



GOVERNMENT OF PUERTO RICO
Department of Housing

Testimony of the Honorable Fernando Gil Enseñat
March 26, 2019

Chairman Green, Ranking Member Barr, Members of the Committee, thank you very much for the invitation to appear before you today regarding the administration of disaster recovery funds in the wake of Hurricanes Harvey, Irma and Maria.

I would like to take this opportunity to personally thank you all for the overwhelming support the Congress has shown Puerto Rico after the impacts of Maria and Irma. Congress acted swiftly in the wake of the devastation of these storms to appropriate resources for our recovery. The support has been bipartisan and is a symbol to all Americans of how we can come together in times of need, put aside our differences, and act for the good of our fellow citizens. On behalf of the 3.2 million U.S citizens who live in Puerto Rico, I thank you.

I would also like to thank our partners at HUD. Secretary Carson, Assistant Secretary David Woll, CFO Irv Dennis and their staffs who continue to work with us on approving our action plans and strengthening our previously approved internal controls so that we can get this much needed aid to Puerto Rico. Their tireless work has helped us develop smarter recovery strategies and drives us to be better. While we may occasionally have our policy differences, I know they always seek to put our residents, our fellow American citizens in Puerto Rico, first.

I'd also like to extend my sincere appreciation to Tennille Parker, Director of the Disaster Recovery and Special Issues Division, who is not only responsible for overseeing the Division within HUD that administers all CDBG-DR grants across the country, but has worked shoulder-to-shoulder with us from the beginning to ensure we are well prepared and have laid a solid foundation for our recovery. So many others throughout the agency have shown such dedication and worked so hard to get us to this point. I want to underscore our thanks to them.

Mr. Chairman, this has not been an easy road. The devastation wrought by these hurricanes was immense, but as terrible as those storms were, the recovery has been equally as grueling.

As Secretary of the Puerto Rico's Department of Housing, I oversee over half a billion dollars in federal funding and manage one of the largest number of public housing units in the country as well as many other HUD programs. As familiar as I am with HUD's statutes, regulations and policies, CDBG-DR, a

program which changes from disaster appropriation to appropriation, is in a class all its own. We were very fortunate to find contractors who could guide us through the maze and help translate our vision into actionable plans. As we reflect on lessons learned, however, it should not be this hard.

From the moment the dollars were appropriated, even before the HUD allocation, we sprang into action working on preparing the myriad of required documents and then soliciting comments from stakeholders.

All in all, we have been allocated almost \$20B from the September 2017 appropriations bill and the February 2018 bill. Since CDBG-DR is not an authorized program, the regulations stem from the language in each appropriations act and can be at the mercy of the policy preferences of the political leadership at the time. This has meant multiple federal register notices and action plan work flows. In our case, because of new leadership, some programs approved in July 2018 were reversed in March 2019.

This has been frustrating, but we are working very well with our partners at HUD and we are in agreement on the path forward. While we lost some time due to the shutdown, HUD staff worked quickly to get the approvals completed once the federal government reopened giving us full access to our first tranche of funding, \$1,507,179,000.

Our first amendment to the action plan has been approved, but we are currently waiting for a grant agreement from HUD to give us access to this next tranche of \$8,220,783,000. Each of our tranches of recovery funding will come with a unique grant agreement. We are hopeful that since our initial action plan and first amendment are substantially similar, it won't take HUD long to send us the agreement and that this version will be similar to our current executed agreement.

All we ask for with these agreements is equity and parity with our sister states on the mainland. We look forward to reporting back you Mr. Chairman, on how our discussions progress.

We are also waiting on federal register notices for the \$1.9B for the electrical grid and \$8.3B in mitigation money.

It's notable that the one-year anniversary of the appropriation of the mitigation money was on Feb 9th. As I believe Commissioner George P. Bush in Texas observed, billions of dollars of recovery money are held up because no notices have yet been published for the remaining tranches of funding. The HUD professionals working on this have more than a full plate. This fact speaks less about a problem with HUD and more about the need to reform this process.

Some have said this mitigation money is for the future and not an immediate need. That may or may not be true, but planning takes time with CDBG. Since the rules can change from notice to notice, we need to see how these dollars can fit with other dollars. But, again, I know HUD is working hard to get this notice out. I'm consistently amazed by the amount of work they do with such limited staff.

And while we'd like to have those notices now for planning purposes, we have our plates full as well. Currently, we are busy working on deploying the funding we have in hand.

In order to assist homeowners repairing damaged homes and/or rebuilding substantially damaged homes in non-hazard areas, we've created the Homeowner Repair, Reconstruction, or Relocation (R3) program and allocated \$2,175,570,050. The maximum award for repairs is \$60,000, while maximum awards for reconstruction or relocation is \$150,000. This program will build on the STEP program we successfully launched using FEMA funding focused on immediate repairs to return properties back to basic habitability. We're proud of our work on STEP and we expect R3 to continue these positive results.

Another significant challenge we have in Puerto Rico is in establishing clear title. To assist homeowners throughout the hurricane-impacted area, we've created a title clearance program with \$40,000,000. This will help create long-term sustainability and security for residents.

A balanced recovery must include renters. Toward that end, we've created a CDBG-DR Low Income Housing Tax Credit fund of \$400,000,000 to provide gap funding for properties being developed with LIHTC, thus maximizing the benefit of CDBG-DR and LIHTC funding streams. We've also created the Multi-Family Reconstruction, Repair, and Resilience \$300,000,000 fund to provide capital for necessary expenses related to long-term recovery and restoration of multi-family housing. This program will increase the availability of affordable housing through strategic investments in multi-family buildings and by supporting code compliance updates in existing buildings.

We've also created a Rental Assistance Program with \$10,000,000. This program will provide temporary rental assistance to elderly residents of storm-impacted areas who are experiencing homelessness or are at risk of becoming homeless, such as persons living in unstable or overcrowded housing, those forced to move frequently due to economic hardship, those being evicted from a private dwelling unit and lacking support to obtain other housing, and those living in shelter or transitional housing, among others.

We're creating a Social Interest Housing fund with \$32,500,000. This program will create housing capacity for special needs populations such as: homeless, senior citizens, domestic violence victims, persons with intellectual disabilities, persons with developmental and/or physical disabilities, persons living with HIV/AIDS, individuals recovering from addiction, and individuals with other function or access needs.

And we're investing in Housing Counseling Programs with \$17,500,000. This program will provide recovering residents with wrap-around educational services to promote understanding of housing and financial options such as: financial literacy, homebuyer counseling, credit repair counseling, in order to mitigate default/foreclosure proceedings, etc.

We're also investing \$436,000,000 in our communities with energy and water resilience installations. This program will provide eligible homeowners or renters with vouchers for resilient equipment, installation, and related equipment so that residents can perform basic functions such as showering and preparing meals at home in the event of a power outage, as well as provide for community-level resilience installations.

We're creating a Homebuyer Assistance Program by investing \$350,000,000 to help citizens purchase homes through a variety of support mechanisms, thereby increasing the level of homeownership in impacted communities and contributing to long-term sustainability and viability of communities across the island.

We're also creating a Small Business Financing and Incubator and Accelerator program by investing \$200,000,000 and \$35,000,000, respectively, to provide a range of flexible and thoroughly underwritten grant and loan options to assist with storm recovery and expansion of local businesses as well as support growth and success of start ups and new businesses.

We will be investing in our people with an investment in a workforce training program of \$20,000,000. This program will help unemployed and underemployed residents find employment by providing job training skills in areas related to the recovery efforts. We are committed to making Section 3 work during this recovery and this is one way we plan to do that.

We are also investing \$100,000,000 in a construction and commercial revolving loan program to provide local contractors access to start-up and mobilization capital to build local reconstruction capacity and maximize the amount of funds recirculated into the island's economy.

We'll be investing in our agricultural community as well through a \$100,000,000 dollar investment in the Re-Grow PR program. This is an urban and rural agriculture program to promote and increase food security island-wide. It will enhance and expand agricultural production that was decimated by the hurricanes.

Critically, we will also be investing in Tourism & Business Marketing with \$25,000,000 in funding to facilitate a comprehensive marketing effort to promote that Puerto Rico is open for business. This investment will attract new businesses and external capital that will contribute additional capital to the economy. Given our potential use of Opportunity Zones, this investment is very important as we look to enhance our long-term economic viability.

We will also invest in strategic projects and commercial redevelopment with \$150,000,000 to provide investments for improvements in infrastructure, amenities, and commercial real estate properties in targeted commercial districts, bringing commercial structures up to code and improving overall appeal of the areas.

We are investing \$800,000,000 in an economic development investment portfolio for growth to provide funding for large-scale commercial or industrial developments covering a wide variety of economic development tasks that may include the development/redevelopment of retail centers and infrastructure.

We will also invest \$400,000,000 in a critical infrastructure program to fund the rebuilding, hardening, and improvement of critical infrastructure, such as roads, bridges, channels, and healthcare facilities across the island, making it more resilient, adaptable to changing conditions, and able to withstand and recover rapidly from disruptions caused by future disasters.

A key lesson learned from Maria and Irma was the need for more centers where people can go during an extreme weather event. We will be investing \$75,000,000 in Community Resilience Centers (CRCs) to increase resource distribution and short-term sheltering capacity on the island. The CRCs will be able to provide support for residents and critical services during future events.

We have also reserved up to \$1,000,000,000 from the first two tranches to be dedicated to FEMA match. The total necessary number for match has not yet been decided upon, so this number will change. Interestingly, we are working with FEMA's Federal Coordinating Officer and Disaster Recovery Coordinator, (FCO) Mike Byrne, to develop standard operating procedures for implementing a global match approach for the use of CDBG-DR funding to satisfy the non-

federal cost share for the Public Assistance Program. This approach has been used successfully under the Hazard Mitigation Grant Program. We have some work to do with FEMA in Washington, but the FCO has been very supportive. If successful, this will be a best practice to be adopted in future recovery efforts.

While we are rebuilding homes and buildings, we believe it is also important to revitalize cities. So we will be investing \$1,200,000,000 to provide funds to municipalities to enable a variety of critical recovery activities aimed at reinvigorating urban centers and key community corridors to focus investment, reduce sprawl, and create a symbiotic environment to nurture complimentary investments from the private sector.

We have also learned from HUD's rebuild by design programs of the past and we are creating "Puerto Rico by Design." We will invest \$700,000,000 for an international design-build competition to seek best-in-class submissions, from which the best, most feasible, and cost reasonable options will be constructed to simultaneously address the holistic damage wrought by the hurricanes and capitalize on the unique opportunity to re-think major development initiatives in strategic areas.

And keeping with that effort, we will announce whole community resilience planning with an investment of \$55,000,000; coupled with \$50,000,000 for agency planning initiatives; and \$22,500,000 for economic recovery planning. Together, these initiatives will craft recovery solutions for all communities, including high-risk areas to increase individual and collective preparedness to future events and ensure greater resiliency at both the community and national levels. We will build data sets for properties across the island to ensure land use is correctly permitted, planned, inspected, insured, and viewable to the Municipalities. And we will have an overarching planning effort to create strategies for job creation through promotion and communication, efficient public service delivery, business creation, and public investments that will have an impact for decades into the future.

So as you can see, we have a lot to do and there are a lot of pieces for us to fit together. Predictability is critically important. This brings me to the "Reforming Disaster Recovery Act." I am fully supportive of any effort to make disaster recovery easier. Having an authorized program and processes in place would help that cause, but I have a few concerns.

Flexibility is one of the greatest aspects of the CDBG-DR framework. Understandably, with flexibility comes complexity. However, just because monitoring a complex program is hard does not mean we should remove the

flexibility that allows grantees to meet the unique, pressing recovery needs of our jurisdictions.

Requiring HUD to determine what is "equitable" distribution between activities and geographic distribution for a grantee, based on FEMA and SBA data, is based on an assumption that the FEMA and SBA processes and data are in and of themselves the best indicator of equity. According to available data as of September 9, 2018, FEMA registered over 1,138,000 applicants in Puerto Rico. However, the data reveals significant ineligible rates and low payouts, with only 216,431 approved for housing repair or replace assistance. A closer look into applicant-level FEMA data revealed limited details about the reasons for ineligible determinations. Grantees must be allowed to determine the appropriate recovery models for their jurisdictions, based on locally informed data and stakeholder engagement. Thus, allowing HUD to determine what is "equitable" removes maximum feasible deference.

Removing grantee ability to reclassify eligible projects as the recovery matures and evolves removes maximum feasible deference.

Placing complaint resolution in the hands of non-profits provides governing authority to non-governmental organizations, which could tie the hands of grantees in the recovery process. This is something we must proceed very cautiously with because it is the states, by and large, who are responsible for the spending of these federal monies.

One suggestion to alleviate complexity and create some speed might be standardization. Standardized off-the-shelf procurement guidance will enable grantees to bring on help quickly and in a compliant fashion.

Perhaps standardizing program elements as well? As you can imagine, gaining rapid access to funds is key to any recovery. One recommendation to consider would be to provide for pre-approved housing programs to be utilized for immediate permanent housing repair while action plans are created, reviewed, and approved for the balance of funds.

The coordination of data is critical as well. To be useful, data needs to be real-time and address household-specific impact. Ideally, there would be a shared disaster recovery database between FEMA, SBA, HUD and grantees using uniform addresses, uniform beneficiary demographic information, and uniform housing typologies (i.e. single family home, duplex, fourplex, etc.).

The bill requires grantees to report data up; but does not provide the same level of reciprocity for full data-sharing. The language of the bill should accomplish the same level of reciprocity. Data sharing must be two ways.

FEMA, SBA, and HUD grantees all conduct different damage inspections, using different standards and methods for evaluation. The FEMA and SBA damage inspection processes should be re-framed to form a consolidated comprehensive evaluation of total damage using industry standards utilized in the CDBG-DR and SBA programs, which provide a more comprehensive evaluation of total housing damage. This would allow for a seamless transition and service delivery across the FEMA to SBA to CDBG-DR evolution.

And Mr. Chairman, let me make a personal request on behalf of my partners at HUD. They are doing a phenomenal job working through the challenges they face in monitoring disaster programs and providing timely guidance. I can only imagine that additional staffing funds would help HUD build internal capacity and provide better oversight.

So Mr. Chairman, the enactment of a long-term regulatory framework for CDBG-DR is a good thing. However, it should be built to ease the pace and efficiency of recovery by grantees, not hamstringing it. But above all it must be fair. The rules for one grantee should be the same for another. Perhaps the authorized program might alleviate the occasional inconsistencies we currently see.

Again, thank you all for inviting me to appear before you today and thank you for your continued partnership as we seek not just to recover from these horrific storms, but to transform the future of Puerto Rico for the 3.2 million U.S. citizens who live on the island.

Governor Rosselló has laid out an ambitious vision for Puerto Rico and with your support and the support of our partners at HUD, Treasury, FEMA and the Administration at large, we will transform our island forever and turn this tragedy into an inflection point of achievement for future generations.

Thank you.
