

MEMORANDUM

September 23, 2016

To: Stanley Gimont
Deputy Assistant Secretary for Grant Programs (Acting), DG



U.S. DEPARTMENT
OF HOUSING
AND URBAN
DEVELOPMENT

From: Kathryn Saylor 
Assistant Inspector General for Evaluation, GAH

Subject: Project Closeout – HUD’s Use of Formula and Competition Models for Distributing Disaster Recovery Funding, 2016-OE-0009S

We have completed preliminary research on the Office of Community Planning and Development’s (CPD) methods to allocate Community Development Block Grant Disaster Recovery (CDBG-DR) funds appropriated under the Disaster Relief Appropriations Act of 2013 (PL 113-2). Our objectives were to review the methodology for (1) the seven formula-based allocations and (2) the two competition-based allocations of CDBG-DR funds.

We conducted this research to assess the feasibility of evaluating whether the U.S. Department of Housing and Urban Development’s (HUD) transition from formula-based allocations to competition-based allocations improved its ability to address unmet need. During our research, we reviewed Federal Register notices, notices of funding availability, and program documents. We also interviewed managers and employees who designed and implemented the allocation methodologies. After meeting our research objectives, we did not identify indications of systemic weaknesses in methodologies CPD used for formula-based or competition-based allocations. As a result, we do not plan additional work at this time.

We appreciate the assistance you and your staff provided throughout the project. If you have any questions, please contact me at (202) 809-3093 or Paul Bergstrand, Acting Director of the Program Evaluations Division, at (202) 306-9764. Our research results follow.

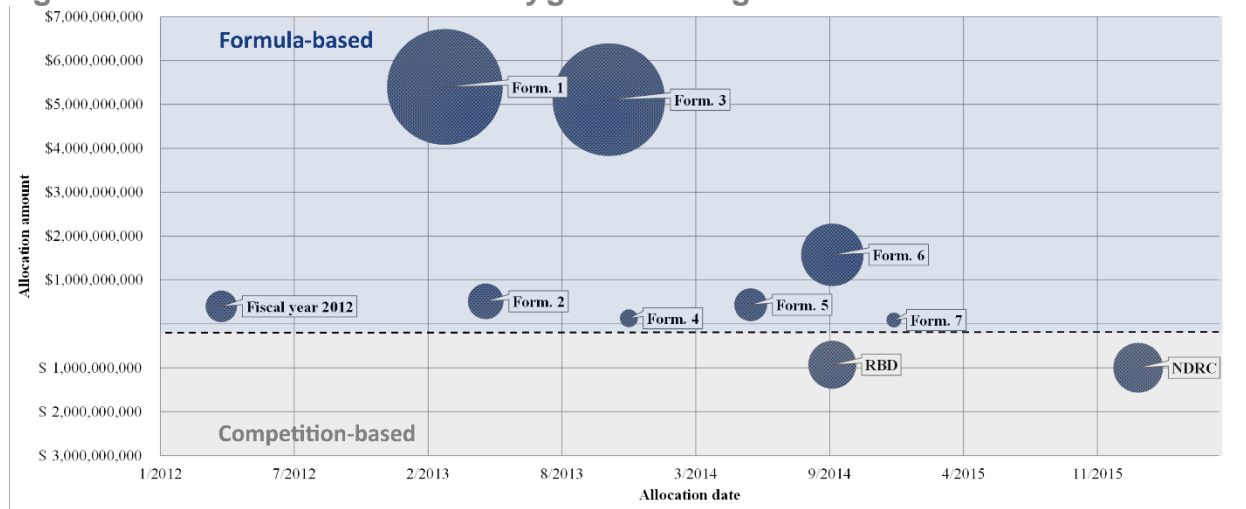
Research Results

In response to Hurricane Sandy and other disasters, PL 113-2 appropriated \$16 billion to HUD, although this amount was reduced to \$15.2 billion after rescissions. The law directed HUD to allocate funds to the most impacted and distressed areas that had unmet recovery and revitalization needs related to the effects of a covered disaster. HUD allocated PL 113-2 funds using seven formulas and two competitions: Rebuild by Design (RBD) and the National Disaster Resilience Competition (NDRC). Figure 1 presents these allocations by date and dollar amount.

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Figure 1 – Allocations of disaster recovery grants occurring between 2011 and 2013



Note: HUD considered the fiscal year 2012 allocation when determining its allocation methodology for PL 113-2. This allocation is discussed in greater detail later.

Formula-based Allocations

HUD used a formula model to allocate the majority its PL 113-2 appropriation. HUD’s use of the formula model aligned with its practice since its first disaster response appropriation in the 1990s. At the time of this appropriation, HUD determined that using a formula-based process similar to the one used by the Community Development Block Grant program would enable it to quickly allocate funds. HUD created a formula model that provided a framework for future allocations, including the majority of the PL 113-2 appropriation. Within this formula framework, HUD could adjust the methodology for individual allocations to account for conditions such as

- A particular appropriation bill’s language,
- An administration’s policy priorities, or
- Changes to Federal Emergency Management Agency (FEMA) or Small Business administration (SBA) data collection policies.¹

HUD’s seven PL 113-2 formula allocations totaled approximately \$13.3 billion. In addition, HUD made a \$400 million formula-based allocation under the Consolidated and Further Continuing Appropriations Act of 2012 (PL 112-55).² Each allocation was announced in the Federal Register. Each announcement contained an appendix, which described HUD’s methodology for determining each grantee’s share of that allocation.

Competition-based Allocations

Despite HUD’s historical preference for formula-based allocations, it supplemented the PL 113-2 formula-based allocations with competition-based allocations. The first of these allocations was

¹ HUD’s formula model has relied substantially on data collected by FEMA and SBA in the course of administering their respective disaster response programs.

² PL 112-55 was enacted in November 2011 and directed HUD to address disasters occurring in fiscal year 2011. Because PL 113-2 covered disasters occurring during 2011, 2012, and 2013, HUD was able to use it to address disasters also covered by PL 112-55.

the result of RBD: a multistage design competition to develop innovative, implementable proposals to promote resilience for the Hurricane Sandy-affected region. Although the RBD announcement discussed HUD's allocating CDBG-DR money to facilitate implementation of winning designs, there were no CDBG-DR funds allocated upfront to administer or support RBD. Rather, philanthropic organizations provided technical assistance and contributed \$2 million to support RBD design efforts.

RBD required design teams to collaborate with affected community stakeholders to identify key design opportunities and iteratively design and refine potential solutions. The 10 finalist design teams each received awards of \$200,000 to defray the labor costs associated with participating in the competition.³ RBD concluded in June 2014 when HUD selected six winning designs. The winning design teams received nonmonetary awards of distinction. The HUD Secretary accepted the winning designs as best available data and made a separate allocation of \$930 million in PL 113-2 funds to Hurricane Sandy-affected grantees to implement the winning RBD designs.

The second competition-based allocation was NDRC: a two-phased process that competitively awarded nearly \$1 billion in CDBG-DR funds to 13 State and local governments. A pool of States, cities, and counties that experienced a presidentially declared major disaster in 2011, 2012, or 2013 were eligible to apply to NDRC. Philanthropic organizations provided technical assistance but no funding toward the competition.

Before the first phase, HUD announced that it would commit approximately \$999.1 million to NDRC winners. During the first phase, State and local communities framed unmet recovery needs, vulnerabilities, and community development objectives for resilient recovery concepts. In June 2015, HUD concluded the first phase and designated 40 States and local communities as finalists to compete in the second and final phase. HUD asked finalists to submit specific projects that could increase their community's resiliency by iteratively designing and refining proposals at a more granular level than in the first phase. NDRC concluded in January 2016. At that time, HUD announced the winners of NDRC and their respective shares of the \$999.1 million in available CDBG-DR funding for their projects.

HUD Used Both Formula- and Competition-based Allocations

As previously discussed, the main motive behind HUD's creation of the formula model was its desire to allocate disaster response appropriations quickly. A HUD official explained additional benefits of the formula model beyond its facilitating more timely allocations. First, the formula-based allocations were equitable because they used uniform FEMA and SBA data available for all jurisdictions affected by a disaster. The formula model also is transparent because it allocates funds to address communities' unmet need strictly as shown by data. Finally, the formula model offers grantees flexibility in their use of funds and provides grantees with certainty of funds, which may facilitate long-range planning.

According to HUD officials, there are several benefits to hosting competitions to allocate disaster recovery appropriations. These include

³ Each \$200,000 award was paid from the \$2 million philanthropic donation. The awards were not paid using appropriated funds.

- Applicants' ability to present local data that HUD does not have. HUD officials told us that the ability to collect additional data was particularly important under PL 113-2 due to the time elapsed between the earliest disasters and the final allocations.
- Applicants' ability to generate projects that can increase overall community understanding of resilient recovery.
- HUD's ability to obtain more robust data on unmet recovery needs and identify unmet needs that may not have previously qualified for a formula allocation.
- HUD's increased certainty about how grantees will use the awarded funds.

Formula-based allocations made under PL 113-2 generally focused on recovery of individual entities or structures, while the competition-based allocations generally focused on community-level resiliency projects. Winning projects were designed to not only rebuild disaster-affected communities to predisaster conditions, but also build the communities back stronger so that future disasters do less damage and recovery can happen faster.

It is unclear whether HUD will use competition-based models to allocate any future disaster response appropriations it receives. HUD officials told us that competition-based allocations resulted from circumstances that may be unique to the PL 113-2 appropriation. We were also told that competition-based allocations were labor intensive and required external support to be fully successful.

cc:

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