

ANALYSIS OF
ROAD HOME PROGRAM
FISCAL SHORTFALL



ISSUED MAY 31, 2007

**LEGISLATIVE AUDITOR
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May 31, 2007

The Honorable Donald E. Hines,
President of the Senate
The Honorable Joe R. Salter,
Speaker of the House of Representatives

Dear Senator Hines and Representative Salter:

This report provides the results of our analysis of the Road Home fiscal shortfall as required by House Concurrent Resolution 85 of the 2007 Regular Session. Our analysis shows that the shortfall is approximately \$5 billion. The report provides detailed information on our analysis of the budget, the number of pending applications, and the projected average award amount.

I hope this report will benefit your legislative decision-making process.

Sincerely,

Steve J. Theriot, CPA
Legislative Auditor

SJT/dl

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Office of Legislative Auditor

Steve J. Theriot, CPA, Legislative Auditor



Road Home Program

Analysis of Road Home Program Fiscal Shortfall

May 2007

Audit Control # 40070009

Overall Results

House Concurrent Resolution (HCR) 85 of the 2007 Regular Session directs the Louisiana Legislative Auditor to determine the amount of the fiscal shortfall for the Road Home program. The only program that is fully operational within the Road Home is the homeowner assistance program; therefore, we limited our review to the homeowner assistance program. For our review, we analyzed information and data from ICF, International (ICF); the Office of Community Development (OCD); and the Louisiana Recovery Authority (LRA). Our objective was to answer the following question:

What is the amount of the fiscal shortfall in the Road Home homeowner assistance program, given current spending and funding levels, and the number of pending applications?

Results: As of May 23, 2007, the estimated fiscal shortfall for the Road Home homeowner assistance program is approximately \$5 billion. This shortfall is based on the information in the table below.

Pending Applications	Average Award	Amount Needed for Remaining Applicants	Funds Remaining	Projected Shortfall
112,377	\$78,900	\$8,866,545,300	\$3,835,274,617	\$5,031,270,683

The pending applications number is based on the projected total number of applicants for the program minus the applicants that have already received awards. The projected total population number was calculated by ICF and we found that the calculations and assumptions were reasonable. For the projected average award amount, we reviewed ICF's analysis and conducted our own analysis using a similar methodology using the best data available. Although we have calculated a projected award amount, there are limitations to estimating any average award amount because of many factors that could potentially increase or decrease an applicant's award amount. The funding data was provided by OCD.

LRA has used the average award of \$74,173 in their cost projections. This amount was derived from one of the models ICF used to estimate the average award amount. The average award for ICF's various models ranged from \$68,494 to \$77,748. The high range of ICF's models is consistent with our projection of \$78,900.

ROAD HOME FISCAL SHORTFALL

In addition, we made various assumptions or relied on LRA or ICF assumptions to conclude that these numbers were reasonable. These assumptions are summarized below.

Exhibit 1	
Assumptions for Projected Final Population Served and Average Award Amount	
132,980 Projected Final Population Served	\$78,900 Projected Average Award Amount
<ul style="list-style-type: none"> • 50% of the applicants suspected as duplicates will be confirmed as duplicates. • 50% of the people who are eligible for the program and have not scheduled a first appointment will never schedule an appointment. • The final application deadline will be June 30, 2007. • There will be 400 applicants per day until the application deadline date. • 75% of the future applicants will be eligible for the program. • Some of the estimated future FEMA ineligible applicants will be eligible. 	<ul style="list-style-type: none"> • ICF data on applicants who have accepted an award amount is complete and accurate. • Applicants who have selected an option are similar to those that have not selected an option or had an award calculated. • No additional policies will be developed that increase or decrease the average award amount.
\$3.8 Billion Funds Remaining	
<ul style="list-style-type: none"> • Hazard Mitigation Grant Program funds totaling \$1.14 billion will not be approved for use with the Road Home program. 	
Source: Prepared by legislative auditor's staff using ICF and LLA assumptions.	

Average Funding Remaining: If the state receives no additional money for the Road Home homeowner assistance program, the average amount available for the remaining applicants will be well below the average estimated award amounts. We calculated the average amount available to applicants for two different populations. First, we calculated the average remaining amount for those who have not received an award. Second, we calculated the average remaining amount for applicants who have not had an award calculated and accepted. See Exhibit 2 for the results.

Exhibit 2			
Average Amount Remaining for Applicants if State Gets No Additional Funding			
Population	Applicants in Population	Funding Remaining	Average Funding Remaining per Applicant
Those who have not received an award	112,377	\$3,835,274,617	\$34,129
Those who had not received nor accepted an award	91,786*	\$2,137,935,846**	\$23,293
<p>*Calculated by subtracting 41,194 applicants that have award calculated and accepted from estimate of 132, 980 applicants. **Calculated by subtracting estimated amount for those who have award calculated and accepted (\$78,941 X 41,194) from total funds available for homeowner assistance (\$5,389,831,400).</p> <p>Source: Prepared by legislative auditor’s staff.</p>			

The remainder of this report provides more detail about our analysis and results and is divided into the following sections:

- Section 1 summarizes the Community Development Block Grant (CDBG) budget and expenditure information.
- Section 2 summarizes how ICF estimated the projected population.
- Section 3 summarizes our methodology and results for our calculation of the average award amount and how this amount compares to ICF’s analysis.
- Section 4 summarizes the limitations to using any projected numbers.

Section 1: Road Home Budget and Expenditures

Currently, there is \$3.8 billion remaining for payments to Road Home applicants from funds approved by the Housing and Urban Development (HUD). The state has \$6 billion in funding from HUD for the Road Home homeowner assistance program. This amount came in two separate appropriations. Of the \$6 billion amount, \$5.4 billion is for payments to applicants. As shown in Exhibit 3, \$1.55 billion has already been paid to 20,603 applicants, leaving \$3.8 billion for the remaining applicants. In addition to payments to applicants, \$400 million remains on the ICF contract for the homeowner assistance program and \$81.8 million in other charges. Exhibit 3 outlines these amounts.

Exhibit 3 Road Home Homeowner Assistance Program Authorized Amounts and Remaining Balance As of May 23, 2007					
Road Home Homeowner Assistance Program Funds	First Appropriation	Second Appropriation	Total Appropriation	Expended	Remaining
Available for Applicants	\$2,893,681,400	\$2,496,150,000	\$5,389,831,400	\$1,554,556,783	\$3,835,274,617
ICF Contract	575,418,600*	0	575,418,600	167,296,541	408,122,059
Other Charges	82,500,000**	0	82,500,000	750,000	81,750,000
Total Road Home Funding	\$3,551,600,000	\$2,496,150,000	\$6,047,750,000	\$1,722,603,324	\$4,325,146,676
*This amount only includes the homeowner assistance program. The remaining \$180 million of the \$756 million contract is for the rental programs. **Includes \$80 million for demolition of homes and \$2.5 million for the Louisiana Road Home Corporation. Source: Prepared by legislative auditor's staff using information provided by OCD.					

The Road Home homeowner assistance program is just one of the many programs funded by CDBG. There is currently \$6.2 billion in CDBG funds approved and available from HUD from the first appropriation and another \$4.2 billion from the second appropriation. Out of this \$10.4 billion, \$6 billion (58%) is for the homeowner assistance program. The remaining \$4.4 billion is for other housing programs, administrative costs, and other CDBG programs as shown in Appendix A.

Section 2: Projected Road Home Applicant Population

There are 132,980 individuals who may receive Road Home awards. Based on OCD's disbursement of funds to 20,603 applicants, as described in the previous section, there are an estimated 112, 377 applicants remaining to be paid. ICF performed an analysis based on actual data and assumptions to project the number of individuals who may receive Road Home awards. We reviewed ICF's analysis and determined that it was reasonable given the assumptions. According to ICF's analysis, as of May 15, 2007, there are 132,980 applications that currently are eligible or will be eligible for the Road Home program. Exhibit 4 summarizes how ICF derived this projection. Appendix B provides more detail on this calculation and assumptions.

Exhibit 4 Calculation of Population Estimate As of May 15, 2007
164,752 Number of applications received
Removes the following: <ul style="list-style-type: none"> • applications that are not valid for processing • number of expected duplicates and ineligibles • applicants who are estimated to not show up or not call for appointments • applicants who have sold their homes before their home evaluation and will only be eligible if there are funds remaining
Includes the following: <ul style="list-style-type: none"> • applicants who had less than major or severe damage as designated by FEMA but who are eligible based on their Road Home evaluations • estimated number of future eligible applicants • current ineligibles who may be declared eligible
132,980 Total Potential Eligible Road Home Population
Source: Prepared by legislative auditor's staff using data from ICF and LRA.

Section 3: Projection of Average Award Amount

Based on the best data available, we determined the projected average award amount is \$78,900. We calculated the average of the 41,194 applicants who have an award amount calculated and accepted by the applicant and found that the average award was \$78,941. We concluded that this methodology and the resulting average award is the most reasonable estimate available because of the following:

- This methodology and the results are consistent with ICF's cash flow analysis projections.
- Analysis of actual payments for those who have received payments does not vary significantly from the calculated award amounts.
- ICF's regression analysis, which projected \$74,173 per applicant, used earlier data and therefore included fewer applicants with award amounts calculated and accepted by the applicants. The analysis also had other limitations.
- Data on the population that has an award calculated but have not selected an option is not reliable to use in our analysis.
- Data on the population that does not have an award calculated is not complete, consistent, or reliable to use in our analysis.

The following sections provide more detailed information on each of the above factors.

ROAD HOME FISCAL SHORTFALL

Our methodology and the corresponding results are consistent with ICF's cash flow analysis projections. Our method for estimating the average award amount was similar to the weekly cash flow projections calculated by ICF. The most current cash flow projections from ICF are as of April 23, 2007, and were the most recent at the time of our analysis. We calculated averages as of May 5, 2007, and May 21, 2007. The results of our additional analysis are summarized in Exhibit 5.

Exhibit 5				
Award Amounts by Options Selected				
As of May 5 and May 21, 2007				
Option	Total Amount May 5, 2007	Percent of Total Amount	Total Amount May 21, 2007	Percent of Total Amount
Option 1	\$2,515,492,071.67	85.0%	\$2,750,231,198.37	84.6%
Option 2	\$367,061,278.86	12.4%	\$412,474,584.58	12.7%
Option 3	\$76,446,240.74	2.6%	\$89,199,537.87	2.7%
Total	\$2,958,999,591.27	100%	\$3,251,905,320.82	100%
Average	\$78,732.39		\$78,941.24	

Source: Prepared by legislative auditor's staff using data on applicants and awards from ICF.

Exhibit 6 compares the results of our analysis to the cash flow projections from ICF. ICF's cash flow reports are provided to OCD.

Exhibit 6			
Summary of Cash Flow Projections From			
Benefit Options Selected			
March through May 2007			
Data as of	Cumulative Number in Population	Average Award Amount	Source of Analysis
3/30/2007	25,749	\$77,577.00	ICF's Analysis
4/6/2007	27,826	\$77,903.00	
4/13/2007	28,616	\$76,937.00	
4/22/2007	31,611	\$77,594.00	
4/28/2007	35,162	\$77,803.00	
5/5/07	37,583	\$78,732.00	LLA's Analysis
5/21/07	41,194	\$78,941.00	

Source: Prepared by legislative auditor's staff using data from ICF.

Actual payments for those who have received payments does not vary significantly from the calculated award amounts. First American Title, the subcontractor that handles closings, provided our office with data on 13,189 individuals who closed and received a payment. The average disbursement amount for these individuals is \$76,397. The average

calculated benefits for this same group of individuals is \$78,302 resulting in a 2.5% difference between the calculated award amount and the payment amount. This percentage difference is minimal which suggests that the average award amount of individuals who have selected an option is a good indicator of the projected average award amount.

ICF's regression analysis, which projected \$74,173 per applicant, used earlier data and therefore included fewer applicants with award amounts calculated and accepted by the applicant. At the direction of LRA, ICF created various models to estimate an average award amount. These models predicted that the average award amount could range from a low of \$68,494 to a high of \$77,748. The model ICF used to calculate its final estimate was a regression analysis. ICF used the probabilities of choosing an award to calculate the average award amount. The regression model included 31,488 applicants who had an award calculated and accepted. We performed our analysis later and had a total of 41,194 applicants who had an award calculated and accepted.

ICF used a sophisticated regression model in an attempt to provide a better estimate than the simple average presented in its cash flow analysis report. However, the regression analysis has limitations because of the limited data available to include in the model. For example, ICF did not have demographic data available on all applicants in the program. As a result, the regression model may be limited and not accurately reflect the choice that an individual will make which could result in an incorrect average award amount. ICF made the regression model as good as it could be given the data limitations. However, since our average award calculation is based on known choices for 41,194 applicants, we concluded that our average award amount is a better indicator of the projected average award amount.

Data on the population that has an award calculated but have not selected an option is not reliable to use in our analysis. We had data to calculate an average award amount for applicants who had an award calculated but had not selected an award option. However, we determined that there was too much uncertainty around which options these individuals may select and what their award amounts may be. We concluded that using the population of individuals who have award amounts calculated and actually selected their options and award amounts was the best population to use.

Data on the population that does not have an award calculated is not complete, consistent, or reliable to use in our analysis. Because we did not have complete, consistent, or reliable data on approximately 60,000 individuals who have not yet had an award calculated, we concluded that using the population of individuals who have actually selected their options and award amounts was the best population to use. We attempted to analyze characteristics such as household income, settled insurance amounts, pre-storm value, square footage, and amount of damages for the remaining applicants in the program to determine if our sample was representative and if the average award amount could be projected with confidence. However, there was not enough data to do this analysis. In some cases, there was data, but the data was unreliable as it was self-reported and not yet verified. Therefore, we used data on individuals who had selected an option as the best population to use for analysis because this data was verified and appeared reliable.

Section 4: Limitations

Because HCR 85 required that we determine the amount of the fiscal shortfall, we used the best data available to calculate what the projected average award amount would be. However, because of the limited data on many of the applicants in the program, we had to make many assumptions. Some assumptions have a big impact on the reliability of our analysis, such as the assumption that applicants who have an award calculated and accepted are representative of those that do not have an award calculated. There are limitations to estimating any average award amounts because of many factors that could potentially increase or decrease an applicant's award amount. These factors are summarized below.

Some applicants may dispute their amounts in the resolution process and their award amount may change. Since November, approximately 30,000 cases that have been through or are still in the resolution process. If homeowners dispute their pre-storm value, then the program's current policy is to use the highest pre-storm value¹ which may increase the overall award amount.

Some applicants may not have received insurance settlements before they closed and will owe money back to the state once they receive settlements from insurers. Individuals who have not received all money from insurance claims at the time their awards were calculated may have to subrogate additional funds to the state after closing which may reduce the actual award.

Additional policies may be developed or current policies modified that will result in changes to award amounts. Policies have been changed throughout the program that had a significant impact to applicant award amounts. Examples of these policies include changes to what is accepted as pre-storm value determinations and changes in the home evaluation calculation. Therefore, additional policy changes could affect future award amounts.

Certain populations of applicants have been held up in the process because of a lack of policy decisions. According to ICF, applicants who resided in mobile homes, town homes, and condominiums may only recently be getting processed because of a lack of policies on these groups. These groups may decrease the average award amount.

¹ Pre-storm value can be determined by the following sources: a pre-storm appraisal completed by a licensed appraiser, a post-storm appraisal validated by a broker's price opinion, a third party appraisal obtained from a lender or government agency, a pre-storm market analysis, or a broker's price opinion.

**APPENDIX A: SUMMARY OF CDBG AUTHORIZED
AND REMAINING FUNDS
AS OF MAY 23, 2007**

ROAD HOME HOUSING FUNDS					
	First Appropriation	Second Appropriation	Total Appropriation	Expended	Remaining
Homeowner Assistance	\$3,551,600,000	\$2,496,150,000	\$6,047,750,000	\$1,722,603,324	\$4,325,146,676
Start-up Costs*	17,100,000	0	17,100,000	994,530	16,105,470
Housing for Renters	845,950,000	1,086,670,000	1,932,620,000	13,011,574	1,919,608,426
Restoration Homeless Support	25,900,000	25,980,000	51,880,000	78,495	51,801,505
Other Housing Activities	32,100,000	0	32,100,000	2,446,144	29,653,856
Unallocated	0	230,000,000	230,000,000	0	230,000,000
Total*	\$4,472,650,000	\$3,838,800,000	\$8,311,450,000	\$1,739,134,067	\$6,572,315,933

*The total of \$17.1 million includes \$4.3 million for Environmental Clearance Contract, \$2 million for call centers, \$1 million for housing service contract, and \$9.8 million for miscellaneous start-up costs.

Note: Of ICF's \$756 million contract, \$575 million is allocated to homeowner assistance and \$180 million is allocated to housing for renters.

ADMINISTRATION					
	First Appropriation	Second Appropriation	Total Appropriation	Expended	Remaining
Planning - LRA	\$9,500,000	\$0	\$9,500,000	\$2,385,029	\$7,114,971
Administration - OCD	148,680,000	41,200,000	189,880,000	4,486,406	185,393,594
Total*	\$158,180,000	\$41,200,000	\$199,380,000	\$6,871,435	\$192,508,565

OTHER CDBG PROGRAMS					
	First Appropriation	Second Appropriation	Total Appropriation	Expended	Remaining
Infrastructure - State	\$142,500,000	\$0	\$142,500,000	\$9,395,767	\$133,104,233
Infrastructure - Local	595,000,000	0	595,000,000	0	595,000,000
Privately-owned Utilities	200,000,000	0	200,000,000	171,700,000	28,300,000
Economic Development	332,500,000	0	332,500,000	49,259,266	283,240,734
Supportive Services	46,750,000	0	46,750,000	0	46,750,000
Technical Assistance	12,420,000	0	12,420,000	21,222	12,398,778
LSU Hospital	0	300,000,000	300,000,000	0	0
Fisheries	0	20,000,000	20,000,000	0	0
Restricted Balance	250,000,000	0	250,000,000	0	250,000,000
Total	\$1,579,170,000	\$320,000,000	\$1,899,170,000	\$230,376,255	\$1,668,793,745

Total for All CDBG Funds	\$6,210,000,000	\$4,200,000,000	\$10,410,000,000	\$1,976,381,759	\$8,433,618,241
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APPENDIX B: CALCULATION OF THE ESTIMATED FINAL POPULATION SERVED AS OF MAY 15, 2007

Steps to Calculate Final Population Served		
Total Applications Received	164,752	Begin with the total number of applications received
Applicants Not Valid for Processing	-29,657	Subtract the number of invalid applications
Estimated Number of Current Ineligible/Duplicate Applications	-19,219	Subtract the number of ineligible or duplicate applications. ICF calculates this number by totaling: <ul style="list-style-type: none"> • the number of applicants who were determined ineligible before their first appointments • the number of applicants who were determined ineligible after their first appointments • the number of duplicate applications • and assuming that 50% of the total number of applications being reviewed as duplicates will be duplicates.
Estimated Number of Current Applicants That Will Not Show up	-12,925	ICF calculates this number by: <ul style="list-style-type: none"> • Subtracting the number of applicants who have scheduled a first appointment but did not show up • assuming that 50% of the applicants who are eligible for a first appointment, but have not scheduled it, will never schedule.
Non-FEMA Eligible	15,982	ICF includes applicants that were initially determined ineligible based on their FEMA designation but were determined eligible for the Road Home homeowner assistance program after a home evaluation.
Sold Home Before Program Start	-1,633	Subtracts the number of applicants who sold their homes before their home evaluation.
Estimated Future Eligible Applications	13,800	ICF calculates the number of applicants who will be eligible in the future by: <ul style="list-style-type: none"> • Assuming the application deadline will be June 30, 2007 • There will be 400 applications per day until the application deadline • 75% of future applications will be eligible for the program.
Estimated Future Ineligible Applicants Declared Eligible	1,880	ICF calculates this number by assuming some future applicants who were not eligible based on their FEMA designation will be eligible for the program.
Estimated Final Population Served	132,980	End with the total number of people who may receive a Road Home award.
Source: Prepared by legislative auditor's staff using information provided by ICF.		

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