Addendum

REBUILDING PUERTO RICO'S HOUSING STOCK

Alina Dunlap drafted this case study addendum based on desk research and background conversations during July–December 2023.

INTRODUCTION

Hurricane Maria damaged or destroyed approximately 60% of Puerto Rico’s housing stock—about 725,000 units. In the immediate aftermath of the storm, emergency responders found vacant properties and hotels that could serve as temporary shelters and used tents and tarps when there were no other alternatives. The next step was to rebuild. The estimated cost of housing repair or replacement in Puerto Rico was approximately $34 billion. Although private insurance would cover some of those costs, US federal government assistance would help cover the balance.

Remedying the damage was outside the main responsibility of COR3, which by design focused on infrastructure-related recovery projects. Most funding for housing came from HUD through its CDBG program, not through FEMA. The CDBG program routinely assisted cities and towns with shelter, public facilities, and economic development activities in low-income neighborhoods. After a disaster, the federal government could channel money through this system, which theoretically served the people who needed it most.

Although COR3 could step in to help train officials and community groups or to provide extra capacity where needed, the management of HUD assistance lay with Puerto Rico’s Department of Housing, also known as Vivienda.

Vivienda secretary Fernando Arturo Gil-Enseñat, a lawyer and politician who had previously administered the territory’s public housing program, soon found himself confronting a number of challenges as he sought to goad the disaster recovery block grant initiative into action.

CHALLENGES

Both Gil-Enseñat and Vivienda were new to the HUD program, and they had to orient themselves to their roles as quickly as possible. The expectation was that finance for repairing or replacing homes would flow through the unit that handled the conventional block grants—usually a division of a state or
territory’s housing department—and to individuals, municipalities, and other designated recipients. However, in consultation with HUD and Puerto Rico’s legislature, Puerto Rico’s governor had shifted the responsibility for block grants from the Office for Socioeconomic and Community Development to Vivienda. The governor had taken that action based on an understanding that the Office for Socioeconomic and Community Development had limited experience with postdisaster reconstruction and that the office had recently absorbed staff members from another agency in which the HUD inspector general had uncovered past misuse of block grant funds.³

Under the new arrangement, Vivienda would collaborate closely with COR3—and data on uptake, completion, and outcomes would become part of COR3’s information system on island-wide recovery efforts.⁴

In total, HUD would eventually allocate approximately $20.2 billion to Puerto Rico through block grants that addressed recovery needs unmet by private insurance or other sources.⁵ However, putting those resources to work was not easy. Federal rules required many preliminary steps before funds that Congress appropriated were actually obligated and disbursed. HUD’s own requirements were complex in the best of times and had become tightened further under the administration of US President Donald Trump. Puerto Rico’s municipios lacked both the capacity and the English-language skills needed to navigate the systems. Further, many residents lacked clear titles to their properties or had no insurance; building codes and building code enforcement were weak; and construction costs were high and rising.⁶

FRAMING A RESPONSE

HUD allocated $1.5 billion, the first tranche of Community Development Block Grant–Disaster Recovery (CDBG-DR) funds for Puerto Rico, on February 9, 2018. Vivienda immediately assessed staff capacity and began developing an action plan to administer funds—two of the steps required to gain access to the assistance.⁷ To increase its operational effectiveness, Vivienda created a disaster recovery division and hired contractors to help with the plan.⁸

HUD rules required that the action plan show how Puerto Rico would engage citizens in the design of its CDBG-DR recovery program and how it would facilitate continuous public access to information about the uses of grant funds.⁹ HUD had already streamlined its citizen participation requirements to expedite release of grants. Although public hearings were optional, the territory had to “provide a reasonable opportunity (at least 14 days) for citizen comment.”¹⁰

In March 2018, Vivienda began holding public hearings with citizens, stakeholder groups, and officials from municipios and state agencies. The aim was to collect feedback on unmet disaster recovery needs and proposals for recovery efforts, and Vivienda’s draft action plan incorporated that feedback.¹¹ In the final version of the action plan submitted, Vivienda noted that it had
received written comments from 67 of the Commonwealth’s 78 municipios and from a number of community organizations and citizens.\textsuperscript{12} To facilitate transparency, many of the written comments Vivienda received, as well as the department’s responses, appeared on Vivienda’s recovery website.\textsuperscript{13} Pressure from community organizations looking for greater transparency in the use of federal disaster recovery assistance led Vivienda to extend subsequent public-comment periods from two to four or more weeks.\textsuperscript{14}

HUD approved Vivienda’s action plan in July 2018. HUD secretary Ben Carson and Governor Ricardo Antonio Rosselló Nevares signed the grant agreement in September 2018. It would take another four months before Vivienda satisfied all of the special conditions HUD included in its grant, such as the onboarding of key staff and the submission of program procedures for HUD review.\textsuperscript{15} HUD authorized Vivienda to begin using program funds on February 2, 2019.

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**Figure A1. CDBG-DR and CDBG-MIT Grants Allocated to Puerto Rico for Long-Term Recovery from Hurricanes Irma and María**

<table>
<thead>
<tr>
<th>Appropriation</th>
<th>Federal Register Notice</th>
<th>Allocation</th>
<th>Action Plan and Amendments</th>
<th>Grant Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pub. L. 115–56 (Approved Sept 8, 2017)</td>
<td>83 FR 5844 (Published Feb 9, 2018)</td>
<td>$1,507,179,000 (CDBG-DR)</td>
<td>Approved July 29, 2018</td>
<td>Executed Sept 20, 2018</td>
</tr>
<tr>
<td>Pub. L. 115–123 (Feb 9, 2018)</td>
<td>85 FR 4676 (Jan 27, 2020)</td>
<td>$8,285,284,000 (CDBG-MIT)</td>
<td>Approved April 19, 2021</td>
<td>May 12, 2021</td>
</tr>
</tbody>
</table>


Notes: Funds allocated to Puerto Rico for the purpose of assisting in long-term recovery from major disasters in 2017 and 2018 (FEMA-4336-DR-PR; FEMA-4339-DR-PR). Total CDBG-DR and -MIT allocation for these disasters is approximately $20.2 billion. *Grant agreement date reflects grant start date as reported on usaspending.gov.
Nearly a year and a half had passed between the first supplemental appropriation by Congress and access to the first $1.5 billion of CDBG-DR funds (figure A1).

GETTING DOWN TO WORK

Implementing the CDBG-DR program would span the tenures of at least three different housing secretaries. Secretaries were political appointees. When Rosselló resigned as governor, Wanda Vázquez Garced replaced Fernando Gil-Enseñat with Luis C. Fernández Trinchet, who left office in January 2020. William Rodríguez Rodríguez took over as secretary in December 2020.

Assigning responsibility

Vivienda’s action plan and subsequent amendments outlined the allocation of CDBG-DR funds across 27 programs spanning a variety of activities. For example:

- The Whole Community Resilience Planning Program created comprehensive community recovery plans developed through engagement by community residents, organizations, businesses, and NGOs. The plans were intended to outline communities’ unique needs, set long- and short-term recovery objectives, and help communities develop policy, planning, and management capacity.

- The Home Repair, Reconstruction, or Relocation (R3) Program assisted homeowners in repairing or rebuilding their damaged homes or relocating when homes could not be rebuilt. The program operated in conjunction with a Property Title Clearance Program, which provided legal services to resolve title issues, and the Housing Counseling Program, which helped residents learn their housing options.

- The Homebuyer Assistance Program helped Puerto Ricans purchase homes through subsidized interest rates and mortgage principal amounts and payment of the closing costs associated with home purchase.

- The City Revitalization Program provided municipios with funds to engage in critical recovery activities and to reinvigorate downtown areas, urban areas, and key community corridors.

Vivienda delegated authority for some action plan items to other government agencies whose work aligned closely with the tasks involved. For example, the Puerto Rico Housing Finance Authority administered the Homebuyer Assistance Program, which determined award amounts and worked with lenders to help households close on properties.

Vivienda also partnered with nonprofit organizations to supplement the department’s strained capacities. For instance, nonprofit Foundation for Puerto Rico managed the Whole Community Resilience Planning Program and developed resilience tools and technical assistance for communities and for Vivienda.
The R3 Program remained a central part of Vivienda’s own portfolio, however.

*Clarifying eligibility*

Vivienda and HUD jointly defined eligibility rules for the 27 programs. For example, programs aiding homeowners targeted low- or moderate-income individuals as verified through documents such as recent tax returns, pay stubs, and bank statements. Those accepting CDBG-DR awards agreed to own and occupy the program-assisted home for a predetermined amount of time, secured by a Vivienda lien on the property. After an applicant met that requirement, the applicant’s obligation would be forgiven.

A given property’s eligibility for purchase or repair was determined through an environmental review as well as a damage assessment or property evaluation. Community resilience program funds required municipios and other eligible entities to undergo capacity assessments conducted by Vivienda. An assessment focused on staffing capacity and experience, citizen engagement experience, adequacy of financial procedures, and past and current experience in complying with CDBG-DR rules.

Once eligibility rules were in place, Vivienda made the information available. Communication was not always seamless, however. For example, nonprofit organization Ayuda Legal Puerto Rico voiced concern about delays in the publication of clear, bilingual program guidelines explaining eligibility and the application process for housing programs.25 And frequent amendments to program guidelines complicated the task.26

*Expanding capacity*

The outflow of Puerto Ricans to mainland United States both before and after Hurricane Maria, coupled with high demand for individuals with certain skills and a command of both English and Spanish, slowed expansion of capacity within Vivienda and at the municipal level.27 By December 2018, 78%, or 104 of 134, of the full-time positions Vivienda expected to need for administration of disaster recovery assistance remained unfilled.28 Only in mid-2020 did staff numbers reach the level originally required, and quarterly reports indicated that hiring more people remained a department priority.29

To address the staffing problem, Vivienda contracted with private firms to carry out certain essential tasks. For example, it signed an agreement with Horne LLP for grant management services—especially to assist the department in developing and monitoring its CGDB-DR program.30

Similar capacity-related concerns beset subrecipients such as local governments, other government agencies, and NGOs that designed and managed specific projects. At that level, lack of expertise, language barriers, and staff turnover caused program delays.31
Over time, COR3 stepped in to help train new Vivienda staff as well as municipios and NGOs. And it conducted in-person instructional workshops across the territory as well as online.

Some types of specialized capacity attracted concern later in the reconstruction program. In any large-scale investment in construction, fraud risk was high. HUD and FEMA rules included requirements to help reduce fraud risk, but in 2023, an inspector general audit report gave Vivienda low marks, claiming Vivienda was primarily reactive in trying to control collusion, kickbacks, false invoicing, and other practices. The report said employees were largely unaware of the US Department of the Treasury’s Antifraud Playbook and had received little training to assess fraud risk. The report did not identify any instances of fraud, but it urged the department to institute new practices. Vivienda replied that its existing policies mirrored those listed in the Federal Register, the daily record of rules and regulations established by the US government but that going forward, however, it would work with COR3 and HUD would have to assess how best to proceed.

Adapting

Capacity constraints, Puerto Rico’s budget austerity, and the complexities of program rules sometimes conspired to undermine performance in unexpected ways.

One of the most difficult challenges municipalities and other potential recipients encountered involved coming up with 25% in matching funds in order to unlock FEMA disaster assistance. Most municipios lacked resources for offering the required match, and the Puerto Rico government was out of money. To enable communities to rebuild, HUD, Vivienda, and COR3 developed a workaround they called the nonfederal matching program. The program issued grants that would specifically enable a recipient to meet the cost-sharing requirement. Vivienda designated COR3 as the program’s subrecipient as responsible for issuing the matching funds, a step that enabled COR3 also to help streamline the burden on applicants, who had to meet both HUD and FEMA eligibility standards and adhere to two sets of rules.

Keeping an eye on program performance yielded other opportunities for learning and adaptation. For instance, because the process of inspection of and closing on properties was usually lengthy, sellers preferred to find buyers unaffiliated with Vivienda programs, according to some housing voucher recipients. As a consequence, many low-income households remained without adequate places to live. In response to the problem, Vivienda tried to shorten its internal procedures for submitting required documentation, and it solicited the help of realtors to better identify available real estate inventory. In October 2023, Vivienda representatives indicated that as a result of those changes, the average time between receiving a housing voucher and closing on a house had decreased from 120 days at the beginning of the program to about 90.
OBSTACLES

The disbursement of large amounts of money for reconstruction resulted in clear trade-offs between speed and accountability and corruption prevention. In Washington, low levels of trust in the capacity of the Puerto Rico government to use resources for the intended purposes led to extra requirements and extra levels of oversight, which reduced the ability to fulfill the core mission.

As a general matter, the HUD CDBG-DR program was really a series of temporary supplemental appropriations, each of them with distinct language and requirements as determined by congressional intent and the circumstances of a given disaster. Lack of a common framework meant a potentially lengthy federal rulemaking process that would be required before the release of each allocation, including a HUD risk assessment of grantees and the possibility of extensive review by both the Office of Management and Budget and the Office of Information and Regulatory Affairs.

That approach to disaster reconstruction assistance imposed substantial administrative burdens on Puerto Rico. The commonwealth had to manage multiple CDBG-DR allocations, each governed by differing rules and guidance. Moreover, during the initial years, concerns about corruption, fiscal irregularities, and mismanagement led to unique restrictions on Puerto Rico as a grantee. HUD required a federal financial monitor review of CDBG-DR disbursements to Puerto Rico, a requirement that William Rodríguez Rodríguez, Vivienda secretary under Governor Pedro Pierluisi, said raised additional bureaucratic obstacles to effective implementation.

“It has been a complicated road to gain access to these funds, full of restrictions and unequal treatment by the federal government,” Rodríguez said. “It was not until 2019, after much exchange and work on the part of Vivienda, evaluation after evaluation ... that access to $1.5 billion was granted.”

In April 2021, HUD removed several of the restrictions it deemed onerous. Marcia Fudge, HUD secretary in the Biden Administration, explained the decision as an effort to “enable stronger recovery” and “unlock access to funds Puerto Rico [needed].”

Although some types of rule simplification offered a lifeline, others could easily increase the risk of trouble. For example, the Foundation for Puerto Rico faced scrutiny for having received a CDBG-DR contract to manage the Whole Community Resilience Planning Program without demonstrating any prior experience with the work required. It had not been asked to submit a proposal or to engage in a competitive bidding process. Reporting in November and December 2020 found that the foundation had yet to begin any of the substantive community planning work it had been contracted to deliver.

RESULTS AND REFLECTIONS

Puerto Rico was HUD’s second-largest grantee under the CDBG-DR program by the end of 2023. Although the pace of project completion had
started to improve, the program had accomplished only a fraction of its original plan.

Available data indicated that in September 2023, six years after Hurricane Maria, only 25% of the first two CDBG-DR allocations had been disbursed (figure A2). Delays occurred at several points: There were often long pauses between congressional appropriation and actual grant agreements between Vivienda and HUD. On the ground in Puerto Rico, moving resources from Vivienda to recipients also took substantial time. By November 2023, only 29% of the 3,067 individuals who had received relocation vouchers through the R3 Program had closed sales on replacement housing. Those delays arose in part from the limited housing stock available in Puerto Rico, as well as from increased construction costs and interest rates. However, complex procedures and capacity constraints also played roles.

Figure A2. Total and Percentage of CDBG-DR Funds Disbursed in Puerto Rico, First and Second Allocations

Sources: PR CDBG-DR Quarterly Reports (https://cdbg-dr.pr.gov/en/reports/)
Notes: Data represent the total and percentage of CDBG-DR funds disbursed in Puerto Rico as of September 30, 2023, for the first ($1.5-billion) and second ($8.2-billion) disaster relief allocations. Disbursed funds indicate funds drawn down based on vouchers completed during the quarter. Vertical dotted lines indicate dates of congressional approval for the corresponding supplemental appropriations.
A Congressional Research Service report highlighted the need to codify a set of standard rules at the national level, create a HUD office dedicated to management of the CDBG-DR program, and devise a common application for assistance from FEMA and HUD so as to reduce burdens on local officials and applicants.47

References


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https://www.noticel.com/gobierno/ahora/top/stories/20201203/pierluisi-hace-nombramientos-para-la-secretaria-de-salud-familia-y-vivienda/; During the intervening period, Rodríguez served in the capacity of appointed secretary.


https://www.planning.org/blog/blogpost/9170787/.


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"Todavía no hemos recibido el acuerdo, pero ya hemos sostenido reuniones (con HUD), en donde nos aseguraron que vamos a estar recibiendo un acuerdo de subvención para tener acceso a los fondos de mitigación, que viene con las condiciones básicas que le imponen a cualquier ‘grantee,’ y que vamos a recibir uno similar para la enmienda del acuerdo de los $8.2 billones de CDBG-DR,” explicó. “Se van a eliminar las restricciones. Entre las condiciones extraordinarias que destaca ese acuerdo es que se creó un monitor fiscal, donde no solamente había que estar constantemente requiriendo autorizaciones de esa oficina sino que era una oficina que creó burocracia, agregó.”


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