Attachment A-2—Allocation Methodology for August 2018 Notice

Allocation of CDBG–DR Funds to Most Impacted and Distressed Areas Due to 2017 Federally Declared Disasters and Allocation of Mitigation Funds for 2015, 2016, and 2017 Federally Declared Disasters

Background

The Bipartisan Budget Act of 2018, Public Law 115–123, enacted on February 9, 2018, appropriated $28,000,000,000 through the Community Development Block Grant disaster recovery (CDBG–DR) program. The statutory text related to the allocation is as follows:

For an additional amount for "Community Development Fund", $28,000,000,000, to remain available until expended, for necessary expenses for activities authorized under title I of the Housing and Community Development Act of 1974 (42 U.S.C. 5301 et seq.) related to disaster relief, long-term recovery, restoration of infrastructure and housing, economic revitalization, and mitigation in the most impacted and distressed areas resulting from a major declared disaster that occurred in 2017 (except as otherwise provided under this heading) pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.): *Provided,* That funds shall be awarded directly to the State, unit of general local government, or Indian tribe (as such term is defined in section 102 of the Housing and Community Development Act of 1974) at the discretion of the Secretary: *Provided further,* That of the amounts made available under this heading, up to $16,000,000,000 shall be allocated to meet unmet needs for grantees that have received or will receive allocations under this heading for major declared disasters that occurred in 2017 or under the same heading of Division B of Public Law 115–56, except that, of the amounts made available under this proviso, no less than $11,000,000,000 shall be allocated to the States and units of local government affected by Hurricane Maria, and of such amounts allocated to such grantees affected by Hurricane Maria, $2,000,000,000 shall be used to provide enhanced or improved electrical power systems: *Provided further,* That to the extent amounts under the previous proviso are insufficient to meet all unmet needs, the allocation amounts related to infrastructure shall be reduced proportionally based on the total infrastructure needs of all grantees: *Provided further,* That of the amounts made available under this heading, no less than $12,000,000,000 shall be allocated for mitigation activities to all grantees of funding provided under this heading, section 420 of division L of Public Law 114–113, section 145 of division C of Public Law 114–223, section 192 of division C of Public Law 114–223 (as added by section 101(3) of division A of Public Law 114–254), section 421 of division K of Public Law 115–31, and the same heading in division B of Public Law 115–56, and that such mitigation activities shall be subject to the same terms and conditions under this subdivision, as determined by the Secretary: *Provided further,* That all such grantees shall receive an allocation of funds under the preceding proviso in the same proportion that the amount of funds each grantee received or will receive under the second proviso of this heading or the headings and sections specified in the previous proviso bears to the amount of all funds provided to all grantees specified in the previous proviso: *Provided further,* That of the amounts made available under the second and fourth provisos of this heading, the Secretary shall allocate to all such grantees an aggregate amount not less than 33 percent of each such amounts of funds provided under this heading within 60 days after the enactment of this subdivision based on the best available data (especially with respect to data for all such grantees affected by Hurricanes Harvey, Irma, and Maria), and shall allocate no less than 100 percent of the funds provided under this heading by no later than December 1, 2018:

. .. *Provided further,* That of the amounts made available under this heading, up to $15,000,000 shall be made available for capacity building and technical assistance, including assistance on contracting and procurement processes, to support States, units of general local government, or Indian tribes (and their subrecipients) that receive allocations pursuant to this heading, received disaster recovery allocations under the same heading in Public Law 115–56, or may receive similar allocations for disaster recovery in future appropriations Acts: *Provided further,* That of the amounts made available under this heading, up to $10,000,000 shall be transferred, in aggregate, to "Department of Housing and Urban Development—Program Office Salaries and Expenses—Community Planning and Development" for necessary costs, including information technology costs, of administering and overseeing the obligation and expenditure of amounts under this heading:

Further, under the General Provisions of the Act in Section 21102:

Any funds made available under the heading "Community Development Fund" under this subdivision that remain available, after the other funds under such heading have been allocated for necessary expenses for activities authorized under such heading, shall be used for additional mitigation activities in the most impacted and distressed areas resulting from a major declared disaster that occurred in 2014, 2015, 2016 or 2017: *Provided,* That such remaining funds shall be awarded to grantees of funding provided for disaster relief under the heading "Community Development Fund" in this subdivision, section 420 of division L of Public Law 114–113, section 145 of division

C of Public Law 114–223, section 192 of division C of Public Law 114–223 (as added by section 101(3) of division A of Public Law 114–254), section 421 of division K of Public Law 115–31, and the same heading in division B of Public Law 115–56 subject to the same terms and conditions under this subdivision and such Acts respectively: *Provided further,* That each such grantee shall receive an allocation from such remaining funds in the same proportion that the amount of funds such grantee received under this subdivision and under the Acts specified in the previous proviso bears to the amount of all funds provided to all grantees specified in the previous proviso.

The methodology for allocating these funds has two core parts:

- *Unmet Needs:* Up to $16 billion for the remaining unmet needs of communities most impacted by a disaster in 2017. After factoring in the $35 million set-aside for HUD expenses, up to $15.965 billion is available for unmet needs, of which no less than $11 billion is provided to communities impacted by Hurricane Maria, specifically the Commonwealth of Puerto Rico and United States Virgin Islands. These funds are allocated based on a calculation of unmet needs as described below after taking into account the $7.458 billion of CDBG–DR previously allocated for 2017 disasters.
- *Mitigation:* No less than $12 billion for mitigation activities for grantees who have received CDBG–DR funding under this appropriation or earlier appropriations covering disasters in 2015, 2016, and 2017. This allocation is based on each grantee's proportional share of total funds allocated for all of the eligible disasters.

Allocating for remaining unmet needs of 2017

Most impacted and distressed areas

As with prior CDBG–DR appropriations, HUD is not obligated to allocate funds for all major disasters declared in 2017. HUD is directed to use the funds "in the most impacted and distressed areas." HUD has implemented this directive by limiting CDBG–DR formula allocations to jurisdictions with major disasters that meet three standards:

(1) Individual Assistance/IHP designation. HUD has limited allocations to those disasters where FEMA had determined the damage was sufficient to declare the disaster as eligible to receive Individual and Households Program (IHP) funding.

(2) Concentrated damage. HUD has limited its estimate of serious unmet housing need to counties and Zip Codes with high levels of damage, collectively referred to as "most impacted areas". For this allocation, HUD is defining most impacted areas as either most impacted counties—counties exceeding $10 million in serious unmet housing needs—and

most impacted Zip Codes— Zip Codes with $2 million or more of serious unmet housing needs. The calculation of serious unmet housing needs is described below.

(3) Disasters meeting the most impacted threshold. Only 2017 disasters that meet this requirement for most impacted damage are funded:

a. One or more most impacted county

b. An aggregate of most impacted Zip Codes of $10 million or greater

For disasters that meet the most impacted threshold described above, the unmet need allocations are based on the following factors summed together less previous CDBG–DR allocations for the 2017 disasters unmet needs:

(1) Repair estimates for seriously damaged owner-occupied units without insurance (with some exceptions) in most impacted areas after FEMA and SBA repair grants or loans;

(2) Repair estimates for seriously damaged rental units occupied by renters with income less than 50 percent of Area Median Income in most impacted areas;

(3) Repair and content loss estimates for small businesses with serious damage denied by SBA;

(4) The estimated local cost share for Public Assistance Category C to G projects;

(5) $2 billion for Maria-impacted disasters for improvements to the electric grid; and

(6) An amount to ensure that Maria impacted disasters do not receive less than $11 billion from Public Law 115–123, with the split between the eligible disasters in Puerto Rico and the Virgin Islands based on their relative share of needs as calculated under number 1 to 5 above.

Methods for estimating unmet needs for housing

The data HUD staff have identified as being available to calculate unmet needs for qualifying disasters come from the FEMA Individual Assistance program data on housing-unit damage as of February 22, 2018.

The core data on housing damage for both the unmet housing needs calculation and the concentrated damage are based on home inspection data for FEMA's Individual Assistance program. HUD calculates "unmet housing needs" as the number of housing units with unmet needs times the estimated cost to repair those units less repair funds already provided by FEMA and SBA. Puerto Rico and the Virgin Island owner damage is calculated based on both real property and personal property inspections based on findings by HUD that this likely is a more accurate estimate of serious homeowner damage in those areas. For the continental U.S., HUD finds its traditional approach of just using real property damage assessments for owner-occupied units continues to be effective.

Each of the FEMA inspected owner units are categorized by HUD into one of five categories:

- Minor-Low: Less than $3,000 of FEMA inspected real property damage.
- Minor-High: $3,000 to $7,999 of FEMA inspected real property damage.
- Major-Low: $8,000 to $14,999 of FEMA inspected real property damage and/or 1 to 4 feet of flooding on the first floor.
- Major-High: $15,000 to $28,800 of FEMA inspected real property damage and/or 4 to 6 feet of flooding on the first floor.
- Severe: Greater than $28,800 of FEMA inspected real property damage or determined destroyed and/or 6 or more feet of flooding on the first floor.

For the Virgin Islands and Puerto Rico, the damage grouping would be the higher damage categorization based on the calculation above or:

- Minor-Low: Less than $2,500 of FEMA inspected personal property damage.
- Minor-High: $2,500 to $3,499 of FEMA inspected personal property damage.
- Major-Low: $3,500 to $4,999 of FEMA inspected personal property damage or 1 to 4 feet of flooding on the first floor.
- Major-High: $5,000 to $8,999 of FEMA inspected personal property damage or 4 to 6 feet of flooding on the first floor.
- Severe: Greater than $9,000 of FEMA inspected personal property damage or determined destroyed and/or 6 or more feet of flooding on the first floor.

To meet the statutory requirement of "most impacted" in this legislative language, homes are determined to have a high level of damage if they have damage of "major-low" or higher. That is, they have a real property FEMA inspected damage of $8,000 or flooding over 1 foot.

Furthermore, a homeowner is determined to have unmet needs if they reported damage and no insurance to cover that damage and was outside the 1% risk flood hazard area; for homeowners inside the flood hazard area, only homeowners without insurance below 120% of Area Median Income are determined to have unmet needs. Homeowners without hazard insurance with non-flood damage with incomes below the greater of national median or 120% of Area Median Income are included as having unmet needs.

FEMA does not inspect rental units for real property damage so personal property damage is used as a proxy for unit damage. Each of the FEMA inspected renter units are categorized by HUD into one of five categories:

- Minor-Low: Less than $1,000 of FEMA inspected personal property damage.
- Minor-High: $1,000 to $1,999 of FEMA inspected personal property damage.
- Major-Low: $2,000 to $3,499 of FEMA inspected personal property damage or 1 to 4 feet of flooding on the first floor.
- Major-High: $3,500 to $7,499 of FEMA inspected personal property damage or 4 to 6 feet of flooding on the first floor.
- Severe: Greater than $7,500 of FEMA inspected personal property damage or determined destroyed and/or 6 or more feet of flooding on the first floor.

For rental properties, to meet the statutory requirement of "most impacted" in this legislative language, homes are determined to have a high level of damage if they have damage of "major-low" or higher. That is, they have a FEMA personal property damage assessment of $2,000 or greater or flooding over 1 foot.

Furthermore, landlords are presumed to have adequate insurance coverage unless the unit is occupied by a renter with income less than the greater of the Federal poverty level or 50 percent of Area Median Income. Units occupied by a tenant with income less than the greater of the Federal poverty level or 50 percent of Area Median Income are used to calculate likely unmet needs for affordable rental housing.

The average cost to fully repair a home for a specific disaster to code within each of the damage categories noted above is calculated using the median real property damage repair costs determined by the Small Business Administration for its disaster loan program for the subset of homes inspected by both SBA and FEMA for each eligible disaster. Because SBA is inspecting for full repair costs, it is presumed to reflect the full cost to repair the home, which is generally more than the FEMA estimates on the cost to make the home habitable.

For each household determined to have unmet housing needs (as described above), their estimated average unmet housing need less assistance from FEMA and SBA provided for repair to homes with serious unmet needs. No unmet housing need cost multiplier can be less than the 25th percentile estimate across all disasters of 2017. Those minimum cost multipliers are: $40,323 for major damage (low); $55,812 for major damage (high); and $77,252 for severe damage. The multipliers used for each disaster is shown below.

	Serious Unmet Housing Need Multipliers		
	Major-Low	Major-High	Severe
California	$40,323	$55,812	$124,481
Florida	$42,837	$56,113	$79,096
Georgia	$40,323	$55,812	$77,252
Missouri	$40,323	$66,545	$100,947
Puerto Rico	$40,323	$55,812	$77,252
Texas	$56,342	$75,414	$101,390
Virgin Islands	$80,142	$97,672	$116,351

Methods for estimating unmet economic revitalization needs

Based on SBA disaster loans to businesses as of 3–22–2018, HUD calculates the median real estate and content loss by the following damage categories for each state:

- Category 1: real estate + content loss = below 12,000
- Category 2: real estate + content loss = 12,000–30,000
- Category 3: real estate + content loss = 30,000–65,000
- Category 4: real estate + content loss = 65,000–150,000
- Category 5: real estate + content loss = above 150,000

For properties with real estate and content loss of $30,000 or more, HUD calculates the estimated amount of unmet needs for small businesses by multiplying the median damage estimates for the categories above by the number of small businesses denied an SBA loan, including those denied a loan prior to inspection due to inadequate credit or income (or a decision had not been made), under the assumption that damage among those denied at pre-inspection have the same distribution of damage as those denied after inspection.

Methods for estimating unmet infrastructure needs

To calculate unmet needs for infrastructure projects, HUD is using data obtained from FEMA as of March 30, 2018, showing the amount FEMA estimates will be needed to repair the permanent public infrastructure (Categories C to G) to their pre-storm condition. HUD uses these data to calculate two infrastructure unmet needs:

- The estimated local cost share for Public Assistance Category C to G projects.
- An allocation of $2 billion for Maria affected disasters (Puerto Rico and the Virgin Islands) for "enhanced or improved electrical power systems." This is allocated between Puerto Rico and the Virgin Islands based on their relative share of total estimated Category F Public Assistance cost to repair public utilities.

Allocation Calculation

Once eligible entities are identified using the above criteria, the allocation to individual grantees represents their proportional share of the estimated unmet needs. For the formula allocation, HUD calculates total serious unmet recovery needs as the aggregate of:

- Serious unmet housing needs in most impacted counties less amounts of CDBG– DR previously allocated for serious unmet housing needs
- Serious unmet business needs less

amounts of CDBG–DR previously allocated for serious business needs

- FEMA Public Assistance Category C to G local cost share and the $2 billion additional amount for enhanced or improved electrical power systems in Puerto Rico and the Virgin Islands

Prior allocations for 2017 disasters are subtracted from this amount. Because this results in less than $11 billion being allocated to Maria affected disasters (Puerto Rico and the Virgin Islands) from Public Law 115–123, an additional amount is added to those two grantees to reach $11 billion based on their relative share of needs as calculated under the three bullets above.

This results in an estimate of unmet needs to be allocated from Public Law 115–123 of $12.031 billion, allowing $3.935 billion to be allocated to mitigation.

Allocating for mitigation

The allocation of $15.935 billion in mitigation funds (the $12 billion appropriated for mitigation plus the $3.935 billion remaining after allocation of 100% of unmet needs) is allocated proportionally based on each grantee's relative share of the $22.425 billion of CDBG–DR funds allocated for unmet needs to disasters occurring in 2015, 2016, and 2017. For example, the combination of all grants to Puerto Rico for unmet needs represents 52 percent of the $22.425 billion allocated for unmet needs. As a result, Puerto Rico receives 52 percent of the $15.935 billion made available for mitigation funding.