BATON ROUGE, La. -- Louisiana's $7.5 billion program to buy out homeowners or help them rebuild is going broke, the governor is warning in another crisis in the long-mired effort to rescue neighborhoods smashed by Hurricanes Katrina and Rita.

More than 130,000 applications for aid have been submitted under the troubled, federally funded Road Home program _ about 30 percent more than initially expected.

Gov. Kathleen Blanco and Road Home officials now say they expect a shortfall of up to $3 billion, mostly because the grants that have been doled out for rebuilding so far are running much higher than originally projected.

Moreover, the state has yet to fully set up the nonprofit corporation that will take ownership of as many as 15,000 bought-out properties under Road Home. The corporation has no executive director or staff, and the rules for handling the wrecked houses and other ruined pieces of property have yet to be spelled out.

Some community activists worry that the disarray and the shortage of money? are going to hold up the rebuilding.

Blanco urged calm, saying state and federal officials have time to find more money. "We will be looking to Congress to make up the difference," she said.

Road Home has been vilified by residents and local officials as sluggish and incompetent in its handling of homeowner claims. Nearly a year after the program began operating, less than 10 percent of applications have been processed.

If the outstanding applicants receive grants about the size of those doled out so far, Road Home could be billions of dollars short of what it needs to process all the remaining applications, Blanco said.

Susan Aspey, a spokeswoman for Don Powell, President Bush's Gulf Coast recovery chief, said it was too soon to say whether the White House would seek additional aid for the program.

"Just because there is a need does not necessarily mean that the federal taxpayers should be meeting that need," Aspey said.

Under Road Home, homeowners can get up to $150,000 to repair their houses or walk away from them. At least 12 percent of the homeowners applying for aid want to take the lump sum and move away, according to data released last week. State officials said that is about the rate they expected.
In some ZIP codes in St. Bernard Parish, where a wall of water from Katrina inundated virtually every structure in August 2005, more than 50 percent of Road Home applicants want a buyout.

Altogether, as many as 15,000 crumbled, moldy homes and overgrown lots are expected to become state property. Then it would be up to the state-chartered Road Home Corp. to transfer the properties to the local governments and redevelopment authorities that are overseeing the rebuilding of the ruined neighborhoods.

Because of the slow processing of claims, New Orleans-area planners are still waiting to find out exactly which properties will be handed over to them.

In addition, more than a year after the Legislature authorized creation of the nonprofit corporation, the rules to guide those transfers have not been written, and the staff to manage the process has not been hired.

New Orleans Mayor Ray Nagin, a longtime critic of Road Home who sees the slow pace of aid disbursement as a major obstacle to the city's recovery, said Thursday that the lack of a policy for disposing of the bought-out homes is a major worry.

In spite of "verbal commitments" from state officials that there shouldn't be a problem with transferring properties, "there's nothing in writing that we have found, and that needs to be solidified," he said.

Road Home Corp. has taken ownership of only a small number of properties _ 75, according to the latest available statistics _ but the count is expected to grow substantially in the coming months.

Local planners and community groups need to know which properties they will receive, in order to make all sorts of land-use decisions, such as whether to redevelop lots, sell them to private developers or turn them into green space.

Alan Gutierrez, a community activist and member of a group called Citizens' Road Home Action Team, said the uncertainty about the property-transfer policy is going to hurt.

"The lack of information is almost as bad; it's almost as confusing," he said.