Allocation of 2011 CDBG Disaster Recovery Funds
January 19, 2012 (updated 3/16/12)

This section describes the methods behind HUD's allocation of $400 million in the 2011 CDBG Disaster Recovery Funds.

Section 239 of Public Law 112-55, enacted on November 18, 2011, appropriates $400 million through the Community Development Block Grant (CDBG) program for:

> …necessary expenses for activities authorized under title I of the Housing and Community Development Act of 1974 (Public Law 93–383) related to disaster relief, long-term recovery, restoration of infrastructure and housing, and economic revitalization in the most impacted and distressed areas resulting from a major disaster declared pursuant to the Robert T. Stafford Disaster Relief and Emergency Assistance Act (42 U.S.C. 5121 et seq.) in 2011: Provided, That funds shall be awarded directly to the State or unit of general local government at the discretion of the Secretary: …

HUD allocates funds based on its estimate of the total unmet needs for infrastructure and the unmet needs for severe damage to businesses and housing that remain to be addressed in the most impacted counties after taking into account December 2011 data on insurance, FEMA assistance, and SBA disaster loans. To meet the statutory requirement that the funds be targeted to "the most impacted or distressed areas," this allocation:

(1) **Limits funding to the states and counties with the highest level of severe unmet needs.** Specifically, the calculation of unmet housing and business needs is limited only to those homes and businesses that experienced severe damage (see definitions below). That is, it excludes homes and businesses with minor or moderate damage that may have some unmet needs remaining. Further, to target funds to the most impacted or distressed areas, only counties with $10 million[1] or more in severe unmet housing and business needs are used to determine a state's allocation. Thus, funding is provided based on the severe needs of the most impacted counties in each state.

(2) **Factors in disaster related infrastructure repair costs statewide that are not reimbursed by FEMA Public Assistance.** For all of these disasters, this is calculated as the 25 percent state match requirement.

(3) **Funds are allocated based on each state's share of total unmet needs**. This is calculated as each state's proportional share of the sum of infrastructure and severe unmet housing and business needs from the most impacted counties.[2]

(4) **Restricts funding only to states that receive a minimum grant of $10 million or more.** These funds are limited to only the states with the highest levels of unmet need. As such, funding is limited to states that would receive aggregate funding of $10 million or more based on their total unmet needs. The calculated grant amounts for states that would have received less than $10 million are provided to the states above $10 million through a pro-rata increase.

(5) **Specifies the counties and jurisdictions that are most impacted or distressed** by:

    a. **Providing direct funding to CDBG entitlement jurisdictions (and one nonentitlement city) with significant remaining severe unmet needs.** Within a State, if an entitlement jurisdiction accounts for $6 million or more of the funding allocated to a State, it is allocated a direct grant (the $6 million threshold represents a "natural break" in funding among entitlement jurisdictions). Otherwise the funding is provided directly to the

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[1] For the cut off thresholds used in this formula, minimum county need of $10 million in severe unmet housing and business needs, the $10 million minimum grant for a state (point 4), and the $6 million minimum grant for an entitlement jurisdiction (point 5a), these represent "natural breaks" in the distribution. That is, the next county, state or grantee on the list has a significant separation in need or estimated grant from the last county, state, or grantee included in the list.

[2] When calculating the grants, the internal weight between factors is maintained at the ratio of all severe unmet housing and business needs in all counties to unmet infrastructure needs in all counties.

State. Due to its extraordinarily high level of localized need, one non-entitlement jurisdiction (Minot, ND) also receives a direct allocation.

b. **Directing that a minimum of 80% of the total funds allocated within a state, including those allocated directly to the State and to local governments, must be spent on the disaster recovery needs of the communities and individuals in the most impacted and distressed counties (*i.e.*, those counties identified by HUD).** The principle behind the 80 percent rule is that each state received its allocation based on the unmet needs in the most impacted counties (those counties with more than $10 million in severe unmet housing and business needs) and thus HUD will require that all grantees within a State direct these limited resources toward those most impacted counties[3]. Nonetheless, HUD recognizes that there are likely circumstances where its data is incomplete, damage is highly localized outside of one of the heavily impacted counties, or recovery would otherwise benefit from expenditures outside of those most impacted counties and thus provides some flexibility to address those needs for State grantees. While local governments receiving direct grant allocations from HUD must spend their total grant within their own jurisdictions, HUD will allow a portion of the State non-entitlement grant to be spent outside of the most impacted counties, in an amount not to exceed that which yields 80 percent of all funding within a state to be spent in the most impacted counties.

The attached Table shows the direct allocations to each State and entitlement jurisdiction and the data used to make that calculation. HUD will provide States with county level data on unmet needs to assist with their planning.

Methods for estimating unmet needs for business, infrastructure, and housing:

The data HUD staff have identified as being available to calculate unmet needs for the targeted disasters (major disasters with Presidential declaration issued in 2011 and for which FEMA individual assistance was available) come from the following data sources:

- FEMA Individual Assistance program data on housing unit damage, as of 12/20/2011;
- SBA for management of its disaster assistance loan program for housing repair and replacement, as of 12/21/2011;
- SBA for management of its disaster assistance loan program for business real estate repair and replacement as well as content loss, as of 12/22/2011; and
- FEMA estimated and obligated amounts under its Public Assistance program for permanent work, federal and state cost share, as of 12/20/2011.

Calculating Severe Unmet Housing Needs

The core data on housing damage for both the unmet housing needs are based on home inspection data for FEMA's Individual Assistance program. For unmet housing needs, the FEMA data are supplemented by Small Business Administration data from its Disaster Loan 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, where:

- The owner-occupied units included in the unmet needs analysis are those determined by FEMA to be eligible for a repair or replacement grant.

[3] Each state receives funding based on *all* of infrastructure needs within a state, minus the infrastructure needs estimated to lie within entitlement jurisdictions receiving direct grants. In addition, each state also receives funding from all severe housing and business needs in the most impacted counties minus the estimated severe housing and business needs within entitlement jurisdictions receiving direct grants.

- Each of the FEMA inspected owner-occupied units are classified by HUD into one of five categories:
  - Minor-Low: Less than $3,000 of FEMA inspected damage
  - Minor-High: $3,000 to $7,999 of FEMA inspected damage
  - Major-Low: $8,000 to $14,999 of FEMA inspected damage
  - Major-High: $15,000 to $28,800 of FEMA inspected damage
  - Severe: Greater than $28,800 of FEMA inspected damage or determined destroyed.

  Only units in the Major-High and Severe categories are counted toward the severe unmet housing needs calculation.

- The rental units included in the unmet needs analysis are those assessed for personal property loss, near owner-occupied dwellings with major-high and severe damage, and where the tenant has an income of less than $20,000. The use of the $20,000 income cut-off for calculating rental unmet needs is intended to capture the loss of affordable rental housing.

- The average cost to fully repair a home for a specific disaster within each of the damage categories noted above is calculated using the median ratio between real property damage repair costs determined by the Small Business Administration for its disaster loan program and the FEMA assessment of real estate damage, for the subset of homes inspected by both SBA and FEMA. Because SBA inspects for full repair costs, it is presumed to reflect the full cost to repair the home, which is generally greater than FEMA estimations of the cost to make the home habitable. If fewer than 25 SBA inspections are made for homes within a FEMA damage category, the median ratio between SBA and FEMA assessment of damage in the category for that disaster has a cap applied at the 75th percentile of all damaged units for that category for all disasters and a floor applied at the 25th percentile. If there are no SBA inspections within a FEMA damage category, the national median ratio between SBA and FEMA assessment of damage within a FEMA damage category is used.

- To obtain estimates for unmet needs, only properties receiving a FEMA grant are included in the calculation (since these are the cases assumed to have insufficient insurance coverage). Furthermore, the FEMA grant amount and all SBA loans are subtracted out of the total estimated damage to obtain a final unmet needs estimate.

Calculating Infrastructure Needs

To best proxy unmet infrastructure needs, HUD uses data from FEMA's Public Assistance program on the state match requirement (usually 25 percent of the estimated public assistance needs). This allocation uses only a subset of the Public Assistance damage estimates reflecting the categories of activities most likely to require CDBG funding above the Public Assistance and state match requirement. Those activities are categories: C-Roads and Bridges; D-Water Control Facilities; E-Public Buildings; F-Public Utilities; and G-Recreational-Other. Categories A (Debris Removal) and B (Protective Measures) are largely expended immediately after a disaster and reflect interim recovery measures rather than the long-term recovery measures for which CDBG funds are generally used. Because Public Assistance damage estimates are available only statewide (and not county), CDBG funding allocated by the estimate of unmet infrastructure needs are sub-allocated to counties and local jurisdictions based on each jurisdiction's proportion of unmet housing needs (categories minor-high to severe).

Calculating Economic Revitalization Needs

Based on SBA disaster loans to businesses, HUD used the sum of real property and real content loss of small businesses not receiving an SBA disaster loan. This is adjusted upward by the proportion of applications that were received for a disaster that content and real property loss were not calculated because the applicant had inadequate credit or income. For example, if a state had 160 applications for assistance, 150 had calculated needs and 10 were denied in the pre-processing stage for not enough income or poor credit, the estimated unmet need calculation would be increased as (1 + 10/160) * calculated unmet real content loss.

Because applications denied for poor credit or income are the most likely measure of requiring the type of assistance available with CDBG recovery funds, the calculated unmet business needs for each state are adjusted upwards by the proportion of total applications that were denied at the pre-process stage because of poor credit or inability to show repayment ability. Similar to housing, estimated damage is used to determine what unmet needs will be counted as severe unmet needs. Only properties with total real estate and content loss in excess of $65,000 are considered severe damage for purposes of identifying the most impacted areas.

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

To obtain unmet business needs, the amount for approved SBA loans is subtracted out of the total estimated damage. Since SBA business needs are best measured at the county level, HUD estimates the distribution of needs to local entitlement jurisdictions based on the distribution of all unmet housing needs.