## Attachment A-1 — Allocation Methodology for February 2018 Notice

## Allocation of CDBG–DR Funds to Most Impacted and Distressed Areas Due to 2017 Federally Declared Disasters for the February 2018 Notice

### Background

The Supplemental Appropriations for Disaster Relief Requirements, 2017 (Pub. L. 115–56) appropriated $7,400,000,000 through the Community Development Block Grant disaster recovery (CDBG–DR) program for necessary expenses for authorized activities 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 in 2017, specifically:

For an additional amount for "Community Development Fund", $7,400,000,000, ..., for necessary expenses . . . 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 in 2017 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 or unit of general local government at the discretion of the Secretary: ... Provided further, That such funds may not be used for activities reimbursable by, or for which funds are made available by, the Federal Emergency Management Agency or the Army Corps of Engineers: ...

It should be noted that the language of Public Law 115–56 permits HUD to deduct up to $10 million from the $7.4 billion for purposes of administration and oversight of the appropriation. HUD has opted to deduct the full $10 million, resulting in a total of $7.39 billion available for allocation.

### 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 two 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 the allocations to counties and zip codes with high levels of damage, collectively referred to as "most impacted areas". For this allocation, HUD is using the amount of serious unmet housing need as its measure of concentrated damage and limits the data used for the allocation only to counties exceeding a "natural break" in the data for their total amount of serious unmet housing needs. For purposes of this allocation, the serious unmet housing needs break occurs at $16 million at the county level and $3.5 million for Zip Codes for Texas and Florida and $10 million for counties and $2 million for Zip Codes for the Commonwealth of Puerto Rico (Puerto Rico) and the United States Virgin Islands (Virgin Islands). The calculation for serious unmet housing needs are described below.

These allocations are thus based on the unmet costs to repair seriously damaged properties in most impacted areas. These do not capture expected resiliency costs, although grantees may choose to use the CDBG funds for resiliency expenses. The estimated damage is based on the following factors:

(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% of Area Median Income in most impacted areas; and

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

**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 November 8, 2017 for Texas and Florida and as of December 22, 2017 for Puerto Rico and the Virgin Islands.

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, and supplemented by SBA 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.

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 Puerto Rico and the Virgin Islands, owner damage is calculated based on both real property and personal property on findings by HUD that this likely is a more accurate estimate of serious homeowner damage in those areas. For these owner-occupied units, 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 most impacted or serious level of damage if they have damage of "major-low" or higher.

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 all disasters, for homeowners inside the flood hazard area, only homeowners without insurance below 120% of Area Median Income are included in the estimated 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 50% of Area Median Income. Units are occupied by a tenant with income less than 50% of Area Median Income are used to calculate likely unmet needs for affordable rental housing. In Puerto Rico and the Virgin Islands, units are occupied by a tenant with income less than the greater of the Federal poverty level or 50% 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 average 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 assumed assistance from FEMA and SBA was calculated for Texas as $58,956 for major damage (low); $72,961 for major damage (high); and $102,046 for severe damage. For Florida: $44,810 for major damage (low); $45,997 for major damage (high); and $67,799 for severe damage. For Puerto Rico and the Virgin Islands: $38,249 for major damage (low); $41,595 for major damage (high); and $66,066 for severe damage.

**Methods for Estimating Unmet Economic Revitalization Needs**

Based on SBA disaster loans to businesses, 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.

**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 or county-equivalents
- Serious unmet business needs

For Texas, HUD announced an allocation on November 17, 2017, that reflected the 100% calculation of serious unmet housing and business needs as calculated using the methods above less $57.8 million allocated from an earlier appropriation. For Florida, HUD announced an allocation on November 28, 2017, that reflected a 100% calculation of serious unmet housing and business needs. Data were not available for Puerto Rico and the Virgin Islands until late December 2017. The remaining funds ($1.7 billion of $7.4 billion appropriated) are significantly less than the calculated serious unmet housing and business needs, and thus the allocations are only 57% of the estimated serious unmet housing and business needs for Puerto Rico and the Virgin Islands.