

Statement by Randy Noel
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Reve Inc.
for the
House Financial Services Committee
Subcommittee on Housing & Community Opportunity

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Introduction

I appreciate the opportunity to share with the subcommittee my views on the local, state and federal response to Hurricane Katrina in New Orleans and to provide you with what I see as the short- and long-term housing and economic development needs in the city. I have been a custom home builder in New Orleans for over 21 years. In that time, I have used a wide variety of state and federal housing programs, including the Federal Housing Administration's (FHA) Section 203 (b) program, Department of Agriculture Rural Development Direct and Guaranty Loan programs, Veterans Administration programs, State of Louisiana Housing Finance Bonds and conventional housing financing. In addition, I have built to Federal Emergency Management Agency (FEMA) requirements for the National Flood Insurance Program (NFIP).

I was the President of the Home Builders Association of Greater New Orleans in 2001 and served as the President of the Louisiana State Home Builders Association in 2004. I currently represent the State of Louisiana in the National Association of Home Builders (NAHB), am a member of the NAHB Housing Finance Committee and the Chairman of the Financial Institutions and Capital Markets Subcommittee. Finally, I serve on the Jefferson Parish Economic Development Commission's (JEDCO) Housing Task Force as well as the Louisiana Recovery Authority Housing Task Force.

On August 30, I returned to my home town of La Place, Louisiana on August 30 to find, thankfully, minimal damage but no utility service. I was lucky. I did have a generator and supplies and was able to begin repairing my home. I was shocked at the breaks in the levees. As the level of devastation caused by the rising water in New Orleans became apparent, I knew that no level of government could be adequately prepared for the crisis that would follow. It was also clear to me that rebuilding the housing stock in New Orleans would be critical to the city's recovery and that the home builder community would be a key partner in that effort.

I want to share with you some of my first-hand experiences from my perspective as a home builder. The focus of my testimony is those aspects of federal, state and local government's

response that impact my ability to do the work of rehabilitating damaged homes and building new housing in New Orleans.

Federal Response

I. Temporary Housing

One significant problem builders have experienced throughout the hurricane recovery is a critical shortage of labor. Feeding this shortage is a lack of available temporary housing for workers. My brick layer, for example, lived in the Ninth Ward, and when I finally made contact with him after the disaster, he had relocated to Mississippi and was working there. Like many others, he would gladly have returned to New Orleans if there were places to live, but temporary housing was virtually non-existent. There are two reasons for this shortage. First, many residents whose homes were destroyed immediately purchased or leased any available structure that was available. Second, the pace of delivery of trailers by FEMA for temporary housing for workers has been very slow which, in turn, has slowed down the rebuilding process. Generally, trailer placements are slow because FEMA has been releasing only twenty-five trailers per day on each side of the Mississippi river. Additionally, quick placement of these trailers has been impaired due to burdensome permitting and hook-up requirements and inspection processes.

II. Labor Competition

Another factor contributing to an acute labor shortage in New Orleans is the inflated wages being paid by large FEMA contractors. Many of our potential workers have been offered double the normal rate of pay to work for these companies. Unable to compete with these pay rates, small builders in the region are left wanting for workers. Recently, however, there has been an influx of laborers from other areas of the country, particularly the Midwest where activity has slowed, so I am hopeful that this will help alleviate some of the labor shortage problem. But, even with a larger pool of workers from which to draw, without adequate housing for them, the labor shortage will continue and rebuilding will continue to be slow.

III. Damage Assessments and Permitting

Builders in New Orleans also have concerns with FEMA's requirements for damage assessments and permitting for repair work on damaged homes. FEMA damage assessment requirements for local permitting offices, and the agency's requirement that permits be issued for damage repairs is straining the limited staff resources within local permitting offices. Because there are so few inspectors to do the work and so many homes to inspect (estimated at over 200,000), the repair process is being held up by a minimum of three months. When there is a catastrophe of this magnitude concerning so many homes, it is unreasonable to expect the permitting office to behave as if it is business as usual. FEMA needs to be more flexible and recognize the unique size and scope of this crisis. FEMA also appears to be using this repair permitting process as a way to implement code changes to mitigate future damage, which increases the cost and the time it takes to repair homes.

IV. Base Flood Elevation & Flood Control Systems

Since the hurricane disaster, there has been confusion among homebuyers as to the ultimate Base Flood Elevation (BFE) that homeowners may be required to meet when they repair and rebuild their homes. Some political leaders have suggested increasing base flood elevations and even preventing some areas from rebuilding altogether. In either case, residents need clear guidance from federal, state and local officials on BFE requirements in order to begin repairs and rebuilding.

A clearer policy also is needed concerning the future of flood control systems in New Orleans, or residents will not return to the area or may even relocate. For example, many St. Bernard parish residents have abandoned their homes and relocated to other areas because they feel the Mississippi River Gulf Outlet will ultimately flood their homes again. Many intend to take their insurance settlement money and SBA loans and purchase homes on higher ground.

I applaud the Congress for appropriating money in late 2005 to help rebuild the levees in New Orleans. This sends an important message to the citizens of New Orleans that help is on its way and instill in them the confidence to rebuild their homes. Their quandary remains, however, as to whether the government will increase BFEs and require them to raise their homes. The fact is - all homes built after 1984 are built at the current BFE and are not currently required to be raised. If that policy now changes, the cost of bringing these homes up to a higher BFE will be enormous and may cause people to seek more affordable locations and to abandon their desire to return and rebuild in New Orleans.

V. 50 Percent Substantial Damage Rule

FEMA's "50 Percent Substantial Damage" Rule (50 Percent Rule) requires that a home that has sustained damage equal to 50 percent of its pre-hurricane value, the homeowner must rebuild to the BFE. This regulation causes a lot of confusion for homeowners because making that determination is a very subjective process. Local permit offices are using FEMA contractors to assist in conducting damage assessments and those assessments vary greatly depending on the contractor. Using valuations and contractor quotes as a measure of whether a home is 50 percent damaged is murky and subject to wide swings in determinations. In fact, some assessments are not even reported as a specific percentage but are shown in a range as wide as 40 to 70 percent. The impact of these determinations is that some homes that may not have sustained 50 percent damage are being required to rebuild to the higher standard at enormous cost to the homeowner.

VI. Hurricane Evacuee Contact Information

Before any rebuilding can occur, the owners of damaged or destroyed homes and apartments must be contacted. Unfortunately, locating these owners and tenants is extremely difficult. Citing privacy concerns, FEMA has not been forthcoming with the location of hurricane evacuees. While we understand the importance of maintaining the privacy of these individuals and their families, without some information, there is no way of contacting the property owners to counsel them on the decision to return and/or rebuild. This lack of information is keeping badly needed housing from being repaired and stalling the execution of any planning for property

in communities like the Ninth Ward. Opening a dialogue with property owners and tenants is only fair to them and to those that have returned to rebuild.

VII. Small Business Loans

The Small Business Administration (SBA) has been overwhelmed with the number of requests for loans to help businesses continue operations until local economies recover. As a result, loan application processing is delayed and badly-needed support is not getting to small businesses, such as home builders and suppliers, in the region. It will be critical to the future economic base in the area as well as the ongoing rebuilding process to get these “bridge” funds to local businesses to carry them through until the local economy recovers.

State Response

One of the key components of the State of Louisiana’s response to Hurricane Katrina, and one that impacts the builders directly, was the establishment of a statewide building code. Among other things, this code allows contractors to hire private inspectors. This speeds up the rebuilding process considerably because builders will not have to rely on municipal inspectors, which are in short supply. This statewide building code also will help mitigate future storm wind damage and restore confidence among homeowner’s insurance companies so that they will remain in Louisiana.

Local Response

The local response to Hurricane Katrina has been blunted significantly by a lack of local economic revenue. Local revenue is critical to supporting wages for workers, such as inspectors and utility workers, who are, in turn, crucial to the rebuilding process. Because of the massive evacuation, local municipalities are collecting little or no tax revenue and have been forced to lay off essential workers in most city offices. This has a direct impact on the speed of the rebuilding process and getting residents back into their homes. For example, electric meter installation on homes released for permanent power has been slow due to the power company’s lack of staff.

Telephone communication with permit offices is virtually impossible and a personal visit to the permitting office can take all day because of a lack of staff. Local communities need financial support so they can adequately staff critical city offices.

Another concern with the local response to the hurricane is the large number of abandoned houses in neighborhoods and the resultant loss of market value. “Should I rebuild if my neighbors are not going to rebuild?” is a nagging question for returning residents. Taken to a larger scale, it is the question of how to rebuild New Orleans. There has been the suggestion that the state or local governments be given the authority to “take” property, or the “use” of property, to guarantee homes are removed or rebuilt. National planning organizations have descended on New Orleans with myriad ideas for redesigning the city. With these, or any other approach to redesign New Orleans, input must be received by those citizens whose homes are potentially eliminated by a new design. Property owners must be engaged in the process, if they are to support any effort to rebuild New Orleans.

Short and Long-term Housing and Economic Needs

Below are some of the critical housing and economic needs facing New Orleans and some suggestions as to how to address those needs.

I. Temporary Housing

One immediate short-term housing need is stepping up the delivery and availability of trailers to sites where homeowners are repairing and rebuilding their homes. This approach ensures that trailer homes are temporary and allows the homeowner to return to their community and become invested in the reconstruction effort. Speeding up the availability of utilities for these trailer homes is another critical short-term need that must be better met. For example, licensed electricians and plumbers from outside the area should be able to register with the local jurisdiction’s authorities and allowed to call for permanent power without jurisdictional inspections. To assist local communities who face a shortage of funds, low interest loans could be made available to help hire back staff and ramp up the return of utilities.

For temporary trailer communities not located on actual home sites, local residents must be consulted on where those communities are located. Further, to alleviate concerns about crime, the surrounding community must be confident in the screening process for the residents of trailer communities. Also, regular security must be provided and common areas must be regularly maintained. Surrounding residents should be notified that there is a date certain for the removal of the trailer community. Finally, infrastructure must be capable of supporting future development of housing after trailers are removed.

II. Resources for Repair and Rebuilding

Perhaps the greatest need in overcoming the housing crisis in New Orleans is financial resources for property owners, especially working class families, to repair or rebuild their homes. Many have lost most, if not all, of their regular income and will need financial support to keep their homes. It is evident that in most cases insurance settlements alone will not cover the total cost repairing or rebuilding homes to the BFE and building code. Low-interest loans or grant dollars are necessary to help close this gap. The steps Congress has already taken to reprogram emergency funding for FEMA for the Community Development Block Grant (CDBG) and other programs is a good beginning. Once these resources can be brought to bear, property owners will need to be counseled on their financing options to repair or rebuild their properties.

III. Rebuilding Standards

There must also be clarity provided to homeowners as to what BFE standard and building code homes must be repaired or rebuilt. Also, the 50 Percent Rule should be applied according to a more objective and precise standard. On a larger scale, a comprehensive, inclusive process for planning and rebuilding decisions involving stakeholders should be implemented. When decisions have been made on what areas will or will not be rebuilt, that message must be communicated clearly to the public.

IV. Resale of Homes and Redevelopment

Not all residents will choose to return to their homes. There must be a process to facilitate the sale of these properties to interested buyers so communities do not stagnate, redevelopment can occur and the local tax base can be rebuilt. I applaud Representative Baker for introducing his bill, H.R. 4100 – the “Louisiana Recovery Corporation Act” – to assist in this effort. The Corporation will be an excellent tool for housing and economic development in New Orleans. I do have some concerns, however, with the impacts on housing investment if banks and investors can only be assured of receiving 60 percent of the loan amount upon purchase by the Corporation. When new loans are made, they will be more expensive because investors will require a greater discount on the investment.

V. Small Business Administration Loans

The Small Business Administration (SBA) has been overwhelmed with the number of requests for loans to help businesses continue operations until local economies recover. One way to address this problem is to allow banks to be agents of SBA and make low interest loans in the affected areas for a fee. Also, to help spur economic redevelopment, SBA loans could be made available to manufacturers and others willing to relocate to the area. This would help create new jobs for area residents and help rebuild the local tax base.

VI. Building Material Costs

The cost and supply of building materials has been a significant, nationwide problem for several years, particularly framing lumber, OSB plywood, sheetrock and cement. This problem will only worsen as demand spikes from repair and rebuilding activities in New Orleans and the Gulf Coast. Most builders in the area are still in the repair phase of work; however, rebuilding will begin in earnest soon. Contributing to the higher costs and constrained supply of critical building materials are the excessive and unjustified tariffs and duties on these products from Canada, Brazil and Mexico. These tariffs and duties only act to increase the cost of housing at a time when housing affordability will be critical to the recovery of New Orleans. The U.S.

Congress should encourage the removal of these tariffs and duties to ensure the adequate flow of materials to the area.

VII. Coordination Among Federal Agencies

Finally, there must be greater coordination among the federal, state and local agencies involved in the effort to respond to the crisis and a clearer leadership point of contact. Currently, there are multiple agencies, commissions, task forces and other bodies that have taken the lead on some aspect of responding to the crisis, but no one, clear leader. This makes it difficult for builders and residents to know who has the authority to make decisions. Effectively addressing the myriad short- and long-term needs resulting from this disaster will take the combined expertise and resources of all of the key agencies and levels of government, but a single entity must be the point of contact for decision-making.

Conclusion

Thank you for the opportunity to share my views on the federal, state and local responses to the housing crisis in New Orleans resulting from Hurricane Katrina as well as some of the key housing and economic needs that must be met. I believe New Orleans will recover from this disaster and the area will have rapid economic growth for at least two years as housing is rebuilt and repaired.