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TESTIMONY OF THE MAYOR'S OFFICE OF MANAGEMENT AND BUDGET BEFORE THE NEW YORK CITY COUNCIL COMMITTEE ON RESILIENCY AND RECOVERY

October 20, 2016

Introduction

Good morning, Chairperson Treyger and Members of the Committee on Recovery and Resiliency. My name is John Grathwol, Deputy Director at the Mayor's Office of Management and Budget. I am joined here today by Amy Peterson of the Mayor's Office of Housing Recovery Operations (HRO) and Dan Zarrilli of the Mayor's Office of Recovery and Resiliency (ORR).

OMB is responsible for managing a number of federal grants awarded to the City of New York in the aftermath of Hurricane Sandy, including almost \$10 billion of FEMA Public Assistance, and \$4.2 billion in Community Development Block Grant – Disaster Recovery (CDBG-DR) funding from the US Department of Housing and Urban Development (HUD). CDBG-DR funds are allocated based on a HUD Action Plan, and I am here today to address a proposed HUD Action Plan amendment that is currently open for public comment.

This HUD Action Plan amendment proposes reallocating \$500 million in CDBG-DR funds to complete the Build it Back Single Family Program. I will explain today why we believe that this funding reallocation is necessary and will benefit the Build it Back program.

Transparent HUD Approval Process

CDBG-DR funds are allocated based on an analysis of unmet disaster recovery needs. Unmet needs are assessed first by measuring Sandy's direct and indirect damage to the city, including physical damage and loss of economic activity. Next, the City calculates all available funding that can be used for aid, including federal funding (excluding CDBG-DR), private insurance, and even the monetized value of charitable and in-kind contributions. This gap between our resources and our needs reflect the costs that are eligible for CDBG-DR funding.

The CDBG-DR program was designed by HUD to be flexible enough to fill this gap by accommodating changing needs assessments, updates to programs, and the creation of new activities by allowing grantees the ability to shift funds between program categories. We have previously made changes to how we are spending CDBG-DR funds to reflect new information and to better serve New Yorkers, which is what we are proposing now.

In order to reallocate the \$500 million in CDBG-DR funds, the City needs to amend the HUD Action Plan and describe how the CDBG-DR funding will be used to support disaster recovery. There are two types of amendments: technical and substantial. Technical amendments do not create new beneficiaries, do not make funding changes in excess of \$1 million dollars, and do not require approval from HUD.

Substantial amendments require at least one public hearing, an opportunity for the public to provide input, and ultimately approval by HUD. These amendments can define new beneficiaries, create new programs, and make funding changes in excess of \$1 million.

The current HUD Action Plan amendment that is out for public comment, which is a substantial amendment, explains our proposal to reallocate the \$500 million in CDBG-DR funds to complete the Build it Back Single Family Program. After the public comment period is over on next Monday, October 24th and with HUD's approval, we will be able to reallocate these funds.

Build it Back

Build it Back continues to be a critical program for those whose homes were damaged or lost due to Hurricane Sandy.

On September 22, Build it Back Director Amy Peterson reported that the costs associated with Build it Back have risen above prior estimates due to market conditions, cost escalation, and our efforts to make houses safer and more resilient to climate change. As the block grant is a fixed level of funding, it doesn't expand as needs assessment rise. However, the City does have the ability to reallocate CDBG-DR funds between HUD Action Plan categories, which is what we are proposing.

Of the \$500 million proposed to be reallocated to Build it Back, roughly between \$300 million and \$350 million is attributable to increased construction and related costs. Where the City's initial estimates of costs were associated with the cost of repairs and rehabilitations, our original estimates have held up. For elevation and reconstruction projects, which are more complicated, the actual work of installing foundations and helical piles to elevate homes, particularly in tight lots with unknown soil conditions, is more difficult and more expensive than original estimates suggested. Costs have also been driven up by compliance issues, particularly code requirements for sprinklers. And finally, a construction boom and a tight labor market for skilled construction trades are driving up costs.

While costs have shown to be higher than expected, Build it Back construction has created more than 12,000 jobs through the rehabilitation, elevation, and reconstruction of single family homes, multi-family homes, and other buildings. The program has also provided nearly 6,000 reimbursement checks.

In addition, the City has established new Build it Back programs, largely in response to community input, to ease the burden on homeowners as they go through the process of recovery. Allowing homeowners to use disaster recovery funds they received from other sources to pay for temporary housing, design costs, temporary repairs, and other post-storm recovery activities, increased the need for CDBG-DR funds to cover construction costs directly, with an impact of

about \$30 million. The City also created its temporary relocation assistance and rental assistance programs to assist homeowners who needed to be out of their homes during construction – approximately \$40 million. And, the City is buying out and acquiring for redevelopment homes from qualified individuals who the State of New York did not serve through their acquisition program, which comes at a cost of \$40 to \$50 million. Lastly, the Build it Back program invested approximately \$20 to \$30 million to make neighborhoods and attached homes more resilient.

The Funding Reallocation

The proposed amendment reallocates \$500 million to Build it Back from two specific projects areas: 1) FEMA match on disaster response expenses paid for immediately after the storm in prior fiscal years and 2) infrastructure and resiliency projects that are capitally-eligible. For those projects that are capitally-eligible, we will allocate City capital dollars to replace the CDBG-DR funding in these projects in the upcoming Capital Commitment Plan.

No City Council-approved project will be delayed because of the reallocation; only the funding source, not the timeline, has changed. In fact, though City capital funds will be required to complete these projects, we already have dedicated FEMA funding to pay for 90 percent of each of them, and we will use that funding first before using City capital. For that reason, we do not anticipate using capital funding in the current fiscal year. Nevertheless, we are being cautious to prevent funding gaps. Out-year appropriations will still need Council approval and given past support for these vital resiliency projects, we anticipate that the Council will continue to prioritize these projects.

We believe that CDBG-DR are better suited towards assisting homeowners than covering the FEMA match on disaster recovery responses immediately after the storm, especially where the City already performed the work. For example, part of the proposed CDBG-DR reallocation to Build it Back includes \$150 million of CDBG-DR funds that we had hoped would have reimbursed FEMA's 10 percent local match from prior years. These are costs already incurred and paid for by the City both immediately and in the first years after the storm. Although the City had previously intended to get reimbursement for the FEMA match for eligible disaster recovery expenses with CDBG-DR, not every FEMA-eligible cost met the requirements for eligibility for CDBG-DR funding as is.

Despite significant efforts by the City to use HUD funding for the local match on these disaster response activities, HUD and FEMA ultimately have different regulations that cannot always easily be made to align in all cases.

Regarding infrastructure and resiliency projects that are capital projects, the City is proposing \$350 million in City capital allocation over the four year capital plan to free up the CDBG-DR funding for Build it Back. These capital projects include business, infrastructure, and coastal resiliency projects. Of the \$350 million, approximately half, or \$170 million are for non-FEMA match infrastructure projects, specifically the Raise Shorelines program, an integrated flood protection system in Red Hook, the wetlands restoration at Saw Mill Creek, and commercial corridors in Far Rockaway. And approximately half, or \$180 million is for projects associated with the match for FEMA funding. These projects include the repair of H+H facilities (\$137 million) and capital projects with DEP (\$13 million), FDNY (\$16 million) and EDC (\$12

million). Again, the FEMA match projects have available 90% of their funding from FEMA, and those FEMA funds will be spent first.

Conclusion

The current HUD Action Plan amendment makes other changes that will benefit New Yorkers, such as:

- Presents additional information and updates on planning initiatives associated with OneNYC, including reducing risk in vulnerable coastal communities, applying lessons learned and tools developed through the Sandy recovery process to future planning, and engaging in preparedness activities for the next storm.
- Allocates an additional \$10 million to close out the Hurricane Sandy Business Loan and Grant program to serve all eligible applicants.
- Reclassifies administrative costs and creating a new workforce development program associated with the New York City Housing Authority.
- Adjusts rental benefits for the Temporary Disaster Assistance Program (TDAP) rental program.
- Reclassifies the Breezy Point Risk Mitigation project as a Coastal Resiliency project.

To conclude, the reallocations made as part of proposed HUD Action Plan Amendment make targeted investments in hard-hit areas that ultimately will have tremendous value for homeowners, tenants, businesses, and jobs. The details of all of these proposed changes are laid out in the City's proposed HUD Action Plan, available at www.nyc.gov/cdbg, and we encourage comments and feedback prior to the close of the comment period next Monday, October 24. Our 3rd and final public hearing for this amendment is tonight, at Coney Island Hospital at 7pm. I look forward to your questions.