The Brookings Institution
METROPOLITAN POLICY PROGRAM

Building a Better New Orleans: A Review of and Plan for Progress One Year after Hurricane Katrina

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I. Introduction

It has been one year since Hurricane Katrina struck the New Orleans area and the surrounding Gulf Coast. While longtime residents of these communities can easily rattle off the names of past hurricanes, "Katrina" will be emblazoned like no other. And for good reason: After accounting for all households and structures, Hurricane Katrina is the deadliest and costliest storm this country has ever seen, causing over 1,800 deaths to date and approximately $81.2 billion in total damage.[1]

Since the storm, an outpouring of support and assistance has flowed to New Orleans and other coastal communities. Major philanthropies, national non-profit and faith-based organizations, businesses, and experts of all kinds have individually, and in partnership, come to help guide and assist the economic recovery of the city and region. Public donations and private funds have also helped leverage the investments made by the federal government. And the media have kept the public, especially the residents of New Orleans, regularly informed of the state of recovery.

Ultimately, however, it is the effectiveness of federal, state, and local leadership—and their partnership and coordination—that will dictate the pace and quality of New Orleans' recovery. The scale of the devastation along the coast was so great that market actors—from residents to businesses and potential investors—are waiting for strong signals and actions from government to inform their decisions.

Some of those market decisions are being made, but with unevenness. In its "Special Edition of the Katrina Index," the Brookings Institution found that, one year after the storm, the New Orleans area is both rebounding and stagnating, with much of the boon benefiting the least-impacted neighborhoods and parishes.[2] The real estate market is finally re-awakening, possibly sparked by the release of the FEMA elevation maps, the anticipation of new home renovation dollars, and the looming August 29 deadline to have all city homes gutted.[3] Yet at the same time, rents have spiked 39 percent in just one year and home prices have escalated in the surrounding parishes, triggering concerns about affordability. Many key public services, such as schools, public transportation, and utilities, are operating at less than half capacity, and the patchy services affects all neighborhoods, no matter how damaged. While some new jobs have been added to the region's economy, the proportion of jobless workers remains higher than during the days prior to

Katrina. Finally, the latest population estimates from the U.S. Postal Service data show that 171,000 original New Orleans residents still lived in the city as of the end of June 2006—just 35 percent of the city's 2000 population.[4]

A tour of the city today confirms that not all neighborhoods are benefiting from the recovery. While tons of debris have been removed, endless blocks in Lakeview, the Lower Ninth Ward, Gentilly, and New Orleans East look just as they did six months ago. Whole swaths in St. Bernard Parish similarly seem untouched by recovery efforts.

These still storm-scarred neighborhoods are a stark reminder of the magnitude of the storm. But they also hang like billboards, advertising that little progress has been made.

No doubt, it takes time for policy and spending decisions to materialize on the ground, and, although not always evident, decisions on recovery are being made every day.

The broad purpose of this brief is to assess the quality of that decisionmaking. More specifically, the paper asks: To what extent is the overall federal, state, and local performance in recovery helping to remake the New Orleans region better than it was before?

Many top officials, including President Bush, Governor Blanco and Mayor Nagin, have repeatedly made it clear that the aftermath of Hurricane Katrina has provided a unique opportunity to create a better Crescent City.

But what exactly does that mean?

In "New Orleans after the Storm," the Brookings Institution found that, despite its many assets, New Orleans was plagued with a number of fundamental challenges prior to Katrina.[5] The region faced high concentrations of poverty, an unsustainable development pattern, and a weak economy. Many of these structural challenges have held the historic city and region back from greater prosperity. Many of these challenges were also fueled and exacerbated by past federal, state, and local decisions. Historic policies on housing, levees, and highways, for instance, served to make the region more socially, economically, and environmentally vulnerable. Conversely, public policies can, in turn, reverse the mistakes of the past.

Thus, pro-active decisions can be made to create a better New Orleans. A better New Orleans would provide healthy neighborhoods with good opportunities for residents. It would be a safer region that is both physically and fiscally sustainable. And the region would generate more quality and economically diverse jobs that can grow the wealth and incomes of workers. In short, the goal of recovery and rebuilding is to create an inclusive, sustainable, and prosperous New Orleans.

Making New Orleans "better" that it was before is a fair and appropriate goal. Returning residents want to know if they are coming home to a better community. Businesses and financial institutions are wondering if their short-term investment and risk-taking will be sustained and worthwhile. Taxpayers want to know if the billions of dollars in public aid will create a more prosperous region, bringing long-term economic returns to the nation as a whole. In many respects, the quality of the effort may matter just as much or even more than speed and efficiency.

Embedded in these criteria is the belief that while government matters, it cannot remake New Orleans alone. In fact, no amount of public subsidies could finance the entirety of the rebuilding need. Moreover, money means nothing if the capacity or systems in place cannot effectively deliver those dollars.

Instead, the market and private capital are critical to the rebuilding effort. Without their investment and partnership, and without the confidence of other market actors, like homeowners, businesses, and visitors, the future of New Orleans remains in doubt.

In short, the role of government is to create the right conditions for the market and private capital to naturally return. And in creating those conditions, the government must also set the rules for growth and investment, ensuring that the city and region emerge as inclusive, sustainable, and prosperous.

This paper will review the federal, state, and local response to date as it relates to the important goal of creating a better New Orleans. This paper does not attempt to review every decision made on every aspect of the recovery, but instead tries to highlight areas of priority.

The paper will begin with a quick overview of the federal, state, and local roles to date on post-Katrina recovery.

It will then evaluate how well the overall recovery response has performed in meeting the three goals of a creating a more inclusive, sustainable, and prosperous New Orleans. In each of these goals, the paper reviews pre-Katrina conditions in New Orleans and puts forth a vision for the future. It then highlights those areas of meaningful progress at the federal, state, and local levels in support of those goals and closes with an action plan to further the recovery progress.

It is important to remind ourselves that Hurricane Katrina wiped out generations of development, economic growth, and community ties in a matter of days. To recreate the city and region will take not one year, but years. Given this monumental challenge and a realistic time horizon, we believe there have been some positive strides in the last eight months to build a long-term recovery upon.[6]

But this is just the beginning of a long road. Important segments of the community and issues remain neglected in the recovery effort. There are existing efforts that need to be improved upon. In short, much more work is needed to ensure that greater New Orleans is on track to becoming a better version of itself and a stronger asset to the nation.

II. Background: The Basics of the Federal, State, and Local Response to Post-Katrina Recovery

The scale of the devastation wrought by hurricanes Katrina and Rita on communities across southern Louisiana was enormous. According to the latest FEMA estimates, there were approximately 204,700 homes and rental units that sustained severe or major damage from the storms, either from flooding or wind.[7] Nearly 19,000 state businesses were similarly destroyed or severely damaged. The storm left behind an estimated 50 million cubic yards of debris to be removed from the New Orleans area alone.[8] Over 200,000 persons were displaced from greater New Orleans.

Given the sheer size and severity of the damage, it is hard to imagine state and local governments, stripped of staff and resources, acting alone (nor the marketplace) to step in and begin recovery without outside assistance. That is why the early and strong role of the federal government is critical in these mega-catastrophes. It brings capacity and resources essential to jumpstarting the clean up, emergency response, and rebuilding activities to move the region out of crisis.

And given the presence of existing federal policies and investments in the region— whether it be flood insurance, levee systems, or public housing—it is important for the federal government to steward the future of these investments.

To date, the White House and Congress have approved $109 billion in funding for the Gulf Coast. This took place over the course of four emergency supplemental packages and multiple actions to replenish the National Flood Insurance Program to support the hundreds of thousands of claims from homeowners in the Gulf.[9]

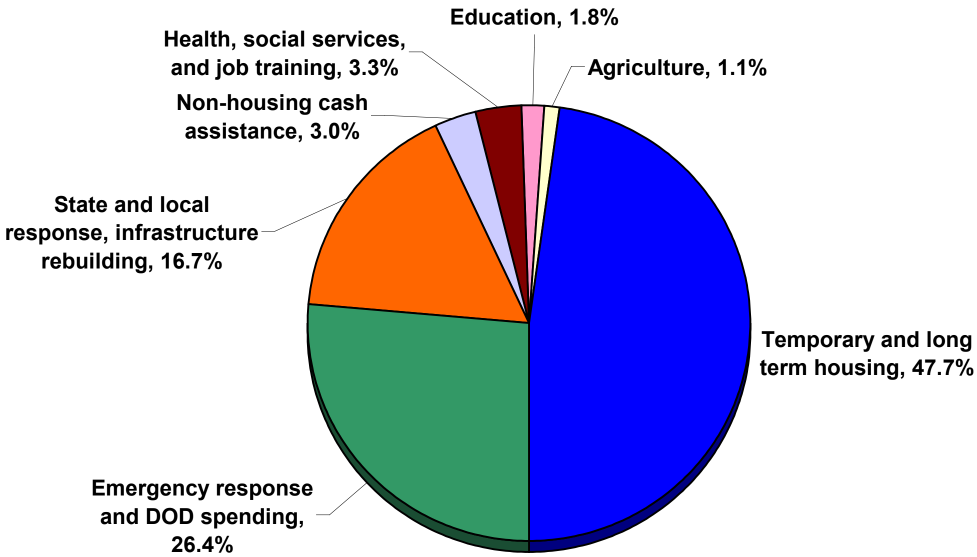
There is a popular perception that much of this money has been spent or all of it goes to New Orleans. Neither is true. But, unfortunately, it is incredibly difficult to track the specifics of how federal funding has been distributed or how much has been spent down. What is known is that:

- The $109 billion provides aid to all five states along the Gulf Coast—from Texas to Florida—and supports emergency and recovery relief for damage wrought by hurricanes Katrina, Rita, and Wilma.

- Of the $109 billion, the vast majority is for emergency relief. More than one-quarter of the funds have been allocated to FEMA, the Department of Homeland Security, and the Defense Department (including the National Guard, Coast Guard, and the Army Corps of Engineers) for debris removal, emergency evacuations and rescue, and other emergency aid. Furthermore, of the 48 percent of funds set aside for housing, approximately two-thirds of those dollars are dedicated to temporary housing, including the building of trailers and short-term rental assistance to families (Figure 1).

- One can estimate that at least $35 billion of the $109 billion supports longer-term rebuilding. This includes the $18.2 billion in state and local infrastructure repairs and the $16.7 billion in Community Development Block Grant funds (CDBG) funds to provide aid to homeowners and apartment owners for the repair or recovery of housing.

Figure 1. Distribution of Total Federal Allocations Related to Hurricanes Katrina, Rita, and Wilma, July 2006



Source: The Brookings Institutions "Federal Allocations in Response to Katrina, Rita, and Wilma: An Update"

- The full $109 billion does not go directly to the states or to the city of New Orleans. Primarily, just the supplemental CDBG dollars are allocated directly to the impacted states, and here, Louisiana received $10.4 billion. Otherwise, the vast majority of the $109 billion goes back to the federal agencies for spending and redistribution.

The bottom line is that while the federal government has come through with a major commitment of funds to the Gulf Coast region, their role is not complete. Not only is the business of longer-term rebuilding just beginning, but the federal government remains the primary administrator of the federal investment thus far. They determine the criteria for spending, in such areas as infrastructure, coastal restoration, health, education, small business assistance, and housing, and they often implement the funds. Thus, the White House and the federal agencies remain critical partners to state and local leaders in the implementation of the near- and longer-term recovery effort.

To help facilitate and coordinate the federal response on the longer-term recovery effort, in November 2005 President Bush appointed Don Powell, the former chairman of the Federal Deposit Insurance Corporation, to serve as the federal coordinator of the Office of Gulf Coast Rebuilding.

Finally, because of the multiple jurisdictions affected in each state, the White House made it clear that it preferred to work with one central point-of-contact per state for the recovery effort. In Louisiana, that point-of-contact became the governor and the newly-established Louisiana Recovery Authority (LRA).[10] This arrangement makes it imperative for Governor Kathleen Blanco to have strong relationships with Mayor Ray Nagin and other parish leaders (and vice versa) to forge common goals and priorities when dealing with the federal government.

In short, it is impossible to escape the importance of a well-greased federal-state-local partnership in the rebuilding of greater New Orleans and other impacted communities in southern Louisiana.

III. Progress Made and Still Needed: A Review of the Federal, State, and Local Rebuilding Effort

Certainly, the New Orleans region possesses many assets that make it an economic and cultural jewel of the nation. Economically, Louisiana is one of the top producers of crude oil in the U.S. (generating 27 percent of U.S. supply) and of that, the New Orleans region contains 42.5 percent of the state's refining capacity.[11] The New Orleans area also has four deepwater ports connected to a system of railroads, highways, and intercoastal waterways. This network of logistics fosters one of the busiest ports in the country, both receiving and moving goods to other parts of the U.S. and, in turn, shipping exports around the globe. The city's historic architecture and European streetscape, as well as its music, arts, festivals, and culinary attractions make for a popular tourist and convention destination. The ethnic, racial, and cultural diversity of New Orleans is also unique among American cities, and represents an essential part of its identity and heritage. Finally, Louisianans are incredibly committed and loyal to their community and state, having built strong ties and deep roots. In 2000, 80 percent of Louisianans were born and raised in the state, the highest nativity rate in the country.

Yet, despite these strengths, the region faced many challenges. Before the devastation last August, New Orleans was a struggling city and region. The metro area suffered from high levels of racial and economic segregation, unsafe and unsustainable development patterns, and a weak economy.

This context sets the stage for the federal, state, and local response to recovery. This section uses history as the lens by which to view the state of the government response thus far and offers short-term recommendations on how to put greater New Orleans on a path to a better future.

A. Building an Inclusive New Orleans

New Orleans before the Storm

Pre-Katrina New Orleans was plagued with high concentrated poverty and stark race and class divisions. In 2000, the New Orleans region was the sixth poorest among the 100 largest U.S. metropolitan areas, with 18 percent of its population living in poverty. Additionally, the city ranked second among the 50 largest cities in its level of concentrated poverty: 38 percent of the city's low-income residents—or 50,000 poor persons—in 2000 lived in neighborhoods where 40 percent or more of the residents were poor.

In these 47 high-poverty neighborhoods, the average household income was just half that of the rest of the city, the share of single parent households was high, and the education levels were low

Figure 2. Demographic Characteristics of New Orleans' Extremely Poor Neighborhoods as Compared to the Rest of the Metro Area, 2000

Indicator (2000)	Extreme Poverty Neighborhoods	Rest of New Orleans	Metro Area outside New Orleans
Population	*99,317*	385,317	853,052
Individuals below poverty (%)	*54.6*	21.6	13.1
Average household income	*$21,267*	$47,918	$52,577
Average poverty gap*	*$9,640*	$8,563	$5,880
Children in single-parent families (%)	*80.5*	46.7	28.1
Adults (age 25 to 64) with college degree (%)	*8.5*	29.5	20.8
Population (age 21 to 64) with disability (%)	*29.0*	21.8	19.9
Adult (age 25 to 64) labor force participation (%)	*59.5*	76.4	76.8
Renter households with housing-cost burden (%)**	*49.7*	46.7	38.3

* Average amount by which income of poor families falls below poverty line
**Paying at least 30% of income for rent
Source: Census 2000

(Figure 2). Furthermore, the academic literature confirms that living in these high-poverty neighborhoods can be hard on families and on taxpayers. Families living in these neighborhoods are often cut off from jobs, market investment, and grocery stores. Residents are often exposed to high levels of crime, and they experience high levels of stress and anxiety. Low-income students are often clustered in poor-performing schools. And the city and taxpayers bear the burden of the costs of such neighborhoods, often paying for related police and other services from a weakened tax base.[12]

Pre-Katrina New Orleans was also afflicted by stark racial and class divisions. In 2000, the vast majority of African Americans in the city (82 percent) lived in all-black neighborhoods, a stark contrast to the racially-integrated days of New Orleans in the 1960s. The median household income for African Americans was just $21,461, less than half that of whites. Only 13 percent of black adults possessed a college degree, while 48 percent of whites did. This racial and economic gap persists in homeownership as well, with 15 percent more whites owning their homes than blacks. Finally, more than one-third of African Americans lacked access to a car, compared with only 15 percent of whites, partly explaining the evacuation difficulties faced by some prior to the storm.[13]

Nor did these trends occur by accident. Beginning in the 1940s, federal investments and policies, with the aid of local decisionmakers, created dense and isolated public housing complexes, clustered together in the poorest neighborhoods. While this was true for many other older cities in the U.S., New Orleans is emblematic of the effect. The Housing Authority of New Orleans (HANO), the first public housing agency in the country, purposefully decided to create four all-black public housing developments and two all-white public housing developments. In many cases, the all black developments replaced neighborhoods that were once home to a mix of whites, blacks, and Creoles. The construction of Desire began in the late 1950s and by the time it was completed in 1964, it represented the kind of massive, hulking public housing we view as failed today—262 buildings containing 1,860 apartments that were geographically cut-off from the rest of the city. The onset of suburbanization, fueled by federal investments in highways like I-10, only further concentrated low-income families and people of color in the city as families moved out, widening the region's racial and economic disparities.[14]

The Goal: Build Healthy, Mixed-Income Neighborhoods that Provide Better Opportunities for Families

With post-Katrina recovery now on its way, the opportunity is ripe for federal, state, and local leaders to build healthy, mixed-income communities that improve opportunities for residents, in turn benefiting the city as a whole, rather than replicating neighborhoods of high-poverty.

Palpable apprehension exists among low-income residents in New Orleans about the goal of mixed-income communities. Many residents distrust government, including the long-troubled public housing agency, and developers' intentions to retain affordable housing or a portion of new developments as low-income. The controversy over River Gardens, a mixed-income housing community that replaced a public housing development in the city, only reinforces the fear that such developments may not benefit many former public housing residents. The limited supply of affordable rental housing in the city post-Katrina only adds to the concern.

But, successful examples of mixed-income communities do exist. In a review of successful mixed-income, mixed-finance developments in Atlanta, St. Louis, Louisville, and Pittsburgh, Valerie Piper and Mindy Turbov found that mixed-income developments have helped improve the quality of life in long-neglected neighborhoods. Median household incomes grew, workforce participation rates increased, crime rates dropped, and school test scores improved in these new neighborhoods. Renters and homeowners often lived side by side. For many lower income homeowners, home values increased, creating a true asset-building opportunity.[15]

These mixed-income developments are also successful in their implementation. Leaders meaningfully engage residents and other stakeholders in the planning process. They design the new housing to be attractive to former and new households and integrated with surrounding neighbor-

Figure 3. Household Income Mix at Centennial Place, Atlanta
Phases I–VI: All Unit Types, 2004

Income Range	Number of Households	% of Households
Under $10,000 (Predominately students)	212	32%
$10,001 to $20,000	124	19%
$20,001 to $30,000	154	23%
$30,001 to $40,000	85	13%
$40,001 to $50,000	37	6%
$50,001 to $60,000	25	4%
$60,001 to $70,000	11	2%
$70,001 to $220,000	16	2%
Total	**664**	**100%**

Source: McCormack Baron Ragan Management Services hoods. Leaders also partner with private investors so they can help own or manage the developments well.

Fundamentally, these efforts are successful because they are truly mixed-income. They preserve a good portion of units for low-income residents while attracting middle class professionals, as is the case with Centennial Place in Atlanta (Figure 3).

Murphy Park in St. Louis is another example of a mixed-income, mixed-finance development that set aside half of the apartments for public housing residents. Murphy Park sits on the former site of the infamous Pruitt Igoe public housing development and is best known for including a major reform of its neighborhood school as part of its revamping. Today, the development has 413 units of rental housing. Of those, 222 serve public housing residents, 57 support working households living in tax credit units, and 132 attract market-rate renters.[16] The result of this mixed-finance approach is a new community that is home to low-income elderly (many of them earning less than $10,000 a year), 44 percent of families earning between $10,000 and $30,000 a year, and almost ten percent earning more than $50,000 (Figure 4).

Figure 4. Household Income Mix at Murphy Park, St. Louis
Phases I and II: Public Housing, LIHTC and Market Rate Rental Units,* 2002

Income Range	Number of Households	Percentage of Households
Under $10,000	87	31%
$10,001 to $20,000	69	24%
$20,001 to $30,000	56	20%
$30,001 to $40,000	34	11%
$40,001 to $50,000	13	5%
$50,001 to $60,000	14	6%
$60,001 to $70,000	6	2%
$70,001 to $90,152	3	1%
Total	**282***	**100%**

*Data was available for 282 of the 287 Phase I and II housing units; it does not include Phase III, for which construction began in the spring of 2002.
Source: McCormack Baron Ragan Management Services

In short, when done well, these mixed-income developments provide quality, permanent affordable housing for low-income and working families in neighborhoods that are integrated with schools, jobs, amenities, and social services. Leaders and residents in the state and in New Orleans should look to these models as ones to replicate in their own communities.

Positive Developments Thus Far

In order to pave the way for a more inclusive New Orleans, the federal, state, and local governments must first make the restoration of housing and the preservation of affordable housing top priorities. So far, both the federal government and the Louisiana Recovery Authority have made good progress.

1. **<u>The federal government has made a strong commitment to rebuilding housing</u>**

Through Chairman Don Powell, the president made housing and levee restoration its top priorities in the past year. Both of these are essential to the economic recovery of the city and the region. Hurricane Katrina was, in many respects, a large-scale housing disaster, destroying hundreds of thousands of homes across the Gulf Coast and displacing over 1 million people in the process. Without housing, there are few options for former residents and workers, even temporary workers, to return and take part in the recovery process.

The feds have approved a total of $16.7 billion dollars in CDBG funds to help homeowners and apartment owners across the Gulf States. Of that, $10.4 billion has been allocated to the state of Louisiana. The recent addition of $4.2 billion in CDBG funds for the state was made possible by a big push by the White House, despite resistance from some senior members of Congress. Also, the latest supplemental package required at least $1 billion in new CDBG funds to be set aside for the repair, rehabilitation, and reconstruction of affordable housing, including public housing.

Congress and the White House also tripled the availability of Low-Income Housing Tax Credits (LIHTCs) in the Gulf Opportunity Zone Act of 2005 (GO Zone) to give the private sector resources to build affordable housing across the Gulf region. For Louisiana, the result is $57 million in tax credits for calendar years 2006, 2007, and 2008 or $1.7 billion over the next three years.[17]

2. **<u>Louisiana has launched the Road Home program to accelerate the housing recovery</u>**

The LRA, in close consultation with local leaders and the federal government, developed a comprehensive plan to restore the housing infrastructure in southern Louisiana, as supported by the supplemental CDBG funds. Called the Road Home program, the state aims to set aside $6.3 billion to provide aid to homeowners, with strong incentives for homeowners to stay in state.[18] Another $1.5 billion will be targeted for affordable rental housing. This includes aid to owners of small apartment units to refurbish rental housing and to help preserve a portion of units created by the Low Income Housing Tax Credits as affordable to low-income families. Some additional funds support the renovation of homeless shelters and services and the costs of administering the entire program. Though the FEMA elevation maps are wrought with problems, the LRA was right to insist that parishes adopt the new FEMA elevation advisories in order for their homeowners to be eligible for Road Home dollars. Overall, the program thoughtfully aims to address the full range of housing needs, both for homeowners and renters, and for low-income and working families.

Unlike the CDBG funds used in Mississippi, the LRA worked hard to ensure that these federal funds would not simply compensate homeowners for losses incurred but would encourage homeowners to fix up their homes or move to a new home in the state. For example:

- If a homeowner chooses to stay and rehab their home, they would receive no more than $150,000 in assistance. The home would have to be designated by FEMA as "destroyed" or have sustained "major damage" in order to qualify for aid. The $150,000 cap holds regardless of increased costs of materials, labor, and elevating a home consistent with the FEMA elevation advisories. As one official administering the program cautioned, the program is not designed for extravagant renovations but is "enough to rebuild a modest house."[19]

- If a similar homeowner, interested in renovations, lived in a flood zone but failed to get flood insurance, their aid would be deducted by 30 percent.

- Homeowners wishing to relocate to a new home within the state can sell their home to the state and would benefit from similar aid to homeowners rebuilding on site. However, higher preferences would be given to families who wish to sell but relocate in the same parish.

- Homeowners who wish to sell their homes and leave the state will receive 60 percent of the pre-Katrina value of their home.

The LRA recently reported that 100,000 residents have already pre-registered for the program. The first grant may be approved by the end of August, but the state may take at least five to seven months to process all applications.[20]

In short, the federal and state governments have put substantial funds in place to jump start the real estate market and provide some funds for affordable housing. In both the state's Road Home program and HUD's formal approval of the state housing plan, there is public acknowledgement of the important goal of creating healthy, mixed-income communities with these federal housing funds.

But More Progress Is Needed

While important progress has been made to lay the foundation for a quality housing recovery that provides better opportunities for families, the reality is that the emphasis on affordable rental housing falls dramatically short while the commitment to mixed-income housing lacks a sufficient plan.

1. Overall, there needs to be more funding for the development of affordable housing and rental housing, particularly in the context of mixed-income housing

The Road Home plan currently aims to marry CDBG funds with Low Income Housing Tax Credit (tax credit) developments by providing $552 million in subsidies to leverage an additional 15,000 units of affordable rental housing and 10,000 units of market-rate apartments in such developments. Another $41.5 million is available to help developers, interested in tax credit or other mixed-income projects, cover the costs of land and infrastructure to ensure the market viability of mixed-income developments. In all, the goal is to ensure that future efforts to build mixed-income developments are financially feasible and result in units affordable to low-income and working families.

Furthermore, the Road Home plan sets aside $869 million to owners of small apartment buildings (i.e., single family homes or multifamily buildings with 10 units or less) to help them restore another 10,000 units of rental housing. These owners are eligible for up to $25,000 for repairs to market-rate rental units, but can receive up to $75,000 in gap financing if they restore such units as below-market apartments.

These are certainly laudable and innovative efforts. But they do not produce enough units of affordable, rental housing to meet demand.

The Road Home plan estimates it can help put 15,000 units of affordable housing and 25,000 units of market-rate rental housing back on the market. A portion of the latter could be rented at below-market, depending upon the extent to which small apartment owners take the incentives to provide affordable rentals.

On the other hand, the latest FEMA estimates indicate that roughly 38,800 units of rental housing were destroyed or heavily damaged by the storm. All of these units were found in single family homes or small buildings in Orleans Parish. Another 9,500 units of severely damaged apartment units were located in large multifamily apartments, which are currently not addressed in the Road Home plan. Assuming that many of the original residents return or temporary workers employed in construction or recovery need apartments, then more than 48,000 restored rental units are still needed in Orleans Parish.

Thus, the Road Home program hopes to produce 40,000 renovated rental units, which falls 8,000 units short of the need in Orleans Parish. The deficit extends wider because the state program must also address the other 40,000 other severely damaged rental units in St. Bernard, Plaquemines, Jefferson, and Cameron parishes, to name a few.

Further complicating matters are other factors driving the demand for rental units and reducing affordability. As the Katrina Index shows, rent prices have jumped by 39 percent while home prices in the region are similarly increasing. The unemployment rate in the region is on the rise, a sign that some households will be seeking lower housing costs. The latest announcement by HUD to demolish four public housing developments means that former residents of these developments will need to be able to use their Section 8 housing vouchers in the private rental market, which is clearly shattered. And the increasing cost of homeownership, driven by the likely spikes in utility bills and insurance premiums, may prompt some former homeowners, especially low-income homeowners, to rent for awhile.

A robust rental market for households and workers of all income levels is critical if the region and its economy is to recover. And without deep public subsidies, it is difficult for the market to build affordable housing for low-income families and the working poor.

One idea for local, state, and federal government to pursue to ensure increased assistance for affordable housing in the long-term was already unsuccessfully introduced in Congress:

- <u>Restore the U.S. Senate request for $100 million in project-based housing vouchers to augment the Road Home "LIHTC piggyback" plan, thereby creating 13,500 units of affordable housing within mixed-income developments.</u> The Senate-passed version of the last federal emergency supplemental package included $100 million in project-based Section 8 rental assistance to be tied to tax credit housing. Such funds would finance and preserve 13,500 units of affordable rental housing, ensuring that tax credit developments are truly mixed-income. Section 8 project-based assistance is efficient, in that it goes directly to private developers to help pay the difference between the rent level and the renter's contribution of 30 percent of their income. And unlike CDBG, project-based vouchers are specifically targeted to serve low-income individuals, ensuring that the neediest families benefit from the new rental housing being restored in the city. This provision was dropped in the final negotiations in conference but is worthy for revisiting in the HUD appropriations cycle this fall.

2. Louisiana's Low-Income Housing Tax Credit program must explicitly reward developers and developments that result in mixed-income neighborhoods

As mentioned above, Louisiana received $1.7 billion over three years in tax credit allocations to build affordable housing in the impacted parishes.

The use of the Low-Income Housing Tax Credit program is critical because it is the primary affordable housing production program in the country, building housing for low-income and moderate-income households in partnership with the private sector.

A study by Lance Freeman in 2004 examined the location of all tax credit developments generated between 1990 and 2000 across the 100 largest metro areas. First, the paper found that in the 1990s, there were 2,425 units of tax credit housing built in the New Orleans region, a lower volume than the median of the top 100 metros. If history is any guide, this slow pace of affordable housing production reinforces the fact that the new allocations of tax credits, while helpful, may not make up for the gap in affordable housing currently needed in the New Orleans area.

Second, the Freeman paper found that while tax credit housing serves less impoverished households than other federally-assisted housing programs, the program could do a better job in locating these units in low-poverty neighborhoods.

The siting of tax credit units in the New Orleans metro area in the 1990s demonstrates that LIHTC developments may not be placed in neighborhoods in accordance with goals of promoting healthy, mixed-income communities. In greater New Orleans, tax credit apartment in New Orleans were placed in neighborhoods where, on average, 32.7 percent of the residents were poor, or 44 percent of the residents lived in extreme poverty. In stark contrast, the typical tax credit neighborhood across the 100 largest metro areas was 19.1 percent low-income and 8.9 percent extremely poor.[21]

There are several steps that leaders can take to ensure that the LIHTC program supports the goal of not concentrating affordable housing in poor neighborhoods:

- Embrace the goals and criteria of the draft 2007 Qualified Allocation Plan for future allocations of the state tax credit program, with several revisions to better promote the development of mixed-income housing. The draft Qualified Allocation Plan (QAP) for 2007 is currently available for public comment, and it is a vast improvement from the QAP for the 2006 round of tax credits.[22] This draft plan is prepared consistently with the state's Road Home program and clearly supports the goal of mixed-income housing.

  Rather that act on that new QAP, the Louisiana Housing Finance Agency recently announced the decision to fast-forward some of the 2007 tax credits through the 2006 cycle, to accelerate the building of affordable housing, claiming that financing mixed-income housing is too complicated.[23] While speed is critical for getting some of the tax credits out into the marketplace, the state should be firm in setting aside remaining tax credits for building more quality housing options for families. The LRA should stick to their instincts to not replicate the patterns of the past and instead promote healthy, mixed-income communities which can improve the long-term asset-building potential of households and the economic value of neighborhoods.

The draft QAP for 2007 will be revisited and when it is, the state should consider three additional revisions to the criteria for scoring and selection to improve the effectiveness of the tax credit program for creating mixed-income developments.

First, the QAP should exhibit a high preference for developers who have strong experience in creating mixed-income, mixed-finance developments. The most successful mixed-income developments are not financed with 100-percent tax credits. In fact, as the Road Home plan encourages, tax credit developments should be leveraged with public subsidies such as HOME, CDBG, public housing funds, and Section 8 rental assistance to ensure affordability and market viability. As mentioned above, creating successful mixed-income developments is complex, relying on a blend of financing vehicles. Thus, the QAP should reward developers with proven experience, and that experience will lead to speed.

Second, the QAP should require a clearer range of incomes to be provided for in the development to accommodate low-income and working families. In 2000, the median household income in the New Orleans metro area was $35,317. The QAP essentially requires that 20 percent of tax credit units be set aside for households earning 30 percent of AMI or less, which is equivalent to an annual income of $10,600. The rest of the units, between 60 and 80 percent of the units, have no income limits. To ensure that a full range of household incomes are truly accommodated in the future of mixed-income developments, the QAP should require that at least 30 percent of units be set aside for families earning between 60 and 80 percent of AMI, leaving 50 percent of the units with no income restrictions (or at market rate).

Third, location matters, and the QAP should require that some of these mixed-income developments be sited in low-poverty neighborhoods throughout the region to reduce the likelihood of creating dense poverty. Preferences could be given to tax credit proposals that are sited in low-poverty neighborhoods or neighborhoods with access to job growth centers or select amenities, such as a reopened school, grocery stores, and public transportation routes. While the supply of affordable, rental housing is needed throughout the damaged parts of the region, it may be likely that the most efficient place to site tax credit developments in the near term is on vacant land in less-damaged parts of town that have less poverty, and such siting should be allowed.

- <u>Extend the Go Zone act to give mixed-income, tax credit developments more time to be placed in service.</u> Unlike the traditional LIHTC program which allows tax credits to be carried forward, the Go Zone act is a "snooze, you lose" arrangement. Tax credits must be placed in service in the years 2006, 2007, and 2008 or be eligible for recapture. Given the slow pace of the recovery process, the absence of a citywide plan in Orleans Parish, and the complexity of building successful mixed-income, mixed-finance developments, federal and state leaders should work together to extend the service period by at least another two years to ensure a reasonable period for use of these tax benefits.

3. HUD needs to articulate a clear plan for the future of public housing, including the process for creating mixed-income developments on former public housing sites

The Housing Authority of New Orleans (HANO) has long been a financially troubled and mismanaged housing authority, operating under federal receivership for nearly 10 years before Hurricane Katrina. Prior to the storm, the housing authority had nearly 7,400 units of public housing, 70 percent occupied. The agency also had another 9,400 households using Section 8 rental vouchers. In short, the housing authority served approximately 14,000 households prior to the storm. HANO estimates that 1,000 public housing residents have returned to their apartments since the storm and that only 60 percent of former HANO customers will return.[24]

In mid-June, HUD announced a plan for restoring public housing in New Orleans. In short, HUD Secretary Alphonso Jackson called for the quick clean up and renovation of 1,000 units of public housing to be made available by the end of the summer. He also raised the value of Section 8 vouchers by 35 percent to match the rise in rents in the region. And he committed to tear down 5,000 units of public housing over three years to remake them as mixed-income housing developments. The units slated for demolition are found at four public housing developments—St. Bernard, CJ Peete in Central City, B.W. Cooper, and Lafitte near Treme.[25]

This latest announcement, coupled with the long history of tension with the troubled public housing agency, has fueled a great deal of skepticism and concern about the future of public housing in the city. A group of public housing residents have filed a civil rights discrimination lawsuit against HUD and HANO for preventing them from returning to their homes.[26] Others doubt that mixed-income housing will make room for former public housing residents. And, while some residents and neighborhood groups may be open to the idea of mixed-income housing, the lack of a good example in the city reinforces doubt.

While HUD has committed to re-opening up public housing units in the near-term, the overall plan remains vague both in details and in process. Below are just a few actions that HANO and the Secretary can take to bring clarity to the goals and process of the public housing plan, ensuring that former residents will have a meaningful voice and participation in the redevelopment of public housing:

- HUD needs to articulate a clear plan for accommodating potentially up to 11,000 HUD families that may still be displaced by the storm; this includes aggressive recruitment of existing apartment owners to accept Section 8 vouchers and the preservation of some public housing units.

  It is not enough to just have a plan for the public housing units. HUD also needs to establish a plan for connecting families to all available units, keeping in mind the potential level of demand in the near- and longer-term.

According to HUD's analysis of FEMA numbers, approximately 13,000 HUD-assisted residents from New Orleans received FEMA housing assistance post-Katrina. Assuming that 1,000 public housing households were not displaced by the storm, and another 1,000 have returned, then a total of 2,000 public housing residents could be currently living in HANO units in New Orleans. That leaves a balance of 11,000 families formerly served by public housing or Section 8 vouchers that could still be living in temporary conditions. If HUD plans to demolish 5,000 units of public housing (out of 7,400 total units), then that leaves very few options for returning families, even if only 60 percent of the original 14,000 households return.

How does HUD plan to help former public housing residents or other residents of HUD-assisted housing find homes in the market upon return?

First, HUD must commit to ensuring that all lost public housing units must be replaced with a voucher, to ensure there is an adequate supply of affordable housing assistance for those displaced by the demolitions. To provide that supply, HUD should work with area housing agencies to build consensus on allocating a portion of any unused Section 8 vouchers (including project-based vouchers) and committing those to LIHTC developments.

Second, as this paper has pointed out, the supply of private rental housing in New Orleans is thin. Where possible, HUD needs to aggressively recruit existing apartment owners, in the city and surrounding parishes, to accept families receiving Section 8 vouchers. HUD also needs to set up a customer service center to help families identify vacancies in the private rental market so the new vouchers do not remain unused. HUD also needs to ensure that the vouchers are portable. Given the limited housing supply, families should be not be restricted to using their housing voucher in Orleans Parish but be able to rent in available apartments in any of the surrounding parishes, if desired.

Third, HUD also needs to establish clearly the number of public housing units it hopes to set aside in the mixed-income, mixed-finance developments.

- HUD needs to set up a planning process for the proposed mixed-income development sites that involves meaningful input and engagement of residents, neighbors, and other stakeholders.

HUD and the housing authority must learn from other cities that have put in place successful planning and implementation processes for mixed-income, mixed-finance developments.[27]

First, some of the most successful public housing redevelopments are ones where the new development is integrated into larger neighborhood and citywide plans. This ensures that residents of these new developments are not isolated from their neighbors but their new homes will be linked to broader goals for improved schools, better access to grocery stores, parks, and other amenities. Thus, HUD and HANO must ensure their existing and proposed housing developments be part of the Unified New Orleans Neighborhood Plan and planning process.

Second, successful mixed-income developments involve front-end meaningful involvement of all stakeholders, including public housing residents, in the design, planning, and implementation of the new development. Thus, HUD and the housing agency needs to set up forums soon to solicit resident input on the developments proposed for demolition, ensuring there is opportunity for honest feedback and problem solving to determine the best course for each of these communities. Residents should be able to work with the agency to develop common goals, design ideas, management options, and the types of social services and amenities to be provided. Private developers should also be involved since their investments and management of market-rate units are critical to the future viability of the development.

Third, HUD needs to seek additional HOPE VI dollars to ensure there are adequate resources to support residents' vision for their mixed-income developments. HUD's HOPE VI program was explicitly designed to undo the type of segregated housing patterns found in pre-Katrina New Orleans. Specifically, HOPE VI was first launched in 1993 to remake the nation's worst public housing developments and address the deleterious effects of concentrated poverty. Over time, HOPE VI has revolutionized the way government has worked with the private sector to convert distressed public housing developments into attractive, mixed-income communities, using a holistic approach that benefit both families and surrounding neighborhoods. Further, unlike traditional public housing capital, the HOPE VI program is unique in its comprehensive approach to public housing redevelopment as a large-scale neighborhood revitalization effort. It provides the resources and flexibility to undertake public participation, comprehensive planning, design, integration of key services, public-private partnerships, and the leveraging of private dollars.[28]

4. The federal Office of Gulf Coast Rebuilding and the LRA need to jointly convene the financial services and real estate industry to serve as partners in the housing recovery effort and to ensure the success of the Road Home plan

The Road Home funds alone are not sufficient to ensure the full recovery of the housing market. Homeowners and apartment owners may run into problems (e.g., lack of additional financing or lack of capacity) to fully use the funds. And other gaps remain in the housing market. In the end, the private sector is crucial to leveraging public investment.

Chairman Powell and Governor Blanco, with the LRA, should convene some of the leading financial services institutions, insurance companies, and real estate players, both in the state and nationally, to help anticipate likely problems in the housing recovery effort. Such a convening and effort should also engage the elected officials from the impacted parishes. Powell's leadership at the FDIC and long-time career in financial services makes him a valuable asset in this effort. Also, the federal oversight of Fannie Mae and Freddie Mac will help ensure that the secondary market has the flexibility to address the unique challenges that lenders face in the region. Meanwhile, some financial institutions and developers are eager to help support the housing recovery effort but need guidance or a productive forum for determining how they can alter policies or products to advance the existing federal and state support to the damaged parishes. Together, government and private sector leaders could assess (or quantify) the scale of outstanding challenges and determine how best to form a public-private partnership to solve those problems.

Some possible scenarios or concerns about the housing challenge are emerging and may surface faster given the availability of the Road Home funds. They are:

- Is there affordable financing available in the private market if homeowners find they need additional resources to fill the gap between their Road Home funds and the full cost of renovations or rebuilding from scratch? There are concerns that private lenders, especially small originators, may be hesitant to issue home loans to families due to real or perceived risks in the marketplace. And there are similar concerns that predatory lenders will step in to fill that void. What options or safeguards can the state and the industry provide for homeowners?

- What is the current creditworthiness of borrowers from the New Orleans area? Are there ways to protect their credit status given recent financial hardships? What are ways that lenders and other users of credit scores (e.g. insurance companies) can create greater flexibility in their use of such data to improve consumers' eligibility and costs for loans and other housing-related products?

- Is there sufficient capacity in the full array of contractors needed to support the increasing demand for home renovations and rebuilding, including roofers, plumbers, electricians, remodelers, and others? And, at the same time, are there ways to create protections for consumers from predatory contractors? Without adequate and quality capacity, delays will frustrate and possibly undermine the program or cause households to change their minds.

- What resources are available to attract owners of larger rental properties to reinvest in their properties? What challenges particularly face impacted private, federally-assisted multifamily housing owners who were critical to providing affordable rental housing to low-income and working families? With few resources available in the Road Home program, other incentives might be needed to encourage these mid- and large-sized apartment owners, and providers of Section 8 project-based assistance, to help replenish the supply of affordable and rental housing in the city.

These are real challenges that families will confront as they gut, renovate, or rebuild their homes. If left unaddressed, these problems would frustrate families, undermine their financial security or cost of living, and could ultimately effect their decisions on whether they stay or leave the region. The opportunity is ripe for federal, state, and local leaders to formally partner with financial services institutions and the real estate industry to maximize the goals of the Road Home program, enable families to come and stay home, and make wise decisions.

B. Building a Safe and Sustainable New Orleans

New Orleans before the Storm

Before Katrina, greater New Orleans and southeastern coastal region of Louisiana was experiencing unsustainable and unbalanced development patterns. Like many of America's cities, New

Orleans was undergoing rapid suburbanization, losing both people and jobs from the core over the last two decades. This both further isolated low-income and black residents in the city, while shifting job growth away from low-skilled workers. In 1970, 54 percent of the region's population lived in the central city; by 2000, only 36 percent did. During that same time period, the share of the region's jobs situated in the city declined from 66 percent to 42 percent. These unbalanced development patterns can limit wealth and opportunity at the core, while eroding the economic competitiveness and quality of life of the whole region. But these patterns can also hurt the safety and environmental sustainability of the region. Much of the new development occurred in the region's coastal landscape, or promoted the accelerated loss of marshes and forested wetlands, further eroding the area's natural protections from hurricanes.

How did this come to be?

While hurricanes are a weather phenomenon, the safety and sustainability of the region are very much dependent upon human decisions. Even today, studies have determined that Katrina was, in part, a man-made disaster, given institutional failure (U.S. Army Corps of Engineers) to build an effective levee system to meet to realistic levels of safety and protection in a dynamic coastal setting.

But other past man-made decisions, while often unintended, have also put the region in greater harm's way.

First, the spending of billions of dollars on building Highway-61 right after World War II opened up development on wetlands, paving the way for the rise of Jefferson Parish. Interstate I-10, completed in the early 1970s, tore through the middle of a black middle class neighborhood and facilitated development again in former marshlands, from Orleans Parish to the St. Charles protection levee. Second, Craig Colten's book, An Unnatural Metropolis, eloquently and systematically documents how the federal systems of levees, drainage projects, and seawalls, built over the last century and particularly since the 1950s, have enabled brand new neighborhoods to pop up on former wetlands and marshlands all along Lake Pontchartrain. While accommodating modest population growth, these man-made investments may have also made the region even more unsafe, fueling the loss of acres of natural protections.[29]

The Goal: Make the Region a Model of High-Quality, Safe, and Sustainable Development

Fast forward to today: the federal, state, and local leaders have an opportunity to not replicate the same land use and infrastructure policies of the past and instead create a safe, high quality, and sustainable New Orleans. In doing so, it would also minimize future costs to the nation. And the demand from residents for a new, integrated approach to safety is high.

Today, safety remains one of the leading concerns of citizens of southern Louisiana. Approximately six months after hurricanes Katrina and Rita, the LRA Support Foundation sponsored a survey of more than 2,500 citizens and civic leaders (including evacuees) from the impacted parishes of the state regarding the future of their hometown and their desires for the long-term recovery process. The survey, conducted by Collective Strength, found that the people of Louisiana valued safety, prosperity, cultural integrity, and inclusion and fairness in the recovery effort, sounding off very similar goals laid out in this brief. The concerns around safety focused on "coastal restoration and levees as well as clean air and water and a strong emphasis on public safety. It also extends to financial safety in terms of insurance availability and clear direction about risks involved in rebuilding in certain areas."[30] In short, if the market believes that the region or select neighborhoods are unsafe, then the viability of businesses and the costs of living for households may be at risk.

Thus, the goal is to create a future New Orleans that grows and develops in distinctive, high quality ways, but also ensures the region's long-term fiscal and environmental sustainability.

Positive Developments Thus Far

Federal, state, and local leaders play an important role in setting the future course for envisioning a safe and sustainable coastal region. They make the decisions about levees and coastal protection and restoration. They set the course for land use plans which determine where and how future growth and development will occur. These short- and long-term plans must integrate (and reconcile) decisions on housing, transportation, economic development, and environmental safety.

In the last 12 months, federal, state, and local leaders have made some important decisions to ensure the safety and financial viability of the region. Despite this optimism, there looms much uncertainty about the execution and outcomes of these decisions.

1. The state of Louisiana made the historic decision to merge levee protection and coastal restoration activities under a single state entity

To date, much of the national and federal policy discussion has been focused primarily on levees. And here, the concern has been: To what extent can the federal government commit to structures that will protect the region from a Category 5 storm and to what extent can the Army Corps of Engineers effectively rebuild the levee system along the Louisiana coast. In its response, the federal government has committed to repair and rebuild the New Orleans area levee system to Category 3 storm levels. But overall, the attention on levees has overshadowed conversations about non-structural solutions, like coastal wetlands restoration, which are treated separately and often secondarily.

Yet, local leaders and citizens are seeing the importance of both components of an integrated approach. There is a growing realization that a Category 5 protection levee system is not aesthetically ideal, programmatically defensible, or fiscally realistic. Instead, local elected officials and citizens are advocating for a combination of structural and natural protections to protect them from increased risks such as a Category 5 storm. In fact, more than 90 percent of the respondents to the Collective Strength survey rated adequate levee protection and the reversal of wetland loss and coastal erosion among the top three priorities for the LRA.[31]

Evidence points to the important role of extensive wetlands and coastal landscape to protection strategies. Healthy and extensive coastal wetlands, shallow bays, natural ridges, and barrier islands act to reduce storm surge threats to coastal communities. Such natural environments reduce the impact of frequently occurring storms, while also providing a level of protection to less infrequent but more severe hurricanes. At the same time, healthy coastal wetland systems maintain coastal landscape elevations from the rise in water levels caused by the combined effects of subsidence and sea level rise.[32] Basically, this means that healthy coastal landscapes keep the Gulf of Mexico at a distance from coastal communities. Furthermore, natural environmental barriers reduce the cost of strengthening hurricane structural protection systems, are more self-sustainable over the long-term, and would be economically wise, further protecting and enhancing the viability of nationally important coastal industries, such as oil and gas, ports, and fisheries.. However, in the last 100 years, the state has lost 1.2 million acres of wetlands along its shoreline, resulting in the gradual encroachment of the gulf to urban and rural development. Katrina and Rita destroyed another 100 square miles of wetlands and possibly reduced the resilience of natural systems to storm events.[33] Healthy coastal landscapes are able to recover and may actually benefit from disturbances caused by hurricanes. But in the present wetlands condition, natural rebuilding after such disturbances is beyond their capacity.

In that spirit, the Louisiana Legislature passed a bill to fundamentally restructure the way the state addresses the twin problems of hurricane and coastal protections. Prior to Katrina, the state treated levees and coastal restoration separately, with the state Department of Transportation overseeing the former and the state Department of Natural Resources responsible for the latter. The disconnect and lack of coordination between hurricane protection and coastal protection undermined efficiencies and quality in the quest for overall safety. As part of the special legislative session in late 2005, the state created the Coastal Protection and Restoration Authority (CPRA) which merged hurricane protection and coastal protection activities and oversight under one roof. The CPRA is empowered to work with federal, state, and local officials to develop and implement a comprehensive plan for overall coastal protection as well provide oversight to local levee boards and other agencies in their maintenance of these systems.[34]

The CPRA, with its interagency planning team, is in the process of developing a master plan for an integrated coastal and wetland restoration system, which will be available for a six-month public review process in February 2007. The goals and recommendations of this master plan will inform a larger Army Corps report, to be submitted to Congress by December 2007. This plan is critical because it will guide future federal investments in Louisiana's coastal protection and restoration program.

For many, this unified state approach and planning process is a major step forward. It will shift the state from pursuing a series of isolated decisions and individual corps projects to a wider, integrated vision and plan for ensuring the quality and performance of the various systems needed to restore the safety of the coast for the long haul.

2. Driven by the spirit of citizens, a citywide planning process in New Orleans is now underway

After nearly a year of fits and starts, and increasing public fatigue at federal, state, and local promises of plans and new plans, Orleans Parish has agreed to develop a "Unified New Orleans Neighborhood Plan." The plan is "unified" in that it now has the blessing of the city, the City Council, and the Louisiana Recovery Authority. The planning effort is being facilitated by the Greater New Orleans Community Foundation, which put in $1 million to support the effort. Another $3.5 million in funds is being made possible by the Rockefeller Foundation.

To its credit, the LRA has been hosting and coordinating a series of short- and long-term planning processes in the state. Called Louisiana Speaks, the multi-prong effort includes the FEMA-driven parish recovery plans which identified local priorities for infrastructure and other investments, local design charettes by Duany-Plater-Zyberk, the development and distribution of a toolkit for homeowners, architects, and permitting officials about how to redesign and rebuild damaged homes, and a long-term regional planning process run by Calthorpe Associates.[35]

But any efforts to set short-term spending priorities for the federal government and the LRA or to create a long-term vision for bringing back the New Orleans region can only happen if the state's most impacted and critical economic engine, the city of New Orleans, has a sense of what it wants and where it is going.

In the past year, the city has been stung by a series of planning setbacks. Mayor Nagin's Bring New Orleans Back Commission, after three months of intense work, issued recommendations that were immediately rejected by the mayor and some residents. The mayor then offered to launch a four-month neighborhood planning process that resulted in tensions with the state and the feds over the nature of the resources to be used to support the process. Out of frustration, in the spring of 2006, the City Council financed its own neighborhood planning process, but that process did not reach all neighborhoods. In the latest iteration, made possible by the Rockefeller Foundation, the city, City Council, state, and feds have agreed to a unified plan and planning process that would build on and knit all of the existing neighborhood efforts to date. The goals of the unified plan are: (1) to create neighborhood plans, district-level plans, and a citywide plan that reflects the aspirations of its people while also setting priorities for infrastructure and other needs; (2) to create a more informed and empowered citizenry; and (3) ultimately help reinvigorate and integrate the city planning office and commission as partners and long-term custodians of the plan. The hope is to have a citywide plan committed by early 2007.

But the real heroes in this effort are the citizens of New Orleans who have remained determined to stay connected with their neighbors and work on their own plans for their neighborhoods. They have been aided by their own sheer will and commitment, with resources at times provided by universities, colleges, and other nonprofit entities who gave them the resources and expertise to buoy their efforts. Residents hosted and attended their own neighborhood meetings, and then sat through countless meetings held by federal, state, and city officials. To date, the people of New Orleans have demonstrated the real demand and desire for a plan for the future and the ability to make decisions in the absence of public guidance. But that public resilience must be rewarded by transparency, decisionmaking, and actions from government leaders, or that energy will wane and wane quickly.

But More Progress Is Needed

In the past year, the state has shown leadership in pursuing a comprehensive approach to ensuring the long-term safety and sustainability of coastal communities and businesses, but it appears that the federal government may not be an equal partner in such an approach. In the meantime, while a consensus has been reached in creating a unified plan for the city, one still does not exist. As both of these important efforts are underway, there is still time to improve upon these initiatives to accelerate the recovery effort and ensure that they result in a safer, more sustainable, and more fiscally viable region.

1. The federal government needs to pursue and embrace an integrated approach to hurricane and coastal protection

The Bush administration has an opportunity to send a strong signal to the American people, particularly those living along the Gulf Coast and the Atlantic Seaboard, that long-term sustainability and protection from future hurricanes can not be solved by Army Corps infrastructure projects alone. In fact, reinvigorating the environment to be an effective first line of defense against future storms, even if that might mean limiting development in wetlands or other vulnerable areas, will assuage public skepticism that man can build its way around natural threats.

Further, unlike levee systems, which can destroy natural ecosystems, federal investments in coastal restoration measures would also protect and increase the productivity of key industries that are of national significance. In particular, with concerns about oil prices and supply, it is worthy to note that Louisiana's coastline serves as the first and second largest generator of oil and natural gas production in the U.S.[36] The offshore oil and gas industry relies heavily on wetlands restoration and other natural habitat measures to keep them from being exposed from damage and interruptions from storms.

Yet, when faced with an opportunity to demonstrate leadership on coastal wetland restoration, the Bush administration chose instead to bury the issue.

Specifically, this summer, the Bush administration chose to not fully meet its requirement to prepare a report to Congress on a comprehensive hurricane protection plan.

In the third emergency supplemental appropriations (H.R. 2863), signed by the president at the end of 2005, the Army Corp of Engineers is required to work closely with the state of Louisiana, to create a Category 5 coastal protection plan that would fully integrate measures for "flood control, coastal restoration, and hurricane protection."[37] In particular, Congress mandated the Corps, through the Secretary of the Army, to make a set of interim recommendations "for near term improvements" to be submitted to Congress six months after the act's enactment. Such an interim set of recommendations was intended to help congressional decisionmakers determine how best to respond in the short-term to protect the coastal communities and coastal industries in Louisiana. To keep the plan on a fast-track, these recommendations were to be prepared "exclusive of normal policy considerations" and "shall not perform an incremental benefit-cost analysis." A final report, with a more comprehensive set of recommendations, is to be submitted two years later.

According to some scientists and other coastal restoration advocates and experts in the state, the level of collaboration between the state (through the new CPRA) and the Corps in developing the first report has been unprecedented. The federal and state teams identified five short-term projects to recommend for congressional consideration, including the closing of the Mississippi River Gulf Outlet, which has been found to increase vulnerability to storm surges. On schedule, the draft report was submitted to the Secretary of the Army in June for review.

The formal release of the interim report by the Secretary of the Army came on July 10th and was met with great disappointment, particularly by the Louisiana congressional delegation and the state. The interim report made no near-term specific recommendations, as developed by the state and Corps team. Instead, the 78-page interim report prepared a "decision framework" to help decision-makers understand all of the considerations needed for developing a Category 5 hurricane protection system. The report also identified the process for creating a final technical report. While the report is valuable in analyzing a matrix of issues to assess a comprehensive coastal restoration plan, it fell far short in meeting the intent of the federal law. In its own press release, the Corps confirmed that this report "does not contain the level of technical information required to support further authorizations for feasibility studies or construction."[38]

In short, the ultimate interim report was designed to not make any short-term recommendations that might trigger action by Congress and ultimately engage the White House. This caution and lack of urgency will potentially delay any movement, even the request for a feasibility study, on improvements to strengthen coastal protections for another two years (or until the end of the Bush term).

The Bush administration needs to understand that by pursuing and embracing an integrated approach to hurricane protection – involving levee investments and coastal restoration – they would further protect the federal investments made to date on the rebuilding effort and ensure the sustainability of key economic industries. By delaying the release of recommendations, they are inhibiting the ability to create debate and options for problem solving.

The Corps offered that they may issue future interim reports within the next two years that may provide more technical recommendations for action.[39] Such an interim report should come soon and should involve the kind of specific guidance as mandated by law to ensure that the New Orleans region, and coastal Louisiana, is put on a path to greater safety and sustainability.

2. Voters in Louisiana and leaders in Washington should approve the dedication of revenues from off-shore oil and gas drilling for coastal restoration

Both federal leaders and the voters of Louisiana have an opportunity to dedicate a long-term revenue source for the sole purpose of restoring and protecting the state's coastal habitat.

This fall the citizens of Louisiana will have an opportunity to vote for a ballot referendum that will amend the state's constitution so that any revenues the state receives from oil and gas production in the federal Outer Continental Shelf (OCS) can be dedicated to coastal restoration efforts, particularly in areas where there have been substantial wetland losses.[40]

Meanwhile, Congress and the administration have an opportunity to follow through and provide the people of Louisiana an ongoing source of revenue to dedicate for coastal protection. This fall, the House and Senate will go into conference for the Deep Ocean Energy Resources Act of 2006. In the two bills are provisions to allow Louisiana and other gulf states to share for the first time a portion of the revenues the federal government receives for drilling beyond three miles off their shores.[41] While the OCS is considered federal waters, the people of Louisiana host the thousands of miles of off-shore oil and gas lines that serve the economy and generates revenues for taxpayers. For that role, Louisiana must deal with costs of the erosion of barrier islands and wetlands that are needed to not only protect key coastal industries but also communities, like the New Orleans region, from future storms. The Senate version (S.3711) enjoys strong support from its members and is most likely to be supported in conference by the White House because it limits revenue sharing only to new leases rather than existing leases, as passed by the House (H.R. 4761).

In general, it is critical for Congress and the White House to demonstrate its commitment to a holistic approach to coastal protection and approve passage of an energy bill that retains the provision to provide revenue-sharing with the state of Louisiana. Such funds would be invested in restoring lost wetlands and securing the coast and industries from short- and longer-term catastrophes.

3. Federal and state leaders must make accountability on operations, maintenance, and overall performance of levees and coastal protections systems a top priority

Local, state, and federal leaders and citizens have expressed wide concern about the performance of the Army Corps in building and repairing levees and other major structural solutions to hurricane protection. And a number of congressional actions are in the works to impose greater oversight and accountability on Corps operations and activities.[42]

But the failure of the pre-Katrina levee system is also a failure of ongoing maintenance and oversight at all levels of government. It is not enough just to have the Army Corps create a well-designed and well-built system and then move on to another new infrastructure project. Such mega-public investments must be monitored and maintained over time, with clear accountability for such tasks established.

The fractured multi-jurisdictional system of levee and coastal protection only adds to the confusion of roles, responsibility, and accountability.

As federal reforms are underway to streamline and modernize the Corps, similar efforts must be undertaken and continued at the state and local level.

Already, the state has made important inroads. The legislature has approved the consolidation of the levee districts in the New Orleans area, which will unify operations and decisionmaking at the local level.[43]

The new CPRA also has oversight of the state's levee districts. They must monitor the performance of the levee boards on an annual basis. Any violation of performance standards may be subject to state takeover of the levee district.

In the coming months and years, the CPRA must make sure this commitment has teeth. This means that the state must create clear standards for the operations, maintenance, and performance of levees and other new and existing artificial structures. This also means that there must be systems in place to test the effectiveness, not only of individual projects, but the entire structural system as a whole. Doing this successfully also includes ensuring there are funds in place for state and local leaders to perform such tests, maintain and rehab aging structures, and operate the system. Further, such efforts must go beyond levees and be applied to wetlands and other coastal protection measures, which has less operational and maintenance infrastructure in place.

In short, this focus on performance and maintenance accountability will ensure that major federal and state investments in levees and coastal protection measures are well-preserved and maintained for the long term and not susceptible to short-term failures and neglect.

4. The mayor needs to articulate a vision for the future and be a visible champion for the unified plan, sending confidence into the marketplace

To date, Mayor Nagin has not taken an active role in the city's various planning efforts. While he set up the Bring New Orleans Back Commission, he has not embraced the commission's recommendations, particularly those around land use and planning. Now, he appears to be taking a backseat to the city's unified planning effort, waiting for the residents to submit their wishes to him.

Mayor Nagin, a former business executive, may be staying behind the scenes, motivated by his belief in a market-driven approach to the recovery effort. Just 50 days into his second mayoral term, he stated his clear belief that residents and the market should decide how and where to rebuild.[44]

But, government sets the rules for the marketplace. The market and the public are waiting for more signals and clarity of information from government.

A plan is critical because it provides this clarity. It helps guide how and where the market invests and provides predictability for decisionmaking.

To this end, the mayor's voice matters greatly on the front end of such a plan to both motivate and inform market actors, including families. He needs to set a clear direction for the city and its neighborhoods, but also be honest about the tough choices ahead so the people of his community can weigh these choices together and put those decisions in the plan. If he stays silent, holding back critical information, the final unified plan may not meet the city's fiscal or market realities, putting both the city and its residents at risk and in a very awkward position next year.

Further, the mayor needs to ultimately own that plan and the planning process. It is not the community foundation's plan. It is not simply the residents' plan. The city as a whole, including the mayor, needs to ultimately own, embrace, and implement the unified plan that emerges from its citizens. He cannot act like the rubber-stamper and send the plan back to the people if he doesn't approve some of its ideas. There is little time for that, and it would be met with public frustration. Instead, the mayor needs to be a leader and partner in the planning process now. If he is not meaningfully engaged immediately, all of the efforts of the citizens will be wasted.

But, the mayor still has time to be at the center of the planning process, and the players in the unified plan must work closely with him.

So what does this mean?

- First, the mayor must engage all of the residents in an honest, citywide dialogue to establish a common set of values and goals that would guide the neighborhood plans and the overall land use and rebuilding process. For instance, where and how should the city accommodate future population growth, development and jobs in ways that meet the public's goals and values? If many residents prefer less flood-prone neighborhoods, how should the city accommodate that demand for housing in the high-ground? Do residents value density in some neighborhoods and lower densities in others? How important is the value of diversity in the city? If high, what goals can the city set to preserve a diversity of residents by race, ethnicity, and income? If important, where should future affordable housing be built? How important is the goal of safety and sustainability and how does that relate to the other values? What economic assets need to be preserved? Ultimately, what does it mean to make the city better than it was before? What needs to be done differently so the city builds on its assets but doesn't replicate the problems of the past?

  These questions must be answered by residents and leaders at the citywide level before determining how to accommodate such goals at the neighborhood level. Otherwise, the unified plan may simply be a patchwork of 74 different neighborhood plans that represent 74 different (and competing) goals and visions. Put another way: many of the structural challenges present in pre-Katrina New Orleans (e.g., economic segregation, safety) can not be addressed by individual neighborhood plans. Creating a collective set of goals now will ensure that a unified plan is truly unified.

  Finally, a truly unified plan will give clear guidance on how to prioritize the kinds of housing, commercial developments, transportation, and other investments to be funded by the city, the LRA, and the federal government in the coming months, especially given limited resources.

- Second, the mayor needs to release clear and honest facts to the public to inform their planning efforts. Information is critical for creating informed decisions about the short- and long-term future of the city and its neighborhoods. It will also empower all residents and neighborhoods with the same information so that they can work across neighborhoods to solve citywide challenges. What is the current estimated population level of the city and how quickly is the city and region expected to grow in the near- and long-term? What is the rate of wetland loss in the region and how does that coincide with goals for accommodating population and job growth? What is the city's budget situation? Can the city guarantee, in the next six months or two years, that every neighborhood receives 24-hour police protection? Can the city provide quality and affordable gas, electric, and water service to all neighborhoods? What are the realistic set of resources that the state can provide, in infrastructure and other needs, to meet the unified plan? Making such information available will help the city and its people work together on resolving some tough dilemmas and, at minimum, prevent false expectations.

- Third, the mayor needs to ensure that the city's unified plan is tied to the state's other planning efforts. As mentioned earlier, there are number of planning processes taking place in the state. There are two that seem most relevant. First, the mayor needs to work closely with the

LRA's long-term regional planning process for the New Orleans region, to ensure that the city's vision is integrated to any long-term plans and investments for the region. Second, the CPRA may be developing a plan for mapping areas to restore lost wetlands or to protect coastal areas. Those coastal protection planning discussions and the city's planning efforts should inform each of the other's plans.

- Fourth, the mayor needs to put in a place a citywide planning process that extends beyond the one time-deliverable of the unified plan. The most effective citywide comprehensive plans are the ones that are regularly updated, with the engagement of the public. And given the very dynamic changes the city is experiencing, the city and the public would benefit from an annual or bi-annual update to see if the plan is on track or needs to be modified, given new trend information, policy changes, or new resources. It appears the current unified plan may be focused primarily on short-term needs, which is critical. But as the city stabilizes over time, an updated plan may be in order.

- Finally, a single agency needs to be established to implement the unified plan and coordinate the redevelopment of land and infrastructure. In the end, the unified city plan is simply a plan unless there is a commitment of dollars and an agency accountable for its implementation. The Mayor has the opportunity to reform the New Orleans Redevelopment Authority (NORA) or to create a new central entity. In the absence of action by the Mayor, the State or the federal government needs to create such an entity. However created, it is needed to partner with the private sector to implement the final plan. This agency would coordinate the work of the different city agencies, developers, planners, financial institutions, residents, and other key stakeholders to literally get developments done. It would also coordinate critical federal and state dollars, buy and sell land, and raise funds by selling bonds or otherwise leverage public and private investments. For instance, the large-scale redevelopment of a neighborhood or commercial corridor, consistent with the unified plan, may require the assembly of multiple parcels of land, environmental remediation, rezoning for new uses, and linking infrastructure, transportation, retail and housing investments. Only an agency with adequate legal powers, staffing, and funding could efficiently partner with the private sector to implement such a large redevelopment. This agency would provide a single point-of-contact for developers and stakeholders, who would also be able to hold it accountable for implementing the citywide plan. While the city is essential to the redevelopment effort, its most important contribution is to ensure that it supports this agency and delivers its services (e.g, permitting, inspections, service delivery, etc.) in a streamlined and high-quality fashion.

In the end, the mayor's leadership role in the planning process would bring many benefits. He would be able to reward the hard work of citizens in developing the plan by committing action and implementation that is within reason for the city and the state. He would be able to take a clear, informed, and unified vision for the city to former residents temporarily living in other cities and to state and federal decisionmakers. His articulation of a unified vision and plan would bring renewed confidence to families and the marketplace, thereby helping to accelerate the recovery process.

Finally, if done well, Mayor Nagin's leadership and engagement would result in a unified plan that puts New Orleans on a path to a safer and more fiscally viable, inclusive, and prosperous future.

5. In partnership with the state, the city needs to put in place a comprehensive approach to assemble and remarket vacant land and abandoned and blighted properties

In the coming months, the city will potentially have on its hands a large slew of developable land or properties to contribute to the rebuilding effort.[45] This will be in addition to the 20,000 blighted properties that the city already had identified prior to Katrina.[46] Of these, the mayor has recently put 2,500 adjudicated or tax delinquent properties on the market for private or nonprofit developers to purchase at discounted rates, primarily to expand the supply of housing, especially affordable rental housing, for families.[47]

In short, the city will potentially be one of the biggest developers or property owners in the city, and it is imperative that the city put in place a smooth and comprehensive approach for facilitating the redevelopment of all available land and properties.

Doing so will also enable NORA or a single redevelopment agency to act more expeditiously alongside the city in implementing the city's plan.

In their paper, "Seizing City Assets: Ten Steps to Urban Land Reform," Paul Brophy and Jennifer Vey provide a practical guide, and best practices, for city and state leaders to install the right policies, regulations, and capacities to address the full continuum of needs to facilitate redevelopment.[48] The fact that the city has launched a unified neighborhood planning process is one important step. But there are others. Specifically, city and state leaders should:

1. Know the territory. The city must be able to quantify and map the location of all of this available land and property, including information on the property itself and the zoning that underlies that land. This information should be made publicly available and updated regularly.

2. Develop a citywide approach to redevelopment. For the city, engagement in the citywide, unified plan would be critical.

3. Implement neighborhood plans in partnership with neighborhood stakeholders. Again, the neighborhood plans that are part of the unified plan would meet this need. But it is essential for the current or future modified plans be informed by an assessment of how many abandoned properties is likely in each neighborhood, potentially widening the choices for what to do with such properties.

4. Make government effective. The city must create a seamless, efficient, and effective set of rules and procedures for property acquisition, land assembly and disposition. Similarly the city streamline and efficiently administer all local processes such as permitting, revising zoning ordinances, enforcing building codes, and implementing other regulations.

5. Create a legal framework for sound redevelopment. This might mean establishing a state law to create a land bank authority that can take on the task of acquiring, fixing up, assembling, and marketing land and properties for redevelopment.

6. Create marketable opportunities. The city needs to create a transparent development process and reach out to private developers and non-profit organizations. The city also needs to come up with a plan and resources to actually clean up or modernize that land or property so it is marketable.

7. Finance redevelopment. The city and state might need to work together to develop gap financing or other resources to help non-profits participate in the redevelopment of property or to set up tax increment finance districts to generate up-front revenues for redevelopment.

8. Build on natural and historic assets. The city and state may put in financial incentives to preserve the city's historic buildings or package land and properties that enhance city assets, like parks and cultural districts.

9. Be sensitive to gentrification and relocation issues. As the city acquires land and properties, especially in some of the most damaged parts of the city that were home to low-income and working families, the city needs to ensure that families who can not afford to maintain a home are given sensible options or that the acquired properties, when assembled, are maintained as economically and socially diverse neighborhoods.

10. Organize for success. This is a lot of work and requires the mayor and his city staff to develop strong relationships with the state, private and nonprofit developers, and its citizens to ensure there is support for a transparent, efficient, and comprehensive approach to these properties.

By implementing such a plan, the city and state would enhance the speed of the recovery effort and ultimately enable the unified plan to be implemented.

C. Building a Prosperous New Orleans

New Orleans before the Storm

Finally, the New Orleans metro area was struggling economically prior to Hurricane Katrina. The region's core industries, such as oil and gas extraction and port-related employment, while producing well-paying jobs, were losing employment since 2000. The sectors that were growing, mostly in tourism and hospitality, were generating jobs that often paid below the national average. Average earnings from jobs in the accommodations sector, for example, paid $19,000 annually. As a result, the New Orleans region ranked 96th out of the 100 largest metro areas in median household income, at $35,317, in part reflecting the composition of the jobs in the economy and the skills and education levels of workers. As a whole, average annual pay in the New Orleans grew just 7 percent between 2000 and 2004, far lagging the national growth rate of 16 percent.

Studies by the Council for a Better Louisiana reinforce the warning that, prior to Katrina, the state and the New Orleans region were lagging behind their peers in the ability to achieve a high quality economic future.

In their study, Measuring Our Progress: Louisiana's Place in the New Economy, the statewide, non-profit organization found that Louisiana often ranked near the bottom among Southern states on a wide range of indicators of progress, at a time when many of those states prospered. One culprit, the study notes, is that "…Louisiana's job mix is rooted in its past… it is imperative that we enrich our economic mix, with a focus on jobs in the future." Otherwise, the concern is that workers, and skilled workers, will continue to leave, and they did. Between 1990 and 1999, Louisiana experienced a net outmigration of 140,000 residents, ranking last among 13 southern states, all of whom added net new residents from other states.[49] In a follow-up public opinion survey of voters in Orleans Parish, the Council found that 40 percent of those surveyed would move out of the state if they had the means and opportunity. The top reason by far: the poor economy, lack of job opportunities and low wages, followed by concerns of quality of life and school quality.[50]

The Goal: Transform the Economy from the Low-Road to the High-Road

These trends are not unique to New Orleans. Many regions around the country, especially in the rustbelt, are struggling to reinvent their industrial base and move into the knowledge economy without producing a slew of low-wage service jobs in the process. But, the severity of the trends in greater New Orleans argues for state and local leadership, with the help of their federal partners, to use this post-Katrina environment to move with deliberateness toward a more diverse, high quality economy.

This goal is not a new goal for the state. Since 1998, the Louisiana Economic Development Council has been releasing annual plans to help the state achieve Vision 2020. That vision aspires to "position the state to have a vibrant, well-balanced economy; a fully-engaged, well-educated workforce; and a quality of life that places it among the top ten in the nation in which to live, work, visit, and do business." The latest action plan, released in March 2006, called on the state to stay focused on this goal despite the challenges presented by the storm.[51] We agree.

To move the region's economy to the high-road often requires the strategies discussed in the last two goals to effectively be in place. Without an adequate supply of housing for workers of all skill levels, employers are left without the capacity to operate. And an adequate supply of affordable housing is especially critical for retaining diverse residents, artists, musicians, and service workers. If such affordable housing is not located in healthy neighborhoods, then families will not be able to raise their children in safe, stable environments that are near quality schools, potentially undermining the learning potential and opportunities of the region's future talent pool. To preserve and build on existing industry strengths, such as oil and gas, ports, and fisheries, the region needs to invest in coastal restoration to simply retain and strengthen those industries and ensure a sense of long-term safety for all families and workers.

Thus, the pursuit of a more prosperous economy requires an integrated approach that includes the goals of inclusion, good planning, and sustainability. But, explicit economic development strategies still matter.

Positive Developments Thus Far

Now, one year after Hurricane Katrina, the goal of a more high-quality economy is predicated on having a functioning economy at all. The Katrina Index found that job growth has been slow to recover while the basic service infrastructure remains weak. The New Orleans region needs to re-establish a functioning government with quality services in order to retain and attract back residents and businesses. But at the same time, as efforts are made to stimulate job growth, the federal, state, and local leaders need to keep an eye toward not replicating the exact same economy the region had before the storm.

In this regard, there have been some noteworthy efforts to jumpstart the region's economy but also to fundamentally remake some key public services that matter to any economy.

1. Congress and the Bush Administration have authorized key economic redevelopment dollars in the wake of the storm, including passage of the Gulf Opportunity Zone Act

In December 2005, the president signed into law the Gulf Opportunity Zone Act which provides approximately $8 billion in tax relief for businesses heavily impacted by the storm and tax incentives to induce new investments in the storm-ravaged parishes along the coast.

These tax benefits included the ability for existing businesses to expense up to 50 percents of costs for clean up and demolition or claim a tax credit for retained workforce. The bill included incentives for new businesses such as a 50 percent bonus depreciation for new development or tax-exempt bond financing for setting up a new shopping or retail center or office building. To promote the redevelopment of distressed areas, the Go Zone legislation also significantly increased the federal allocation of the Low-Income Housing Tax Credit and the New Markets Tax Credit in the region.[52]

Many businesses have hailed the benefits of this economic program. Unfortunately, the bulk of the benefits have gone to businesses that did not incur major damage or were sizeable enough to absorb the initial losses. Meanwhile, many small businesses and family operations are not "bankable" and have limited resources to borrow funds or have little to no revenues to enjoy a tax credit. And a recent Brookings study shows that many existing owners and low-income or urban workers do not benefit from these kinds of tax-only revitalization efforts.[53]

But overall, the availability of the housing and new markets tax credits afforded by the GO Zone act will prove potentially valuable to community groups and low- and moderate-income neighborhoods in the New Orleans area.

2. The state and federal government have launched the fundamental overhaul of two critical pieces of basic services—schools and health care

In the Collective Strength survey of residents displaced by Katrina and Rita, citizens ranked the need for better schools and access to health care as among the top 10 priorities for the state's recovery effort, with each, respectively, garnering 92 percent and 86 percent support. In the same survey's interviews with top business, elected, and non profit leaders, these leaders pressed the importance of remaking the education system as a first step toward fixing a series of systemic problems that existed before the storm.[54]

Furthermore, the quality of the public schools has been reported as a frequent reason for why some families, artists, and other workers have hesitated to come home to New Orleans.

There are good reasons to be concerned about schools and health care. Pre-Katrina, Orleans Parish was the largest school district in the state but was also the lowest performing, containing 22 out of the 24 "academically unacceptable" schools in the state. In the 2001 school year, only 17 percent of 8th grade students scored at or above the basic achievement level for math in the state's standardized test; only 21 percent of 8th graders performed at or above a basic level for English.[55]

Similarly, the health care system was broken and inefficient. At the core, Louisiana's health care system is a dated, segregated system. The insured population receives care from private hospitals and health care providers and the uninsured or underinsured are taken care of by the public hospital system. Louisiana is the only state in the nation that has this two-tiered delivery system. The result is a lack of quality care, especially for the uninsured, elderly, and low-income populations. The private hospitals and primary care providers are well-funded often with an excess of beds, while the public hospitals struggle with high demand, cuts in Medicare and Medicaid funds, and limited resources and capacity. Further, the high bias towards institution-based care has left the whole health care delivery infrastructure weak and inaccessible.[56]

The state has moved aggressively since Hurricane Katrina to use the opportunity to fundamentally remake the delivery of these two important public services.

Last fall, just months after the hurricanes, Governor Blanco declared a state takeover of the lowest-performing schools in Orleans Parish. The goal was to fundamentally improve the delivery of education in the long-troubled school district. Thus, 107 of the 117 schools were placed in the hands of the state's Recovery School District (RSD).[57] While many of these schools will be chartered, a number will remain RSD-run. At the same time, the RSD has committed to keep all of these schools as open enrollment. The RSD has hustled to get a number of schools ready for the fall semester, scrambling to hire teachers and staff that meet higher standards of quality. At this time, there are 56 schools in the city of New Orleans that are accepting enrollment for the August start. Of these, 18 are run by the RSD and 5 are run by the Orleans Parish school board. The balance is new charter schools. While the performance of these new schools remains to be seen, the promise of bold experimentation and greater school choice has been met with widespread (but not universal) support.

Real changes are also afoot in the parish and statewide health care system. The state, with the strong support and partnership of U.S. Secretary of Health and Human Services Michael Leavitt, have formally agreed to work together to remake the state's health care system. In the 2006 legislative session, Governor Blanco signed a house resolution to create the Louisiana Health Care Redesign Collaborative, a single entity charged to create a blueprint for designing a new health care system in the greater New Orleans area first, with broader applications for the entire state in the long-term. The collaborative, an idea first originated by Secretary Leavitt, is to submit a final draft of the blueprint to the state by the end of calendar year 2007 with interim reports until then. In the very near term, the collaborative must submit a short-term reform plan to Secretary Leavitt by October 20, 2006 which, if improved, would trigger a federal waiver for the state to more flexibly use federal Medicaid/Medicare funds. A formal partnership between Governor Blanco and Secretary Leavitt on remaking the state's health care system was signed in July 2006.[58]

But More Progress Is Needed

No doubt, there have been important strides made in the economic recovery of the New Orleans region. But with only one year behind us in a long-term redevelopment effort, the basic quality of life factors, like decent public services, remains thin. Without such services, the city has the potential to lose existing residents, including skilled workers, who have stuck with the recovery effort thus far. While attracting back residents is a priority, preventing the loss of professional and skilled workers who've had the resources to stay should be just as important. Meanwhile, efforts to restore other core elements of a knowledge economy have been predominantly neglected.

1. <u>Urgent solutions and resources are still needed to restore whole parts of the public service infrastructure in New Orleans, notably utilities, water/sewer, and public transportation</u>

While bold reforms are underway to improve the quality of public k-12 education and health care services, deep troubles remain for other parts of the city service infrastructure. Regular service disruptions and increasing levels of crime have created daily frustrations, anxieties, and inconveniences for families and businesses. Without a safe and decent quality of life with affordable, functioning services, families and businesses with resources will leave.

First, Entergy New Orleans, the region's gas and electric provider, has declared bankruptcy.[59] Their fiscal troubles result from storm damage, with power lines that remain down and no capacity to create a backup system when a storm or other factor causes a part of the grid to go out. Further, the utility company faces a loss of revenue, primarily from business disruption and a shrinking customer base (as of August, only 60 percent of electric and 40 percent of gas customers have returned).[60] Entergy has requested $718 million in CDBG funds to help them cover the costs of repairs and lost revenue.[61] For now, the company has requested a 25 percent rate increase for gas and electric bills that is pending before the city council. But, if the request for CDBG funds does not get approved, either by the federal government or the LRA, the company has claimed they would have to raise rates by 140 percent to restore and maintain their services.[62]

Second, the water-sewer infrastructure in the city is literally a sieve, with cracks and holes running the length of the pipelines. The New Orleans Sewerage and Water Board (S&WB) currently pumps out 135 million gallons of water a day to serve the city, but 63 percent of that leaks back into the ground.[63] The leaks are not only wasteful, but also eroding its own pipelines and causing new cracks in the roads. Further, water leaks are flooding the city's gas pipelines, resulting in more sporadic outages throughout the city.[64] And like with Entergy, when S&WB needs to shut down a water main line to fix a major valve or pipe, whole neighborhoods, including businesses in the French Quarter, are shut off from water supplies.

Third, the Katrina Index shows that the level of public transportation service has remained thin and literally the same since January. Just 50 percent of the bus and streetcar routes and 17 percent of operational buses have been in use for the last 8 months. To its credit, the Regional Transit Authority has been offering free rides for customers since the storm, including providing a free shuttle service between New Orleans and Baton Rouge. With financial challenges looming, the RTA has begun charging fares again this month. Earlier in the summer, the RTA was on the brink of financial collapse until a last-minute subsidy from FEMA has kept the authority afloat.[65] Plans are underway to reorganize the RTA to keep it operational, including re-drawing bus routes to meet a smaller ridership.[66]

And lastly, the number of violent crimes have surged in recent months, despite the relatively low population levels. Since the New Year, the city has dealt with 79 homicides, with 22 killings in July alone. To help the small and strained New Orleans police force, the state police and National Guard have patrolled the sparsely populated parts of the city, like Lower Ninth Ward and eastern New Orleans, mostly to deal with looting, while the city's own police force have concentrated their activities in the populated neighborhoods and business districts.[67]

If left unaddressed, this complete level of unreliable and poor service can wear the patience of residents and business owners and hurt the ability for the region to bounce back, especially if they have to pay increased out-of-pocket fees to shore up these services. The following are some considerations to restore the basic delivery of services and overall quality of life to New Orleanians.

- <u>The mayor needs to produce a feasibility study on the extent to which the city can provide the full array of services to all neighborhoods at this time, followed by a plan for delivering those services in the short- and long-term</u>. In general, the smaller customer base coupled with the need to fix the infrastructure puts real constraints on the ability for the city and these agencies to extend service equally to all parts of the city. Similarly, it is not clear how much longer the National Guard and the state will be able to share in the delivery of police coverage. In all, the alternative is to reach an agreement with businesses and citizens or to have them shoulder the burden of the costs to make full service delivery possible. The city should undertake a feasibility study to determine the fiscal realities of bringing the original public service infrastructure to pre-Katrina levels and the full array of options available. The goal should be to deliver quality and reliable service to all neighborhoods, even if that means phasing in delivery or cost-sharing to make that happen.

- <u>FEMA needs to accelerate their assessment and spending of infrastructure dollars so the state can better determine unmet infrastructure needs and the resources to address them</u>. Currently, the state has set aside $1.9 billion in CDBG funds to primarily pay for critical repairs, including the required non-federal 10 percent match to FEMA's Public Assistance grants, which are intended to restore the state public infrastructure damaged by the storm. Together, the federal and state funds are directed at repairing such structures such as public schools, local roads and highways, water and sewer infrastructure, police and fire facilities, and hospitals. However, the rules are strict that FEMA can only restore infrastructure to pre-Katrina conditions. If the pre-Katrina infrastructure was substandard, then FEMA will not fix the infrastructure or the state will have to find additional resources to bring that critical infrastructure to quality conditions. For instance, concerns about possible delayed maintenance in the water-sewer system prior to Katrina has held up $1.3 billion in federal funds for those repairs, until decisions are made about how much of that system is eligible for FEMA funding. While the LRA and FEMA are working hard to determine the price tag of infrastructure damage overall and who is liable, FEMA's assessment of each project and ultimate spend-down has been exceedingly slow and cautious. To date, FEMA has obligated about 50 percent of the funds the state estimates will ultimately be FEMA's obligations for the disasters. Meanwhile, the state estimates that at least $1 billion of public infrastructure is likely ineligible for FEMA assistance but greater clarity is needed before the state determines how best to pay for all the critical infrastructure repairs in the damaged parishes. No doubt, FEMA must be accountable to taxpayers. But the slow pace of decisionmaking and spending creates a cloud of uncertainty about available funding, impairing the ability for state and local governments to plan for future investments and facilitate economic growth.

2. The federal and state government must bolster New Orleans' assets in the creative and knowledge economy—small businesses, research, and higher education

In the first year, the federal government and the state have invested the bulk of its energies and funding in the recovery process for housing and infrastructure. The main investment in economic development, the Gulf Opportunity Zone program, has primarily served as a blanket tax incentive to both restore existing businesses and stimulate new businesses. Meanwhile, the LRA has dedicated $350 million from their $10.4 billion in CDBG funds for economic development.

The trade-off in delivering on these priorities is that limited funding was made available to target specific needs in the economy, particularly those assets that preserve the distinctiveness or knowledge infrastructure of the new economy.

For instance, small businesses are a significant part of the state and region's economy. Establishments that employ less than 50 employees made up approximately 92 percent of all businesses in the pre-Katrina economy of greater New Orleans, and that same percentage was located in the flood zone.[68] These businesses represent the bread and butter of the creative industries, such as shops, boutiques, and restaurants, but they also reflect the unique local character that only family-owned establishments or entrepreneurs can bring. However, very few of the federal resources currently benefit small businesses, especially when many owners are using their available capital and savings to rebuild their own homes, and less their businesses. For instance, the GO Zones primarily benefit larger businesses that can repay loans or are already generating revenues. Small businesses, on the other hand, have a hard time taking on more debt. If they can afford to seek loans, the SBA disaster loan is meant to serve them, but the program has been a disaster itself, with major delays and high decline rates, that even the tainted reputation of SBA has prevented many potential applicants from seeking federal assistance. At six months after hurricanes Katrina, Rita, and Wilma, SBA had declined 65 percent of loans, were averaging three to six months to process applications, and approximately 60,000 applications remained in backlog.[69] With SBA serving as the primary source of capital for small businesses to both repair damaged properties and compensate for losses (including paying salaries to employees), small businesses have had to seek alternative resources for assistance. In response, the state has created a $100 million bridge loan and set aside $142.5 million of its CDBG funds in loans, grants, and technical assistance to meet the needs of small businesses.[70]

There is limited funding for restoring higher ed institutions and their research efforts in the region, including historically-black colleges and universities (HBCUs), which not only serve as generators of human capital and new research, but also are centers of redevelopment in their neighborhoods. To be fair, the state has dedicated a portion of its CDBG infrastructure budget to provide the non-federal match to FEMA's repair of public infrastructure, including financing the repair of public institutions of higher learning. But that funding currently does not benefit private colleges and universities that were severely impacted by Katrina. Most of these same institutions had small endowments to derive capital to cover all of their recovery costs. The Board of Regents has also dedicated $8.5 million from federal funds to provide small scholarships to encourage students displaced by the storm or graduating from an area high school to return or attend an in-state public college or university, including two-year institutions.[71]

To build on these creative and knowledge assets, federal and state leaders could:

- Provide grant assistance to small businesses but also focus on all strategies to help renew or expand their customer base. Many small businesses have yet to hear from SBA or do not have the capacity to take on more debt. Federal and state leaders need to work together to identify sources of grant assistance, including planning dollars, to help small businesses: (1) cover the costs of repairs or one-time losses; (2) maintain employees through temporary wage subsidies, and (3) modify or adjust their business plans so they can evolve their business to meet changing demands in the marketplace. But one of the biggest hurdles that most small businesses face is the lost customers that are critical for them to keep their doors open. While some businesses may be able to come up with new business plans or models to target a different customer base, many small businesses would like to retain what they have long-created. The state's $28.5 million marketing and tourism initiative, funded out of CDBG, will help but effective implementation of other parts of the recovery effort, such as planning, housing, and service delivery will help toward sustaining a customer base.

- Launch a program to attract and retain quality research and faculty to solidify the research infrastructure in the region. No official data exists on the extent to which faculty and university-based researchers remain displaced or have relocated since the storm, but anecdotal evidence suggests that the research and faculty infrastructure has been weakened by Katrina. While grants have been issued to motivate students to return to campus life, similar efforts are needed to recruit and retain faculty, staff, and top researchers, to restore the quality of academic programming in the region's higher education institutions. But the state should go further by ensuring that the region's science and engineering and medical research remain top-notch and bring economic gains to the region. This might include launching a research alliance that would bring state, academic, and business leaders to identify core research strengths in the region and how best to invest in the talent, technology, and facilities to grow those research areas in the region.

4. The federal and state government need to improve the workforce development system in the state, with direct planning resources for strengthening the workforce infrastructure in greater New Orleans

Prior to Katrina, the New Orleans region and the state was beset with a low quality workforce, marked by limited educational attainment levels, poor literacy rates, and low participation in the labor force. The projected population trends in the region and state portend a future workforce that does not have the right mix and level of skills and education needed to be competitive in a knowledge economy.[72]

To meet this broader need to invest in workforce quality and the more immediate need to train and recruit workers in key sectors impacted by Katrina, the state has dedicated $38 million from its CDBG funds to support sector-based workforce training programs.[73] The plan calls for placing preferences for those proposals that work directly with employers, community or technical colleges, and other key stakeholders, collaborating on such sectors as construction, health care, and advanced manufacturing.

The plan's focus on sectoral strategies for workforce development is right on the mark. But workforce development dollars are hard to spend down and spend down effectively if a functioning workforce delivery system is not in place.

Thus, there are a number of steps that the state can take to optimize the availability of existing and future workforce dollars.

- <u>Embrace the recommendations of the Louisiana Task Force on Workforce Competitiveness to create a statewide vision for workforce development and to adopt system-wide changes to support that vision.</u> In January 2005, Governor Blanco signed an executive order to create the Task Force on Workforce Competitiveness to help ensure the state has a vision and plan in place to grow a high quality workforce for the state.[74] The task force was created in response to several new studies that warned of the looming workforce crisis in the state, and pointed to the long fragmented and duplicative nature of the state's workforce delivery system, governed not by any overall goals. In 2006, the task force released its recommendations to the governor. At the center of the recommendations was a proposal to create a new statewide entity tasked to "create a common workforce vision, strategic plan, and outcomes and the authority to approve all state and local workforce plans" prior to their submission to the state workforce investment board. Such an entity would also have the authority to seek reforms that would streamline or expand existing funds, programs, or systems to improve the overall workforce delivery infrastructure. Overall, these recommendations signal a major step forward in creating a more unified and effective approach to workforce delivery in the state, one that is both focused on the needs of employers and workers but also with the urgency of the global economy in mind. The governor should adopt these recommendations.

- <u>In the interim, the state or federal government should create a "regional workforce integration" grant to eligible entities in greater New Orleans and other regions to provide them resources to build a wide network of partnerships that knit together a seamless regional</u>

workforce delivery system. Like in many metropolitan areas, the workforce development system in New Orleans is highly fragmented. The delivery of workforce training, human services, and educational grants and programs often operate through different jurisdictional agencies which, in turn, are administered through different geographic boundaries. The stakeholders needed to work together to meet the continuum of worker and employer needs in a region often involve human service providers, skills trainers, job search and recruitment centers, community colleges, industry or employer groups, faith-based organizations, and child care and other work support providers. Thus, the experience in other jurisdictions shows that the most effective regional workforce efforts often involve a single non-profit intermediary or an empowered one-stop career center that literally knit the complex system of stakeholders, programs and dollars together in support of a region's goals for workforce development. These intermediaries not only facilitate the formation of partnerships, but also its successful sustainability by revamping curriculum, building infrastructure, developing programs, establishing performance criteria, standardizing products, and structuring financing. A new "regional workforce integration" grant, funded by the state or federal labor departments or other sources, would provide critical resources for such intermediaries to create a planning process or build the needed capacities to play this catalytic role and optimize the availability of existing workforce development dollars.

V. Conclusion

"Living in New Orleans these days is an endurance test."

Those were the words of a recent New Orleans Times-Picayune editorial, expressing the simultaneously the commitment and fatigue found among the region's residents one year after Hurricane Katrina.

The resilience and loyalty of the people of New Orleans is strong. They have served as the backbone of the recovery progress thus far. But that commitment and sacrifice will fade if they do not find strong leadership and meaningful developments to restore their community.

No doubt, government leaders and their partners are feeling the pressure, scrambling to respond to all of the multiple needs in the city and state. The sheer magnitude of the storm has created demand for assistance that far exceeds the available public funds. Thus, the choices on how to spend those resources are critical.

The government leadership on the post-Katrina recovery effort should be judged not just by the speed but by the quality of those choices.

In other words, the massive public investment in that region should not simply put New Orleans region back together as it was before: a socially and economically struggling region. Given this rare opportunity, federal, state, and local leaders should instead rebuild New Orleans as a better version of itself: inclusive, sustainable, and prosperous.

Overall, there have been some promising actions that the federal, state, and local leaders have undertaken since Hurricane Katrina to ensure that greater New Orleans will become better than it was before. However, it has only been one year in a long-term recovery effort and gaps still remain in the recovery response that must be addressed.

First, the recovery effort must improve the quality of neighborhoods in which families live to ensure that they have access to good opportunities. To this end, the White House and the state have worked closely together to ensure that sufficient housing dollars flow to the damaged parishes to help restore neighborhoods so that residents can come home or stay home, and the economy can buzz again with workers and consumers. Furthermore, many of these funds, primarily through the provision of Low-Income Housing Tax Credits and the state's Road Home dollars, have been structured to support homeowners, and some renters, and the ultimate creation of mixed-income neighborhoods. In short, housing has been a high priority for both the federal and state governments and their efforts to ensure adequate resources and incentives to rebuild the real estate market should be applauded.

But, in the end, low-income residents and renters have been substantially neglected in this response, and no sufficient implementation efforts exist to ensure that affordable housing does not recreate high-poverty neighborhoods. Nearly half of the damaged homes in the flooded areas of the New Orleans region were apartments yet the bulk of the housing response has been aimed at homeowners. Thus, the federal and state governments must work together to identify additional resources for the provision of affordable, rental housing to serve a full range of low-income and working families while enabling them to live in healthy, economically-integrated neighborhoods. The federal government needs to take further steps to clarify the future of public housing and put in a place a concrete plan to make sure that any displaced HUD-assisted families have access to housing in a shattered rental market. Finally, the state needs to inject some real incentives into the tax credit program that reward developers for pursuing mixed-income, mixed-finance developments that serve families of all income levels.

Second, to make the region safer and more sustainable, the state has taken the unprecedented step to integrate the management and plans for levees and coastal restoration to more effectively protect coastal communities and industries. For their part, the federal government has committed funds to restore the levee system to withstand a Category 3 storm. Meanwhile, the city of New Orleans may be well on its way to developing a unified plan for its future, which also sets the stage for its long-term sustainability.

However, the overall response has been insufficient to ensure that greater New Orleans will be an environmentally and fiscally sustainable region for the long haul. First, the federal government has not advocated strongly enough for coastal restoration programs that will reinforce the long-term strength of the levee system they are now building. Also, such investments would protect the oil and gas industry and other coastal economies that are critical to the nation. To that end, the White House needs to put forth an integrated plan for coastal restoration of the Louisiana coast, as mandated by Congress, while also approving a dedicated source of revenue for Louisiana to invest in coastal wetland restoration and protection. Second, the unified citywide planning process in New Orleans is still in its infant stages, and it is imperative for the mayor to get in front of that planning effort to ensure that the neighborhood plans meet the fiscal, market, and environmental realities facing the city. Furthermore, the hard work being put in to creating a unified vision and plan has no practical value unless the city puts in place a single entity and plan to coordinate and implement large-scale redevelopment.

Finally, to put the region's economy on a stronger footing, the federal government has issued a number of tax incentives to aid impacted businesses and stimulate private investment. But more importantly, in this first year, the federal government and the state have taken bold steps to fundamentally reform the health care delivery system and public schools in New Orleans. By focusing on these basics of a functioning economy, the state, with its federal partner, is sending a strong signal that it may not be business as usual.

Yet, the basic components of the economy remain in trouble while assets of the new economy have been overlooked thus far. To start, while bold plans for reform are underway for schools and health care, the rest of the public service infrastructure is literally broken. Both the utility company and the public transit agency are bankrupt or nearly bankrupt, creating real concerns about the level and quality of future services and the pending rate hikes on customers. The water and sewer system is plagued by leaks, causing power outages and weak water pressure throughout the system. Crime levels have risen, and the full level of police protection is only made possible for the moment due to the help of state police and the National Guard. Overall, if these critical public services are not addressed soon, not only will they diminish the city's quality of life, but they will also add to the increasing cost of living and cost of doing business for families and firms, potentially sparking an exodus from the city. The federal and state governments must work together to restore the quality and level of public services in the city. The city must create an interim plan for the sufficient delivery of services to inform the citywide planning effort. Finally, the federal, state and local governments must provide targeted investments to grow the knowledge assets of the economy and stimulate quality economic growth in the region. This means investments in small businesses, higher education and research, and workforce development.

In sum, federal, state, and local leaders have set the right priorities and made some smart decisions in the one-year recovery effort, but whole communities and whole parts of the economy remain unaddressed by the response to date. More work needs to be done.

Yes, the federal government has infused a large public investment into responding to the three major hurricanes that struck the Gulf Coast last fall. Of the $109 billion to date, approximately $35 billion has been allocated to the actual business of longer-term recovery. If done right, the public investment will leverage private investment and spark the revitalization of the greater New Orleans economy so that over time, state and local revenues will return and the federal role can diminish.

But most importantly, if done right, the federal, state, and local recovery effort will create a New Orleans that was better than it was before. The nation will see a major American city re-emerge from a staggering natural catastrophe as an important engine of the U.S. economy and a generator of wealth and opportunity for families.

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