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August 27, 2007

Gulf Coast Hurricanes and the Federal Budget

On August 2nd, the House Budget Committee held a hearing titled “Hurricanes Katrina and Rita: What will be the long-term effect on the federal budget?” The purpose of the hearing was to explore the impact of the 2005 Gulf Coast hurricanes on the federal budget, including the impact that poor decision-making in the initial response had on long-term costs, and to provide the most complete accounting possible of federal spending. Below are some highlights from the hearing.

Gulf Coast Hurricanes Did More Physical Damage Than Any Disaster in U.S. History —

The disaster destroyed nearly 300,000 homes and caused more deaths than any hurricane since 1928. According to the Government Accountability Office (GAO), the full cost of rebuilding after the hurricanes will likely far surpass costs from the three other costliest disasters in recent history – Hurricane Andrew, the Northridge earthquake, and September 11.

Much of Federal Emergency Funding Was for Temporary Assistance, Not Rebuilding — Of the \$94.8 billion that Congress appropriated in response to the Gulf Coast hurricanes, the Congressional Budget Office (CBO) estimates that nearly half – \$45.3 billion – was allocated to the Federal Emergency Management Agency (FEMA), which spent most of it on temporary housing, emergency assistance, and debris removal. Only about \$3.4 billion of FEMA’s appropriation was spent on permanent infrastructure repairs. Less information is available about funding provided to the Departments of Defense, Agriculture, Health and Human Services, Transportation, and Veterans Affairs, but experts believe much of it was used for short-term assistance like health care, emergency food and welfare assistance, and evacuation costs. The Brookings Institution estimates that about \$35 billion (37 percent) of the total appropriations have been allocated to rebuilding.

Federal Costs, 2005 Gulf Coast Hurricanes

Total Appropriations	\$94.8 billion
<i>FEMA Disaster Relief Fund</i>	<i>\$46.6 billion (\$3.4 billion for permanent repair)</i>
<i>Community Development Block Grants (Permanent Housing)</i>	<i>\$16.7 billion</i>
<i>Army Corps of Engineers (levee repair, flood control)</i>	<i>\$8.4 billion</i>
<i>Department of Defense</i>	<i>\$9.4 billion</i>
<i>Department of Education</i>	<i>\$2.0 billion</i>
<i>All Other Agencies</i>	<i>\$11.7 billion</i>
Flood Insurance Payments	\$17 billion
Tax Incentives for Rebuilding	\$16 billion over 10 years

Most Rebuilding Funds Allocated But Not Spent — States received most rebuilding aid via \$16.7 billion in special Community Development Block Grants. CBO expects Louisiana and Mississippi to distribute the majority of those funds to homeowners, but only about 28 percent of the money been disbursed, most of it in Mississippi. Louisiana reports receiving 165,500 applications for assistance from homeowners, but a complex verification process and other problems have led to slow claims processing. In addition to the appropriated funds, the National Flood Insurance Program has paid about \$17 billion in claims to homeowners, and Congress has authorized tax incentives for rebuilding that the Joint Committee on Taxation estimates will reduce federal revenues by about \$16 billion over the next decade. The Army Corps of Engineers has received \$8.4 billion for short and long-term flood control and has spent about \$1.6 billion. The Small Business Administration has guaranteed \$6.9 billion in loans to small businesses, using less than half of the administrative funding they were provided.

Infrastructure Repair Costs Will Far Exceed FEMA’s Initial Estimates Due to Errors and Delays — According to GAO’s testimony, state and local officials have said FEMA has consistently underestimated repair costs for permanent rebuilding. For example, the lowest bids

on 11 projects to repair or rebuild universities and hospitals totaled \$5.5 million, but FEMA had approved only \$1.9 million for the projects. When part of the money for a project is in dispute, it often delays the whole project, leading to higher construction costs and a lack of basic infrastructure that would encourage private investment.

Poor Coordination has Led to Inefficient Use of Funds — Although the Federal Recovery Coordinator works with the 23 federal agencies and the state and local governments, no official has operational authority over the entire effort, which often leads to delays or poor prioritization of resources. For example, Louisiana has been unable to consolidate all the available federal funds into one homeowner assistance program because of conflicts between agency rules. FEMA has spent billions of dollars on temporary housing, but public housing has not been repaired or rebuilt, and little funding is available to rebuild rental housing for New Orleans' 51,000 displaced renters. According to CBO, 107,000 people are still in FEMA-provided temporary housing. Homeowner rebuilding has been similarly delayed because of delays receiving flood maps, insurance payments, and assistance from state-federal partnerships.

Lack of Safe, Affordable Housing is Still One of the Most Serious Challenges New Orleans Faces — Since the hurricanes, rents have increased by 70 percent, and a minimum wage earner would have to work four full-time jobs in order to rent a two-bedroom apartment. The lack of affordable housing has made it difficult for the teachers, construction workers, clergy, and health care workers that the city needs to return.

Homeowners Need More Help Dealing with the Private Sector — Many mortgage lenders allowed homeowners to defer making payments for several months after the disaster, but then sent demands for several months' of payments before the homeowners had received insurance payments or been able to return home and find work. The cost of insurance has skyrocketed, driving up housing costs for owners and renters alike.

Bush Administration and States are Likely to Request More Funding Soon — Congress has appropriated \$8.4 billion to the Army Corp of Engineers, primarily for debris removal and levee repairs. At the hearing, the Federal Recovery Coordinator estimates that the Corps will need more money for levee repair as early as this fall. On August 22nd, the Administration announced that \$7.6 billion will be needed for additional flood protection in New Orleans. Louisiana has closed its homeowner assistance program to new applications because it is facing a shortfall of as much as \$5 billion. GAO also testified that it may cost from \$15 to \$45 billion to restore Louisiana's wetlands so that they are not exposed to devastating storm surge.

No System to Collect Information About Future Disaster Spending — CBO was able to report on the status of about 75 percent of the funds appropriated for the Gulf Coast hurricanes, although often not in much detail. However, about 25 percent – \$23 billion – was allocated in smaller amounts to agencies other than FEMA, the Army Corps of Engineers, and the Department of Housing and Urban Development, and is largely free of reporting requirements. A year ago, GAO recommended that the Office of Management and Budget (OMB) develop a transparent, government-wide tracking system for disaster related spending so that taxpayers knew how their money was being spent and so Congress and the agencies could evaluate expenses and develop benchmarks for the future. Although the Federal Recovery Coordinator reported that he believed OMB had a good idea of what was spent, an updated compilation is not yet available and no system is in place to capture information in the future.

More detailed information about spending is available from CBO at http://www.cbo.gov/ftpdocs/85xx/doc8514/08-07-Hurricanes_Letter.pdf