CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 5, 2000

H.R. 707

Disaster Mitigation and Cost Reduction Act of 1999

As ordered reported by the Senate Committee on Environment and Public Works on February 9, 2000

SUMMARY

H.R. 707 would amend the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) to make changes to existing disaster relief programs and authorize a new program for predisaster mitigation. Assuming appropriation of the necessary amounts, CBO estimates that implementing H.R. 707 would cost a total of about $2.7 billion over the 2000-2005 period. That amount includes a net increase in spending of $402 million for new activities authorized under the act. The remaining estimated increase in net outlays—$2.3 billion over six years—would result from provisions that would accelerate spending from the Federal Emergency Management Agency's (FEMA's) disaster relief fund, but would not change total spending over the long term.

If the authorized funding for predisaster mitigation efforts is provided and used judiciously, enactment of this legislation could lead to savings to the federal government by reducing the need for future disaster relief funds. CBO cannot estimate the timing or magnitude of such savings because we cannot predict either the frequency or location of major natural disasters. Over the next 10 years, savings could exceed the $80 million that the legislation would authorize for predisaster mitigation efforts, although we expect that any such savings would be small over the next five years.

CBO estimates that provisions authorizing FEMA to collect and spend proceeds from the sale of temporary housing units would increase direct spending by less than $100,000 a year. Because H.R. 707 would affect direct spending, pay-as-you-go procedures would apply.

H.R. 707 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would provide significant benefits to state, local, and tribal governments.

DESCRIPTION OF THE LEGISLATION'S MAJOR PROVISIONS

The Stafford Act authorizes FEMA to provide disaster relief and postdisaster mitigation assistance to state, local, and tribal governments, certain private nonprofit organizations (PNPs), and individuals following Presidentially declared major disasters and emergencies. Total spending for these programs has averaged about $3 billion each year over the past five years. Roughly half of that amount typically supports FEMA’s Public Assistance program, which provides grants to public entities and PNPs for response and recovery efforts. Under FEMA’s Hazard Mitigation Grant Program, jurisdictions affected by disasters also receive grants for postdisaster mitigation, which CBO estimates cost an average of about $275 million a year. FEMA spends about $25 million annually for the Community Disaster Loan program, which provides loans to jurisdictions that have sustained a significant loss in revenue because of a major disaster. Annual spending for disaster relief for individuals and families includes about $400 million for housing assistance and $200 million for direct assistance to individuals and families.

H.R. 707 would make several amendments to the Stafford Act that would affect federal spending for the Public Assistance program, postdisaster mitigation, and disaster relief for individuals and families. Specifically, the act would change certain eligibility requirements and establish new procedures for determining the amount of disaster assistance that could be provided to applicants under the Public Assistance program. It also would authorize FEMA to increase funding for certain hazard mitigation grants and eliminate the Community Disaster Loan program. Disaster relief for individuals and families would be changed by combining the Temporary Housing Assistance (THA) and Individual and Family Grant (IFG) programs into a single program.

H.R. 707 also would authorize the appropriation of $80 million for 2000 for a new program of financial assistance to state, local, and tribal governments for predisaster mitigation activities. The President would have to evaluate these predisaster hazard mitigation programs within 18 months and recommend ways to transfer administrative responsibilities to states. The legislation also would direct the President to establish an interagency task force to coordinate this predisaster mitigation program.

The act also includes new reporting requirements, various administrative measures, and other modifications to the Stafford Act. H.R. 707 would authorize FEMA to collect and spend proceeds from the sale of its current inventory of temporary housing units. It would establish a pilot program to give states more responsibility for administering disaster relief programs, remove an annual cap on grants to states for improving disaster assistance plans, and authorize grants to states and localities to improve floodplain mapping. Finally, H.R. 707 would direct FEMA and the General Accounting Office to prepare several reports.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that implementing H.R. 707 would result in additional discretionary outlays of $2.7 billion over the 2000-2005 period. The estimated increase in outlays includes $402 million in net additional costs and $2.3 billion from the faster spending of future appropriations. Because the faster spending of disaster relief funds would not affect long-term costs, a corresponding net decrease in outlays would occur over the 2006-2010 period. The legislation also would affect direct spending, but CBO estimates that the total net increase in such spending would be less than $500,000 over the 2001-2005 period.

The estimated budgetary impact of most of the provisions in H.R. 707 is shown in the following table. The table does not reflect some potential savings and costs from provisions that may affect discretionary spending but for which CBO cannot estimate the likely effects. In particular, we cannot estimate the potential savings in the costs of future disaster relief from the increased spending on predisaster mitigation activities that would be authorized by H.R. 707. While such savings could be significant in the long run, we expect that any savings would be small over the next five years. The costs of this legislation fall within budget function 450 (community and regional development).

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that H.R. 707 will be enacted by the end of this fiscal year and that the amounts authorized and estimated to be necessary will be appropriated near the start of each fiscal year.

Spending Subject to Appropriation

H.R. 707 contains provisions that would result in both costs and savings to the federal government. CBO estimates costs associated with provisions that would:

- Increase the federal contribution for mitigation costs,
- Authorize appropriations for predisaster mitigation and establish an interagency task force,
- Add several new reporting requirements,
- Establish a pilot program for increasing states' responsibilities for administering disaster relief programs,
- Remove a cap on grants for disaster assistance plans, and
- Authorize grants for improved floodplain mapping technologies.

	By Fiscal Year, in Millions of Dollars					
	2000	2001	2002	2003	2004	2005
SPENDING SUBJECT TO APPROPRIATION[a]						
Spending for Disaster Relief Under Current Law						
Budget Authority/Estimated Authorization Level[b]	2,765	2,818	2,866	2,920	2,973	3,027
Estimated Outlays	2,711	2,855	2,933	2,866	2,811	2,790
Proposed Changes						
Specified Authorizations for Predisaster Mitigation						
Authorization Level	80	0	0	0	0	0
Estimated Outlays	4	24	24	16	12	0
Estimated New Authorizations						
Estimated Authorization Level	0	422	41	-9	-9	-9
Estimated Outlays	0	62	95	136	38	-9
Estimated Change in the Timing of Outlays						
Authorization Level	0	0	0	0	0	0
Estimated Outlays	0	0	86	378	822	981
Total Changes						
Estimated Authorization Level	80	422	41	-9	-9	-9
Estimated Outlays	4	86	205	530	872	972
Spending for Disaster Relief Under H.R. 707						
Budget Authority/Estimated Authorization Level	2,845	3,240	2,907	2,911	2,964	3,018
Estimated Outlays	2,715	2,941	3,138	3,396	3,683	3,762

a. H.R. 707 also would increase direct spending, but CBO estimates that such changes would be less than $100,000 a year.

b. The 2000 level is the amount appropriated for that year, including $2,471 million for an emergency supplemental appropriation provided in Public Law 106-74. The remainder of the 2000 level is the regular appropriation of $294 million. The levels shown for 2001 through 2005 are CBO baseline projections assuming increases for anticipated inflation.

CBO estimates savings associated with provisions that would:

- Allow FEMA to use the estimated cost of facility repairs rather than the actual cost,
- Eliminate the Community Disaster Loan program,
- Require certain PNPs to apply to the Small Business Administration (SBA) for disaster loans, and
- Combine the THA and IFG programs into one program.

CBO cannot estimate the effects of provisions that would:

- Achieve long-run savings associated with predisaster mitigation efforts,
- Decrease the size of payments that could be offered to applicants for public assistance in lieu of grants to repair or replace damaged facilities, and
- Establish standardized rates for reimbursement of management costs.

In addition, CBO estimates that outlays would be accelerated by allowing the President to disburse future appropriations for disaster relief to states before projects are completed, based on the estimated cost rather than on the actual cost.

Provisions with Estimated Costs. CBO estimates that several provisions of H.R. 707 would increase federal funding for postdisaster and predisaster mitigation efforts. For example, the legislation would increase funding for grants to public entities and certain PNPs for postdisaster mitigation efforts following a major disaster or emergency declaration. The size of those grants is based on the total amount of disaster assistance provided within each state covered by the declaration. CBO estimates that FEMA spends an average of about $275 million annually for such grants. Under H.R. 707, FEMA could increase those grants by one-third for all disasters that have been declared since January 1, 1997. Based on data provided by FEMA, CBO estimates that this provision would require additional budget authority of $302 million for increased grants under declarations that occurred between January 1997 and February 2000, $53 million for the remainder of fiscal year 2000, and $92 million a year thereafter. Assuming that the outlays from the additional budget authority would occur over several years, CBO estimates that this provision would increase discretionary outlays by a total of $689 million over the 2001-2005 period.

For purposes of this estimate, CBO assumes that the $80 million authorized for the new predisaster program for fiscal year 2000 would be appropriated by the end of this year and would be spent over the next five years. We also estimate that establishing and operating the interagency task force authorized by the act would cost about $1 million annually starting in fiscal year 2001.

CBO estimates that other provisions in the act would increase discretionary spending by a total of about $2 million over the 2001-2005 period. Most of this increase would be for the pilot program and additional reports required by the act. Based on information from FEMA, we estimate that removing the cap on the size of grants for disaster assistance plans (currently set at $50,000 a year per state) and authorizing grants for improving floodplain mapping technologies would have no significant effect on discretionary spending.

Provisions with Estimated Savings. CBO estimates that implementing certain changes to FEMA's Public Assistance program would reduce discretionary spending over the

2001-2005 period. For example, H.R. 707 would streamline the process for determining the size of public assistance grants by authorizing FEMA to base such grants on the estimated cost of repairing or replacing a public facility rather than the actual cost. Based on information from FEMA, we estimate that the net impact of this provision would be to reduce the costs of administering grants for public assistance by between 15 percent and 20 percent once the new procedures are in place. We expect that administrative savings would not occur before the end of fiscal year 2002 because the legislation would first require the President to establish an expert panel to develop procedures for estimating the cost of repairing or replacing a facility. FEMA would likely incur some additional costs for operating the expert panel, estimating the cost of repairs with more precision, and evaluating the accuracy of estimates. Assuming that FEMA spends about $300 million a year to administer the Public Assistance program, CBO estimates that implementing this provision would result in net administrative savings of about $152 million over the 2002-2005 period.

Allowing FEMA to substitute the estimated cost for the actual cost in providing disaster relief to public entities and PNPs also could affect both the amount and the timing of assistance provided. Under the legislation, if the actual costs of repair are greater than 120 percent or less than 80 percent of the estimated costs, FEMA could receive compensation for overpayments or provide additional assistance for underpayments. Hence, using an estimated cost could substantially increase or decrease the federal government's cost to repair or replace public facilities if these estimates consistently fall below or above the actual costs of such projects. Because the federal government spends over $1 billion each year on such projects, a bias of 10 percent in either direction would change the annual cost of disaster relief by more than $100 million. Because we have no basis for predicting a bias in either direction, CBO cannot estimate the net change in the cost of disaster relief projects from substituting estimates for actual costs.

CBO estimates that other changes to the Public Assistance program would reduce discretionary spending by a total of $155 million over the 2001-2005 period. Based on information from FEMA, we estimate that eliminating the Community Disaster Loan program would result in savings of approximately $25 million each year. CBO also estimates that requiring certain PNPs to apply to the SBA for disaster loans before receiving public assistance from FEMA's disaster relief fund would yield net savings of approximately $6 million a year. The savings would result because the government would, in some cases, provide loans instead of grants to these institutions. The estimated savings is the difference between the reduction in FEMA assistance and the SBA's subsidy cost for the new loans.

Finally, we estimate that consolidating the Temporary Housing Assistance and Individual and Family Grant programs would reduce discretionary spending by a total of $67 million over the 2001-2005 period. Based on information from FEMA, CBO estimates that the consolidation would increase federal costs for individual assistance while decreasing federal costs for housing assistance. We estimate that the net effect of the provision would be to decrease federal spending by $10 million in 2002 and by $19 million in each following year. The estimated savings are lower in the first year because the consolidation would not take place until 18 months after enactment.

Provisions with Effects CBO Cannot Estimate. CBO does not have sufficient basis to project the potential budgetary effects of some provisions of H.R. 707 because they depend upon the extent and nature of future disasters, the manner in which the Administration would implement certain provisions, and the extent to which states would participate in certain programs.

CBO cannot estimate the potential savings associated with the predisaster mitigation efforts proposed in this legislation. Mitigation efforts could achieve significant savings if damages from future disasters are lessened as a result of the predisaster mitigation measures provided for in the legislation, although we expect that any savings in the first five years would be small.

The legislation also would lower the amount of general assistance that FEMA could provide to public entities and owners of PNPs in lieu of the federal government's share of the cost to repair or replace a facility. Under current law, applicants for public assistance can elect to receive a payment equal to 90 percent of the federal government's expected costs to repair or replace a damaged facility. H.R. 707 would lower that rate to 75 percent. While lowering the contribution rate would decrease disaster relief costs in cases where applicants continue to accept in-lieu contributions, it also could increase costs in those cases where they choose to forgo those contributions and seek the full federal share of repair costs instead. The two effects could offset one another. The budgetary impact of this provision would depend on choices made by nonfederal entities; thus, CBO has no basis for estimating whether this provision would increase or decrease federal costs.

H.R. 707 would direct the President establish standardized reimbursement rates for indirect costs incurred by grantees but not chargeable to a specific project. Because it is uncertain how these rates would be established, CBO has no basis for estimating the amount of potential savings.

Provision Affecting the Timing of Outlays. CBO estimates that H.R. 707 also would substantially increase the rate at which new budget authority is spent from the disaster relief fund. Under current law, funds appropriated for such assistance are often spent years later. Under this legislation, we expect that disbursements would occur more rapidly because of the provision allowing FEMA to provide funds for disaster relief to public entities and PNPs based on an estimate of a project's costs rather than on its actual costs. (This provision would not apply to FEMA's current balances of previously appropriated funds.) CBO estimates that this change would result in a net increase in outlays of $2.3 billion over the 2001-2005 period, but that it would have no net effect over the long run. Because H.R. 707 would require the President to convene an expert panel within 18 months of enactment, this estimate assumes that this provision would not affect relief for disasters that occur before the end of fiscal year 2002.

Direct Spending

If enacted, H.R. 707 would increase direct spending by allowing FEMA to retain and spend future proceeds from the sale of temporary housing units, such as mobile homes and manufactured housing. Under current law, receipts from the sale of such properties are deposited into the general fund of the Treasury and are not available for spending. Based on information from the General Services Administration, we estimate that allowing FEMA to retain and spend those receipts would increase net direct spending by less than $100,000 a year.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Pay-as-you-go procedures would apply to H.R. 707 because it would allow FEMA to retain and spend any proceeds from the sale of temporary housing units. CBO estimates that any net increase in direct spending under that provision would be less than $100,000 a year.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 707 contains no intergovernmental mandates as defined in UMRA and would provide significant financial benefits to state, local, and tribal governments. The act would authorize the appropriation of $80 million in 2000 to assist states in predisaster mitigation projects. If the necessary appropriations are provided, it also would increase the funds available to states for postdisaster mitigation activities by an estimated $302 million for major disasters declared between January 1, 1997, and February 2000, $53 million for the remainder of fiscal year 2000, and $92 million per year after that. In addition, beginning 18 months after enactment, the 25 percent state match for individual and family grants would no longer be required, reducing the burden on states by an estimated $60 million per year. These benefits would be partially offset by the repeal of the Community Disaster Loan program, which would result in a loss of grants to communities of about $25 million per year.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The legislation would impose no new private-sector mandates as defined in UMRA.

PREVIOUS CBO ESTIMATES

On March 15, 1999, CBO transmitted a cost estimate for H.R. 707 as passed by the House of Representatives on March 4, 1999. At that time, CBO estimated that implementing H.R. 707 would increase discretionary spending by a total of $2 billion over five years. That amount included about $700 million in net new spending and about $1.3 billion in accelerated spending from FEMA's disaster relief fund. The current estimate of net new spending under H.R. 707 reflects changes in technical assumptions regarding the date when this legislation would be enacted and the impact of provisions that would change disaster relief for individuals and households. The estimated impact of accelerated spending for disaster relief under H.R. 707 is higher than previously estimated because funding for disaster relief for 2000 increased significantly from the 1999 level. At the time of the previous estimate, the Congress had provided about $1.2 billion for disaster relief, compared to about $2.7 billion for the current year.

On April 4, 2000, CBO transmitted a cost estimate for S. 1691, as ordered reported by the Senate Committee on Environment and Public Works on February 9, 2000. We estimated that implementing that bill would increase discretionary spending by about $2 billion, including about $112 million in net new spending and about $1.9 billion in accelerated spending for disaster relief. Our estimate of net new discretionary spending under H.R. 707 is higher because it would authorize more spending than S. 1691, particularly for postdisaster hazard mitigation. Because H.R. 707 would require fewer steps before FEMA could implement a streamlined process for providing disaster relief, the estimated impact of accelerated spending for disaster relief under this legislation is slightly higher than under S. 1691. The two versions have different provisions that affect direct spending, but in both cases CBO estimates the net effect would not be significant. Finally, S. 1691 also would affect governmental receipts, but we estimated that any such effects would be negligible.

ESTIMATE PREPARED BY:

Federal Costs: Megan Carroll
Impact on State, Local, and Tribal Governments: Shelley Finlayson
Impact on the Private Sector: Jean Wooster

ESTIMATE APPROVED BY:

Robert A. Sunshine
Assistant Director for Budget Analysis