, \$4.9 billion in FEMA Public Assistance money had been obligated to Louisiana and \$2.2 billion had been obligated to Mississippi. Because the PA program offers primarily reimbursement grants, FEMA payments are not made until the funds are spent by state and local governments. By August 2007, 52 percent of the eligible amounts had been reimbursed in both states.

The pace of aid distribution from the federal to the local level in Louisiana and Mississippi is roughly equal. But local officials in Louisiana expressed much more frustration with the pace of reimbursements than officials in Mississippi. At the end of 2006, this was the cause of an extended finger-pointing campaign in Louisiana, where local and FEMA officials blamed state officials for holding up the recovery with red tape. Over-burdensome accounting procedures and an unwillingness to advance funding were cited as problems. With only half of the obligations spent in each state, it is evident that rebuilding in both states is challenged. At the top of the list of challenges for each state are rising construction costs, funding projects until reimbursement is made, and ensuring mismanagement of funds is prevented.

Table 3 shows the amounts of eligible FEMA PA grants for each state and the two most heavily affected counties/parishes in each state. The difference in the scale of the programs required to manage the flow of this assistance is demonstrated by a comparison of the number of projects in each location. Louisiana had nearly twice the number of approved projects as Mississippi. And the most heavily affected county in Mississippi, Harrison County, is managing only 35 percent of the number of projects and 48 percent of the amount of FEMA PA funding as Orleans Parish, the most heavily damaged Louisiana parish in terms of sheer numbers. But these comparisons matter little to the overwhelmed officials in both states charged with securing this aid. For them, the at-times agonizingly slow pace of reimbursement is exceeded only by the amount of time and resources they have to spend on the necessary documentation and policy navigation.

### Project Purposes

Public assistance grants are given for certain categories of projects as outlined by the federal Stafford Act. Grant guidelines restrict the award recipients to governmental and certain nongovernmental entities and require that a portion of the costs be shared by the state or local level governments. The categories (A through G) can be roughly divided according to short-term and long-term needs, with the federal government paying for 100 percent of categories A and B through the first six months following a disaster.

<b>Table 3. Eligible Public Assistance for Louisiana and Mississippi, August 2007</b>		
	<b># Project Worksheets</b>	<b>Total PA Eligible</b>
<b>LA</b>	<b>20,431</b>	<b>\$4,914,655,213</b>
<b>Orleans Parish</b>	6,107	\$1,345,225,800
<b>St. Bernard Parish</b>	655	\$749,194,224
<b>MS</b>	<b>10,701</b>	<b>\$2,170,826,511</b>
<b>Harrison County</b>	2,108	\$649,126,538
<b>Hancock County</b>	854	\$396,291,332

Extensions for the 100 percent cost reimbursement were granted to both states for certain counties and parishes through the end of 2006. After that, local governments were expected to pay 10 percent of the cost, with the federal government picking up the other 90 percent. For categories C through G, the normal cost-share ratio is 75 percent federal government, 25 percent local or state government. However, federal guidelines allow the required match for these categories to be reduced to 10 percent when damage levels exceed \$110 per capita in the affected areas.

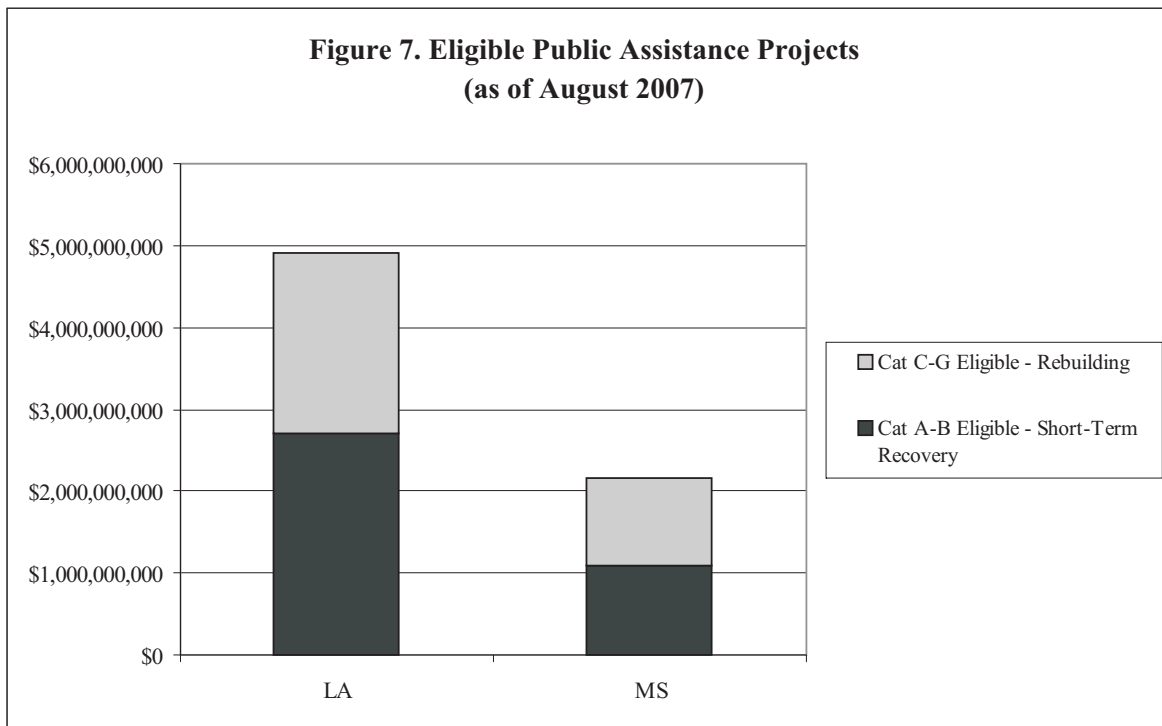
The categories of FEMA PA grants are outlined below.

- **Category A: Debris Removal** — Collection and disposal of immediate threats to life, health, and safety. Debris removal from private property is the responsibility of the individual property owner.
- **Category B: Emergency Protective Measures** — Eliminates or reduces immediate threats and hazards. Projects include search and rescue missions, emergency medical care, shelters, emergency operations centers, and temporary infrastructure repairs.
- **Category C: Road and Bridges**
- **Category D: Water Control Facilities** — Includes such infrastructure as pumping facilities, dams, reservoirs, drainage canals, and levees.
- **Category E: Buildings and Equipment** — Building contents are included.
- **Category F: Utilities** — Electrical, water, and sewer systems are eligible only if publicly owned.
- **Category G: Parks and Recreational Areas** — Natural features are not eligible unless they are improved and maintained. Replacement of trees and landscaping is not covered.

Debris removal in most of the communities affected by the storms has been completed. A few — such as St. Tammany and St. Bernard parishes — continue to disagree with FEMA over who should pay to clear the debris out of clogged canals and bayous. And in New Orleans, thousands of structures still need to be

demolished and the debris removed. Beginning in 2007, FEMA reduced the reimbursement for categories A and B from 100 percent to 90 percent of the cost of these projects until Congress retroactively waived the local match requirements.

Figure 7 shows the portion of FEMA PA funding in each state dedicated to short-term recovery and long-term rebuilding projects. Nearly all PA funding that has been spent and reimbursed in both states is for projects in categories A and B. The bulk of projects in categories C through G are barely underway. In Louisiana, 45 percent of Public Assistance projects are in categories C through G; in Mississippi the portion is 50 percent.



SOURCE: Louisiana Recovery Authority (LRA)

### Issues With FEMA

Several issues have surfaced that create problems for state and local governments receiving FEMA PA grants.

#### Matching Funds

Following a particular deadline, usually six months after a disaster (but extended several times for both Hurricane Katrina and Hurricane Rita), the federal cost share for repairing and replacing public infrastructure (and some nonprofit infrastructure) decreases from 100 percent to 90 percent. In essence, the PA program is designed so that the FEMA fully covers the cost of the initial response like debris removal



and immediate repairs, but recipients must cover a portion of the costs for other projects that cannot be immediately completed or even initiated.

However, the matching costs have been waived in past major disasters, such as 9/11 and Hurricane Andrew. For this disaster, matching costs were not waived until May 2007 following prolonged resistance from the White House to the additional aid. The legislation passed to waive the costs also allowed forgiveness of the federal Community Disaster Loans awarded to local governments for operating expenses (also normal protocol in most major disasters).

To cover the matching requirements, Louisiana had set aside \$800 million of its CDBG funding. Freeing up that money will allow Louisiana to spend additional dollars on rebuilding the most devastated areas and to help fill the funding gap in the Road Home homeowner grant program.

### **Cost Estimates**

In addition to the federal match waiver, officials in both Louisiana and Mississippi have been struggling with escalating project costs. Officials in both states estimate that projects actually are being bid 150 percent to 300 percent above the initial cost estimates done by FEMA staff. If project costs are underestimated, there is a mechanism for the state and local governments to request a cost adjustment to ensure the federal government pays the full amount, but getting approval for the re-estimates usually causes more delays in the projects. Most contractors will not begin work until they are certain the full funding is available. So far, officials in both states report that FEMA is amenable to adjusting costs upward, but the bulk of estimates has yet to be challenged because construction has not started.

### **Project Eligibility**

Not only are costs adjusted well into project construction, but project eligibility continues to be questioned. Officials in both states report difficulties with getting firm commitments from FEMA regarding project eligibility.

The inspector general (IG) for the U.S. Department of Homeland Security has begun auditing projects for their eligibility for federal aid and the appropriateness of costs already approved. When the IG finds a problem, the funding that has been granted and spent in many cases is de-obligated — meaning that any money paid out must be refunded to the federal government by the states. State officials then are left to try to recoup that money from struggling local governments.

The system as it is now leaves the state governments responsible for unrecoverable funds that were granted by FEMA and spent with FEMA approval. The current solution is to have lower levels of government pay for FEMA's incorrect estimates. Mississippi has encountered this problem with certain obligations to electricity co-ops that do not have the funding to repay the state. In Louisiana, the replacement of two schools was de-obligated, leaving the local school district to pay for reconstruction planning that already had started. This issue has only begun to surface and is likely to have an impact on state and local budgets.

## Staffing

Turnover among FEMA field staff is another problem that state and local officials in Louisiana and Mississippi cite repeatedly. The nearly constant turnover is blamed for the delays in getting projects approved, accurate costs estimated, and construction underway. As the bulk of rebuilding begins, access to a stable group of FEMA staff who can adjust cost estimates quickly will be necessary.

## Advance Funding

Another reason that much of the work for categories C through G has yet to begin is that local governments do not have sufficient revenues to supply the upfront funding required. Many local governments throughout the Gulf Region responded swiftly in the immediate aftermath of the storms and made substantial initial progress; however, without state and federal assistance, recovery efforts in many communities have slowed or stalled. Louisiana and Mississippi have developed different programs for dealing with this problem. Mississippi has a standard practice for every disaster in which recipients can request advance payments to get started on projects. Because this disaster was so large and the locals were so cash-strapped, the state advanced between 75 percent and 90 percent on some projects before actual FEMA reimbursements were made.

By late 2006, Louisiana also had developed a process for local governments to get advance payments, yet local officials' pleas for upfront funding continued, which raises questions about how well the state is keeping local officials informed about all of their options. Whether the existing advance policies will be sufficient to stimulate the rebuilding is still unknown.

## Accountability and Audit Systems

One of the often cited reasons why Louisiana and Mississippi have had to fight so hard to get the federal aid they did is that they both have reputations for tolerating corruption. Even without having to battle this image, the enormous accounting task of managing the flow of just these two types of federal aid has been a strain on existing staff and has required the assistance of outside firms for advice and management.

Requests for federal aid to support additional "audit" functions in each state were rejected by FEMA, but approved when characterized as "accounting oversight." Mississippi discovered this semantic distinction early in the process, while Louisiana engaged in months-long negotiations with FEMA to get authorization to hire a national accounting firm to assist with ensuring the integrity of the spending process.

The importance of proper accounting oversight was clear from the beginning as each state accepted responsibility for billions of dollars that could be reclaimed by the federal government if project costs were disallowed. One illustration of the magnitude of the accounting challenge is that it took Louisiana 18 months to generate a Web site for a comprehensive accounting of the federal aid received by the state since the storms. This Web site was touted as one of the key tools for accountability and transparency that would help the state combat its image of tolerating corruption. But simply to get all state agencies to establish a process for consistently reporting the aid allocated, received, and spent was an administrative burden that took

months to overcome. Mississippi has no such comparable site, nor is there any single federal source that reports all the aid flows. The Congressional Budget Office and the U.S. Department of Homeland Security have released snapshot reports of many of the allocations, but there is no ongoing, comprehensive tracking of the data that the public can access.

## Conclusion

As rebuilding efforts and activities go forward, intergovernmental issues become ever more evident. Neither state nor local governments are prepared to handle the challenges posed by recovery from a mega-disaster. They need federal help. At the same time, this help can be delayed and made complicated by many factors, including multiple layers of federal and state bureaucracies, inexperienced and overworked staff, the necessity for fraud prevention measures, and the characteristics peculiar to the workings of each state's governmental structure.

Delayed aid, in turn, delays recovery. In neither Louisiana nor Mississippi are residents and businesses satisfied with the speed and provision of aid. The level of finger-pointing from one layer of government to another that began with the failures of the immediate disaster response has continued and increased throughout the recovery phase.

The nature of catastrophe is that rules that govern normal operations can be broken. Officials at every level of government find themselves in the uncomfortable position of having to balance the need for expediency with the need for accountability. Trying to achieve such a balance can foster creativity, as in the decision to use the CDBG program to distribute financial aid. It also can stall the recovery if officials overcompensate, as is the case with Louisiana's multiple layers of rules for its Road Home program, designed to answer those who maintain the state is too corrupt to be trusted with that much money. In short, no recovery system can be designed to anticipate and accommodate all of these and other challenges of every stricken community. Nevertheless, lessons learned from the Katrina-Rita disaster can and should be studied closely to improve the nation's disaster recovery policies and practices.

Immediate federal aid for clean-up and emergency assistance involves assessing needs and damage levels to provide safe, secure, and clean conditions in the aftermath of a disaster. Questions about rebuilding and the longer term come later and often are decidedly more complex and politically freighted. What should be the goals of rebuilding efforts? Who should benefit? Who should pay? There are many issues to be considered involving taxes and public services; economic and social prospects; and the conditions, values, culture, and history of an affected local community or neighborhood and the surrounding region. These issues can involve decisions that neither state nor federal officials are in a good position to make. They are intrinsically local. The political processes for developing plans can produce tensions and disagreements. This is especially so if local planning systems are weak or nonexistent.

In the GulfGov study's initial report, *GulfGov Reports: One Year Later*, researchers found that local governments and community groups played a strong and critical role in the immediate aftermath of the storms in responding to the crisis. They, of course, had the greatest stake in the success of recovery; they were on the scene. But as stated in *Gulf Gov Reports: A Year and a Half after Katrina and Rita, an Uneven*

*Recovery*, “a disaster of this magnitude is beyond the ability of local governments to handle alone; it is also clear that state and federal policy decisions need to involve local governments if they are to help speed recovery.”

The intergovernmental terrain examined here is both complex and dynamic. In year three of the GulfGov study, a regional conference of experts, stakeholders, and affected groups in the Gulf Region is planned, which, along with mining two years of field data, will enable the study’s researchers to assess the federalism and governance lessons and issues of hurricanes Katrina and Rita.

## RESEARCH STAFF

The **Public Affairs Research Council of Louisiana** (PAR) is an independent voice, offering solutions to critical public issues in Louisiana through accurate, objective research and focusing public attention on those solutions. As a private, nonprofit research organization, PAR is supported through the tax-deductible membership contributions of thousands of Louisiana citizens who want better, more efficient, and more responsive government. Although PAR does not lobby, PAR's research gets results. Many governmental reforms can be traced to PAR recommendations. In addition to serving as a catalyst for governmental reform, PAR has an extensive program of citizen education, believing that the soundest way to achieve political progress is through deep-rooted public understanding and support rather than political pressure.

The **Nelson A. Rockefeller Institute of Government** is the public policy research arm of the State University of New York. The Institute conducts studies and special projects to assist government and enhance the capacity of states and localities to meet critical challenges. Through its research, publications, and conferences, the Institute works with the best policy experts in the country and with top officials at all levels of government to forge creative solutions to public problems. The work of the Institute focuses on the role of state governments in the American federal system. Many of the Institute's projects are comparative and multistate in nature.

## PRINCIPAL AUTHOR

### **Jennifer Pike**

*Research Director, Public Affairs Research Council of Louisiana*

Jennifer Pike joined the PAR staff in 2005. Her research focuses on state finance issues. Ms. Pike previously served PAR as a research intern in 2002-03. She worked primarily on the "White Paper on Higher Education," which won the Governmental Research Association award of Most Distinguished Research in 2003. Ms. Pike is an alumnus of Louisiana State University, where she earned bachelor of arts degrees in mass communication and Spanish literature in 1996 and a master of arts in political science in 2004. Her primary graduate research focus was on public opinion analysis and political preference formation. As an undergraduate student, Ms. Pike was editor of *The Daily Reveille*, the student-run LSU newspaper. She studied Arabic in the U.S. Army and previously worked in various editorial capacities for newspapers and nonprofit organizations. She also served as an AmeriCorps member for Volunteer Baton Rouge.

## CO-PRINCIPAL INVESTIGATORS

### **James C. Brandt**

*President, Public Affairs Research Council of Louisiana*

Jim Brandt was appointed president of PAR in May 1999. He has more than 30 years of experience in government administration, public policy research, and nonprofit management. He is the author of more than 75 studies or reports in the areas of governmental finance, state and local tax issues, public administration, and governmental structure and organization. In addition, he has received numerous national, state, and local awards for his work. Prior to joining PAR, Mr. Brandt served for 12 years as president and CEO of the Bureau of Governmental Research in New Orleans. His previous professional experience also includes his affiliation with the Institute for Governmental Studies at Loyola University in New Orleans, where he was the assistant director and senior associate. Mr. Brandt is an honors graduate of the University of Colorado where he earned a bachelor of arts degree in history and political science and was elected Phi Beta Kappa. He received his master's degree in community organization and planning from Tulane University.

### **Richard P. Nathan**

*Co-Director, Rockefeller Institute of Government*

Richard Nathan is co-director of the Rockefeller Institute and the Distinguished Professor of Political Science and Public Policy at the State University of New York at Albany. Dr. Nathan has written and edited books on the implementation of domestic public programs in the United States and on American federalism. Prior to coming to Albany, he was a professor at Princeton University. He served in the federal government as assistant director of the U.S. Office of Management and Budget, deputy undersecretary for welfare reform of the U.S. Department of Health Education and Welfare, and director of domestic policy for the National Advisory Commission on Civil Disorders (The Kerner Commission).

## PROJECT MANAGER

### **Karen Rowley**

*Special GulfGov Projects Manager, Public Affairs Research Council of Louisiana*

Karen Rowley joined the PAR staff in 2006 as special projects manager. Her professional experience is in journalism, including jobs with daily newspapers in Florida and North Carolina and serving as managing editor for *The Greater Baton Rouge Business Report* in Baton Rouge, Louisiana, for eight years. She earned her bachelor of arts degree in journalism from the University of North Carolina at Chapel Hill and her master's degree in mass communication from Louisiana State University. More recently, she earned a Ph.D. in mass communication from Louisiana State University. Her research focuses on media and public affairs — specifically on statewide public affairs television and its role in the institution of state government — and she has been the lead author on articles published in such academic journals as *Journalism & Mass Communication Quarterly*, *American Journalism* and *The Howard Journal of Communications*.