



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 18, 2006

S. 3721 **Post-Katrina Emergency Management Reform Act of 2006**

*As reported by the Senate Committee on Homeland Security and
Governmental Affairs on August 3, 2006*

SUMMARY

S. 3721 would add the responsibilities of the Department of Homeland Security (DHS) Preparedness Directorate to the Federal Emergency Management Agency (FEMA). Under S. 3721, FEMA would remain a distinct agency within DHS. The bill would authorize the appropriation of \$1.1 billion over the 2007-2010 period for the Readiness, Mitigation, Response, and Recovery (RMRR) account, and \$1.2 billion for the Administration and Regional Operations (ARO) account that are both managed by FEMA. In addition, the bill would authorize the appropriation of more than \$3.9 billion over the 2007-2011 period for FEMA to establish an emergency communications office, an emergency communications grant program, and a grant program to support an emergency assistance compact among a number of states. The bill also would authorize DHS to establish a Homeland Security Academy that would provide a centralized training location for homeland security skills and issues.

Assuming appropriation of the authorized and necessary funds, CBO estimates that implementing S. 3721 would cost at least \$4.6 billion over the 2007-2011 period. In addition, the bill would make changes to the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act) that provides FEMA with the authority to operate pre- and postdisaster assistance programs. S. 3721 would authorize the President to declare disasters as catastrophic. Under the bill, individuals could qualify for greater assistance from FEMA for disasters that are declared to be catastrophic. CBO cannot estimate additional costs associated with those amendments because we cannot predict the timing and severity of future disasters, nor whether they would be declared catastrophic.

Enacting the bill would not affect direct spending or revenues. S. 3721 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). The bill would create new grant programs and add new requirements to existing programs for state, local, and tribal governments. To receive those funds, those

governments would incur additional significant costs to update and modify disaster preparedness and response plans. Those costs would be incurred voluntarily as a condition of receiving that federal assistance.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 3721 is shown in the following table. The costs of this legislation fall within budget functions 450 (community and regional development) and 750 (administration of justice).

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 3721 will be enacted near the beginning of fiscal year 2007 and that the authorized amounts will be provided for each year. The changes made by S. 3721 would take effect in January 2007, as specified in the bill. CBO estimates that implementing this bill would cost at least \$4.6 billion over the 2007-2011 period, assuming appropriation of the necessary funds. (CBO cannot estimate any additional costs that could stem from the bill's changes to the Stafford Act.)

The estimated costs represent expenditures for activities that S. 3721 would authorize, but do not include continuing costs for other FEMA programs, such as disaster relief—with outlays that fluctuate significantly from year-to-year, depending on the need to respond to disasters—nor do they include the cost of continuing programs administered by the Preparedness Directorate.

FEMA Programs and Current Spending

Under current law, FEMA's primary responsibilities are to respond to all types of disasters, mitigate the damage of future disasters, and help communities recover after a disaster. Most of the spending for those activities comes from the Disaster Relief Fund. To help the Gulf Coast recover from the 2005 hurricanes, for example, over \$60 billion was initially appropriated to the fund, though over \$20 billion was eventually reallocated to other federal programs that were engaging in disaster recovery efforts related to the hurricanes. On balance, CBO estimates that FEMA's disaster relief spending will total well over \$20 billion

	By Fiscal Year, in Millions of Dollars					
	2006	2007	2008	2009	2010	2011
SPENDING SUBJECT TO APPROPRIATION^a						
Spending for Certain FEMA Activities Under Current Law ^b						
Budget Authority	471	0	0	0	0	0
Estimated Outlays	1,106	134	23	0	0	0
Proposed Changes						
Administrative and Regional Operations						
Authorization Level	0	249	274	301	331	0
Estimated Outlays	0	159	237	288	317	116
Readiness, Mitigation, Response, and Recovery						
Authorization Level	0	240	264	290	319	0
Estimated Outlays	0	130	215	274	302	142
Office for Emergency Communications						
Authorization Level	0	127	127	126	125	125
Estimated Outlays	0	69	107	126	126	125
Emergency Communications Grants						
Authorization Level	0	400	500	600	800	1,000
Estimated Outlays	0	40	198	369	545	692
Emergency Compact Assistance Grants						
Authorization Level	0	4	4	4	4	0
Estimated Outlays	0	3	4	4	4	1
National Homeland Security Academy						
Estimated Authorization Level	0	5	5	5	5	5
Estimated Outlays	0	4	5	5	5	5
Government Accountability Office Reports						
Authorization Level	0	2	0	0	0	0
Estimated Outlays	0	1	1	0	0	0
Total Changes						
Estimated Authorization Level	0	1,027	1,174	1,326	1,584	1,130
Estimated Outlays	0	406	767	1,066	1,299	1,081
Total Spending for Certain FEMA Activities Under S. 3721						
Estimated Authorization Level	471	1,027	1,174	1,326	1,584	1,130
Estimated Outlays	110	540	790	1,066	1,299	1,081
<p>a. Spending under S. 3721 could be much higher, but CBO cannot estimate additional costs associated with amendments to the Stafford Act related to disasters that are declared to be catastrophic.</p> <p>b. Spending under current law includes the 2006 appropriations and prior years' balances for FEMA's Administrative and Regional Operations and Readiness, Mitigation, Response, and Recovery accounts.</p>						

in fiscal year 2006. (In contrast, such spending totaled about \$12 billion in fiscal year 2005 but averaged much less than those amounts in the decade prior to 2005.) In addition, FEMA manages the National Flood Insurance Program. CBO estimates that spending for flood insurance claims will exceed \$15 billion in fiscal year 2006. S. 3721 would not change FEMA's responsibilities for providing such disaster assistance or for paying flood insurance claims. However, under the bill, disaster assistance spending could increase if the President were to declare a disaster a catastrophe.

Under current law, the Preparedness Directorate of DHS administers most of the grant and training programs that benefit state and local governments by helping them prepare for future terrorist attacks, natural disasters, or other emergencies. Over \$3 billion was appropriated in 2006 for these grants. In addition, the Office of Interoperability and Compatibility (OIC) of the Science and Technology Directorate coordinates programs that provide assistance and tools to state and local governments to improve public safety communications. Under this bill, the activities of the Preparedness Directorate and the OIC would be administered by FEMA.

Changes in Spending Subject to Appropriation

S. 3721 would specifically authorize the appropriation of funds for some of FEMA's ongoing responsibilities such as maintaining a system for preparing for, responding to, and recovering from a disaster, and new responsibilities such as establishing an Office of Emergency Communications. The bill would not, however, authorize the appropriation of funds for disaster relief or for the grant programs that are currently administered by the Preparedness Directorate.

Administrative and Regional Operations. Funding for the ARO account supports all of FEMA's programs including administrative activities related to communications, procurement, information technology, among others. The Congress appropriated \$259 million to this account for fiscal year 2006. S. 3721 would authorize the appropriation of \$1.2 billion over the 2007-2010 period for these activities. Assuming appropriation of the specified amounts, CBO estimates that implementing these activities would cost \$1.1 billion over the 2007-2011 period.

Readiness, Mitigation, Response, and Recovery. Funding for the RMMR account supports the development and maintenance of a nationwide capability to prepare for, mitigate against, respond to, and recover from major disasters whether manmade or natural. The Congress appropriated \$212 million to this account for fiscal year 2006. S. 3721 would authorize the appropriation of \$1.1 billion over the 2007-2010 period for these activities. Assuming

appropriation of the specified amounts, CBO estimates that implementing these activities would cost nearly \$1.1 billion over the 2007-2011 period.

Office of Emergency Communications. S. 3721 would establish an Office of Communications within FEMA to coordinate all activities related to ensuring interoperable communications among agencies that respond to disasters. This new office would administer the programs that are currently administered by the Office of Interoperability and Compatibility (OIC) of the Science and Technology Directorate of DHS. The bill would authorize the appropriation of \$127 million for these programs for both 2007 and 2008, \$126 million in 2009, \$125 million in 2010, and such sums as are necessary for each fiscal year after that. For 2011, CBO adjusted the 2010 authorization level for anticipated inflation. Based on historical spending patterns of these programs, CBO estimates that administering this new office and its activities, would cost just over \$550 million over the 2007-2011 period, assuming appropriation of the specified funds.

Emergency Communications Grants. The bill also would establish a new grant program to improve emergency communications at the state, regional, national, and international levels. The grant funds authorized under this bill would be used for communications planning, procurement and installation of equipment, training exercises, and technical assistance. The bill would authorize the appropriation of \$3.3 billion over the 2007-2011 period. Based on spending patterns of similar grant programs, CBO estimates that implementing this new grant program would cost \$1.8 billion over the 2007-2011 period, assuming appropriation of the specified funds.

Emergency Management Assistance Compact Grants. The bill would authorize the appropriation of \$4 million a year over the 2007-2010 period for grants to help certain states administer and coordinate activities under the Emergency Management Assistance Compact authorized by Public Law 104-321. This compact allows the member states to assist each other during disasters. Based on spending patterns of similar programs, CBO estimates that providing these grants would cost \$16 million over the 2007-2011 period, assuming appropriation of the specified amounts.

National Homeland Security Academy. S. 3721 would authorize the Secretary of DHS to establish a National Homeland Security Academy to develop a homeland security training curriculum for federal, state, and local government officials working in that field. The academy would consist of the National Homeland Security Education and Strategy Center, the Center for Homeland Defense and Security at the Naval Postgraduate School, and the National Homeland Security Education Network. This education network would consist of all of the existing training programs under the jurisdiction of DHS, such as the Coast Guard Academy, the Secret Service Academy, and the Federal Air Marshal Training Center among others. For this estimate, CBO assumes that the existing training programs would continue

to be funded at the same level as under current law. (The budgets of the existing DHS training programs exceeded \$600 million in fiscal year 2005.) Based on the costs of administering similar federal educational institutions, CBO estimates that implementing this provision would cost about \$5 million a year.

Changes to the Stafford Act. Title II would amend the Robert T. Stafford Disaster Relief and Emergency Assistance Act that provides FEMA with its authority to operate pre- and postdisaster assistance programs. Several of these provisions could result in an increase in the cost of future disaster relief efforts. CBO cannot estimate additional costs associated with those amendments because CBO cannot predict the timing and severity of future disasters, nor whether the President might declare them to be catastrophic disasters. The bill's amendments to the Stafford act that could have a significant budgetary impact are described below.

Catastrophe Designation. Under this bill, if a major disaster passes a certain threshold of damage determined by the President, the disaster would be deemed a catastrophe. Once that designation is made, victims of the catastrophe would be eligible for greater assistance than under current law.

Under current law, FEMA provides financial and other assistance after a disaster through the Individuals and Households Program (IHP). The IHP provides up to \$27,200 (adjusted annually for inflation) in financial help and housing assistance, including temporary housing and repair and replacement of housing, as well as other assistance following a declared disaster. Households can receive IHP assistance for up to 18 months. Under the bill, following a catastrophe, victims would be entitled to up to double the current level of assistance, and states would be required to provide a smaller share of the cost of that assistance. The federal government would pay 100 percent of the assistance during the first three months, and then pay 90 percent during the next nine months. Under current law, states provide 25 percent of such assistance. As a result of Hurricane Katrina, FEMA has obligated about \$12.5 billion for the IHP. If the provisions of this bill had been law when Hurricane Katrina hit, the cost of providing that assistance could have greatly exceeded \$12.5 billion, perhaps doubling that amount.

Under current law, FEMA may provide up to \$5 million in loans to a local community that has suffered a significant loss in tax and other revenue as a result of a disaster. These Community Disaster Loans cannot exceed 25 percent of the annual operating budget of the local government. Under S. 3721, the President could waive the maximum limit of a loan during a catastrophe as long as the loan does not exceed 50 percent of the annual operating budget. The estimated subsidy rate for the Community Disaster Loan program is 75 percent, and this provision could result in greater spending for future postdisaster loans.

The bill also would increase the number of weeks that individuals may qualify to receive disaster unemployment assistance from 26 weeks to 38 weeks during a catastrophe.

Shared Households. Section 218 would authorize the President to provide assistance to more than one member of a household under the IHP. Under current law, only one member of a household as constituted prior to the disaster is eligible for assistance. Under S. 3721, if two members of a predisaster household are living apart after the disaster for a good reason, they both may be eligible for assistance. The provision could result in a larger number of people receiving aid under the IHP.

Hazard Mitigation Grant Program. Under current law, FEMA provides grants to states and local governments to implement long-term hazard mitigation measures after a major disaster declaration. Those grants may be for up to 7.5 percent of the postdisaster assistance FEMA provided. S. 3721 outlines a new tiered system for determining the level of hazard mitigation grants. When postdisaster assistance is under \$2 billion, long-term hazard mitigation grants would be limited to 15 percent of that amount; if assistance were between \$2 billion and \$10 billion, grants would be limited to 10 percent of postdisaster assistance; and if assistance were between \$10 billion and \$35.3 billion, grants would be limited to 7.5 percent. This new formula could result in increased spending for long-term hazard mitigation grants depending on the number and severity of future disasters.

Studies. S. 3721 would authorize the Government Accountability Office to conduct a number of reviews and studies for the Congress on topics such as accessibility of emergency shelters, pass-through charges on governmentwide contracts and subcontracts, federal fraud prevention programs, and small business contracts related to recovery efforts from hurricane Katrina. Based on the cost of similar studies, CBO estimates that conducting those studies would cost about \$2 million over the 2007-2011 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 3721 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would create new grant programs and add new requirements to existing programs for state, local, and tribal governments. To receive those funds, those governments would incur additional significant costs to update and modify disaster preparedness and response plans. Those costs would be incurred voluntarily as a condition of receiving that federal assistance.

PREVIOUS CBO ESTIMATES

On June 2, 2006, CBO transmitted a cost estimate for H.R. 5351, the National Emergency Management Reform and Enhancement Act of 2006, as ordered reported by the House Committee on Homeland Security on May 17, 2006.

On June 2, 2006, CBO transmitted a cost estimate for H.R. 5316, the Restoring Emergency Services to Protect Our Nation From Disasters Act of 2006, as ordered reported by the House Committee on Transportation and Infrastructure on May 17, 2006.

Both H.R. 5351 and H.R. 5316 also would reorganize FEMA but would do so in different ways. Each bill would authorize the appropriation of different amounts for different FEMA preparedness activities and grant programs, and CBO's cost estimates reflect those differences.

ESTIMATE PREPARED BY:

Federal Costs: Julie Middleton

Impact on State, Local, and Tribal Governments: Melissa Merrell

Impact on the Private Sector: Amy Petz

ESTIMATE APPROVED BY:

Peter H. Fontaine

Deputy Assistant Director for Budget Analysis