Community and Economic Development in North Carolina and Beyond Blog: How North Carolina has used Community Development Block Grants to Fund Disaster Recovery Programs

By CED Program Interns & Students

Article: https://ced.sog.unc.edu/how-north-carolina-has-used-community-development-block-grants-to-fund-disaster-recovery-programs/

This entry was posted on April 03, 2020 and is filed under Community Development, Development Finance Initiative, Economic Development

This post is Part 2 of a two-part series explaining how Community Development Block Grants for Disaster Recovery (CDBG-DR) are administered in North Carolina and how they've been used to help rebuild communities affected by Hurricane Matthew and Hurricane Florence.

In October 2016, Hurricane Matthew made landfall in North Carolina, bringing up to 18 inches of rainfall and setting record level floods in 17 counties. In the aftermath of the storm, over 77,000 households applied for assistance from FEMA, and over 300,000 businesses were either physically or economically impacted.

The first part of this series documented how federal disaster recovery funds are administered by the state, and how they'll be used to address the damage caused by Hurricane Florence in 2018. This post will demonstrate ways CDBG-DR funds have been used in the past to recover from Hurricane Matthew.

The Department of Housing and Urban Development (HUD) allocated two installments of $198,553,000 and $37,976,000 to North Carolina to address the short- and long-term needs of communities impacted by Matthew. Of that amount, 80% is reserved for the most heavily impacted counties: Robeson, Cumberland, Edgecombe, and Wayne.

Category	Allocation	Percent of Total
Administration	$11,826,450	5%
Planning	$11,826,450	5%
Housing	$112,863,832	48%
Buyout and Acquisition	$25,000,000	11%
Small Rental	$18,204,756	8%
Multi-Family	$23,204,756	10%
Public Housing Authority	$9,959,517	4%
Small Business Recovery	$3,760,000	2%
Community Recovery	$19,883,239	8%
TOTAL	**$236,529,000**	**100%**

According to the CDBG-DR action plan published by the NC Office of Resiliency – which manages and monitors projects funded by CDBG-DR – 76% of program funds are used for housing repair and recovery. Apart from housing recovery, the action plan sets aside funding for small business and community recovery programs. Small businesses can receive up to $300,000 in the form of a forgivable loan to address unmet recovery needs including repairing or replacing equipment, or to cover marketing and operating expenses. Community recovery programs can be used to address a wide-range of local needs including school, road, and park repairs.

Homeowners with unmet needs that received other benefits from FEMA, public and private flood insurance, and charitable organizations can receive funds to cover the costs of rehabilitation, reconstruction, elevation, buyouts, and flood insurance subsidies.

For example, manufactured homes, which made up 32% of damaged owner-occupied units and 13% of renter-occupied units, are eligible for funding if repair costs are between $1,000 and $5,000, and eligible for replacement costs if repair costs exceed $5,000. Homeowners applying for substantial repair assistance are required to elevate their homes if they are located within the 100-year floodplain or if local ordinances require elevation as part of reconstruction.

Rebuilding Affordable Housing

Over the past couple of years, CDBG-DR has also been used to address affordable housing shortages in communities affected by Hurricane Matthew. According to FEMA, 89% of the 6,100 rental units damaged by the hurricane were occupied by low- to moderate- income households.

A 2017 study by New York University's Furman Center estimated that about 450,000 government subsidized housing units nationwide, or 8-9%, are located in flood zones and are more likely to be damaged during periods of excessive rainfall. In North Carolina, an estimated 225,000 subsidized units are in the 100-year flood plain, the eighth highest among all states in the nation.

To help address the loss of rental homes in communities affected by natural disasters, DFI has partnered with NCORR to identify resilient sites for new affordable housing. DFI identifies sites outside of the 100- and 500-year flood zone for new construction to help ensure future storms are less likely to impact eastern North Carolina's affordable housing stock.

Rather than exclusively funding new construction with disaster funds, these projects leverage CDBG-DR with 4% Low-Income Housing Tax Credits (LIHTC) using tax-exempt bonds. Construction of new affordable housing typically relies on the which can cover roughly 90% of the project costs. These credits, however, are limited and the competition to secure them is high. By comparison, 4% LIHTC may cover about 30% of construction costs, but the application process is non-competitive. By using CDBG-DR as gap financing, more units can be built. The program has already been successful in planning two affordable developments in Lumberton and Rocky Mount. The local governments in both of these communities have helped contribute to these projects by donating the land for the future developments.

States have wide discretion in determining how recovery dollars are spent, and are a vital tool to help impacted communities recover from natural disasters. Following Hurricane Matthew, most of those funds were used to help housing recovery by providing assistance to homeowners and landlords seeking to repair damaged units, and by piloting a new program that leverages 4% LIHTC for developing new affordable apartments.

Frank Muraca is a master's student in the UNC Department of City and Regional Planning and a Community Revitalization Fellow with the Development Finance Initiative. He specializes in housing and community development, and researches issues related to housing finance and natural hazards.