



White Paper

# Decoding the Latest CDBG-DR Buyout Requirements

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## Highlights

- Buyout programs use CDBG-DR funds to purchase properties in qualifying target areas prone to flooding events, demolish the structures on the properties and create and maintain green spaces such as parks and flood storage/overflow areas on the properties in perpetuity.
- While these programs offer crucial assistance to communities, grantees, subgrantees and subrecipients need to develop and implement them in compliance with U.S. Department of Housing and Urban Development (HUD) requirements.

This paper outlines new HUD requirements applicable to 2017 CDBG-DR grantees that impact how buyout programs are designed and carried out.

## Executive Summary

Buyout programs are an excellent way of using CDBG-DR—sometimes in combination with FEMA funds—to move families out of hazard-prone areas and turn those areas into green space that both protects and enhances surrounding neighborhoods. The green space can be used to create such things as parks, rain gardens or flood storage/overflow areas. Buyout programs are typically part of a multi-pronged approach to community revitalization that may include identifying alternative housing and commercial options in other areas for residents and businesses participating in the program.



Communities that have experienced multiple flood events or other repetitive hazard in the same neighborhoods, creating a high number of severe repetitive loss and repetitive loss properties, should strongly consider funding a buyout program. Strategic buyouts can help reduce the impact of future disasters while encouraging targeted revitalization efforts and the creation of natural public spaces.

While the benefits can be substantial, grantees and subrecipients that are designing and implementing buyout programs need to do so in compliance with U.S. Department of Housing and Urban Development (HUD) requirements. This paper outlines new HUD requirements for buyout programs and what they mean for grantees.

## New National Objectives Help Meet Overall Low- and Moderate-Income (LMI) Benefit Requirements

Previously, there were three ways to count a buyout activity toward meeting the grantee's overall LMI Benefit requirement:

- 1. Low Moderate Housing (LMH):** any assisted activity that involves the acquisition and/or rehabilitation of property to provide housing to an income eligible low- and moderate-income (LMI) household. Using this national objective requires the grantee to verify that the buyout assisted an LMI family to secure new housing.
- 2. Low Moderate Area Benefit (LMA):** applicable if the buyout area and subsequent greenspace benefits an area that is primarily residential and 51% or more LMI.
- 3. Low Moderate Limited Clientele (LMC):** buyout funding is only available to low- or moderate-income persons and the benefit to LMI sellers is provided by applying the pre-disaster fair market value to those who participate.

Two **new** national objectives—**LM Buyout** and **LM Housing Incentive**—enable more buyout program funding to qualify as LMI benefit and therefore assists grantees to meet their 70% overall LMI benefit requirement.

### Using the New National Objectives When Designing A Buyout Program

There are two new national objectives—**LM Buyout** and **LM Housing Incentive**. Under both, the buyout activities are acquiring LMI-owned housing and supporting the LMI households move from high risk areas.

#### LM Buyout National Objective

If the acquisition price paid to an LMI household is higher than the current fair market value and it is supporting a household's move from a high-risk area, the grantee may use the **LM Buyout National Objective (LMB)**. The current fair market value is determined through a post-disaster appraisal of the property. Note that any CDBG-DR funds paid in excess of the post-disaster fair market value are considered assistance to the seller, making the seller a recipient of CDBG-DR assistance, with possible duplication of benefits ramifications.





### LM Housing Incentive National Objective

When CDBG-DR funds are used to voluntarily acquire an LMI-owned house for the purpose of moving the household out of a high-risk area, and an incentive, or additional assistance, is provided to help the LMI household obtain a replacement property in a safer area, the grantee may use the **LM Housing Incentive National Objective (LMHI)**. The incentive amount provided may be used for down payment or closing cost assistance on another property. The incentive payment does not necessarily need to be the same amount for every household but must be "necessary and reasonable" and calculated the same way for all participating properties.

This provision goes hand in hand with the LMB national objective but can also be used for acquisitions that are not buyouts. For example, this national objective can be used when providing or improving residential structures that, upon completion, will be occupied by an LMI household.

### Designation of Areas for Buyouts

In prior Federal Register notices, grantees were encouraged to designate areas for buyout where severe repetitive flooding had occurred during prior disasters. Grantees now have the option of designating in their Action Plans "Disaster Risk Reduction Areas." This may be an area that received a delayed impact or where risk was exacerbated because of the disaster (e.g. delayed appearance of sinkholes); or it may be an area where a predictable environmental risk to safety and well-being exists (e.g. area of repetitive losses). The area must be clearly delineated so that it is easy to determine which properties fall within the designated area.

### Providing Assistance to Homes in a Floodplain

2017 CDBG-DR grantees may only help with the rehabilitation/reconstruction of a house located in a floodplain if: a) the homeowner had flood insurance at the time of the qualifying disaster and still has unmet recovery needs; or b) the household earns less than the greater of 120% AMI or the national median and has unmet recovery needs. Due to these requirements grantees should consider implementing a Buyout program in these areas so they can aid neighborhoods that might not otherwise be eligible.

### Understanding the Bigger CDBG-DR Picture

Being able to answer common CDBG-DR-related questions is critical for those designing a compliant, impactful disaster recovery program.

But for grantees, compiling, decoding, and applying that information can be challenging and confusing. To help, ICF developed the [Quick Guide to the CDBG-DR Federal Register Notice](#), a live Google spreadsheet that provides an easy way for CDBG-DR grantees and their partners to review and understand the FR notice that is applicable to their appropriation.

Learn more at [ICF.com/markets/natural-disaster-recovery](https://www.icf.com/markets/natural-disaster-recovery)

## ICF Disaster Recovery Services

Texas. New Jersey. New York. Louisiana. Hurricanes Rita and Katrina. Superstorm Sandy. Hurricane Ike. 9/11. The Northridge earthquake. While no two disasters are alike, what these situations all had in common was ICF.

We've been there – in states, cities, counties, and small-islands; in the U.S. and around the world – designing programs, setting up systems, building capacity, and developing policies and procedures to help communities tackle seemingly insurmountable challenges. Having worked with federal, state and local government agencies for nearly every major natural disaster in recent U.S. history, we understand the social, economic and cultural challenges these communities face.

## About the Authors



**Brandy Bones** (AICP, PMP) has 12 years of experience helping states and localities implement disaster recovery, neighborhood stabilization and affordable homeownership and rental programs. She is an expert in the U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG), CDBG Disaster Recovery (CDBG-DR), HOME Investment Partnerships (HOME), Neighborhood Stabilization Program (NSP) and Choice Neighborhoods programs. Ms. Bones is experienced in program and project implementation, policy and procedures development, and data tracking, analysis, and reporting. Ms. Bones leads ICF's disaster recovery work with HUD and recently led the development of HUD's CDBG-DR Launch Toolkit and is working on a disaster preparedness and recovery toolkit for HUD's Office of Housing Counseling. She has designed disaster recovery programs in Louisiana, New Jersey and Pennsylvania and is currently leading a HUD Technical Assistance engagement in the US Virgin Islands.



**Steve Higginbotham** has 17 years of experience in the administration of HUD's Community Development Block Grant (CDBG) program. As a HUD Senior Community Planning & Development Specialist, he provided technical assistance in the start-up and administration of every grantee in HUD's \$85 billion CDBG Disaster Recovery (CDBG-DR) portfolio and served as the lead grant manager for the States of Texas and New Jersey. Since 2015, Mr. Higginbotham also led the team responsible for developing HUD's CDBG-DR policy guidance and issuing the Federal Register Notices that allocated CDBG-DR funds to program grantees. Prior to his disaster recovery work, Mr. Higginbotham served as a grant manager in HUD's State CDBG program, where he provided technical assistance to the

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Southwest border states (California, Arizona, New Mexico, and Texas) and Puerto Rico. He also authored a CPD Notice on combining CDBG and HOME program funds in colonias and the proposed rule for State CDBG administrative changes. Mr. Higginbotham also served nine years in the Army National Guard, with a deployment to Iraq in support of Operation: Iraqi Freedom.



**Sue Southon** is a development professional, trainer, and strategic planner with over 30 years of experience in community, economic development and affordable housing production. She has managed several technical assistance engagements for the U. S. Department of Housing and Urban Development (HUD), where she provided senior expertise on program design, organizational structure and staffing requirements, budget development, regulatory compliance, and project underwriting. She has assisted major disaster recovery initiatives in Louisiana, New Jersey and the Commonwealth of Pennsylvania to develop housing recovery programs, organizational structure, and staffing projections. She is recognized as a subject matter expert in redevelopment, program design, policies, procedures, document templates and checklists, and provision of technical assistance with regulatory issues. Ms. Southon garnered this expertise through years of working with states and localities where she served as a strategic advisor to local governments, community development organizations, and private developers. She served as a trainer for the International Economic Development Council (IEDC), Professional Certification Program, the Economic Development Institute, and the National Association of Workforce Boards.

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