CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

March 13, 2007

H.R. 1144
Hurricanes Katrina, Rita, and Wilma Federal Match Relief Act of 2007

As ordered reported by the House Committee on Transportation and Infrastructure on March 1, 2007

SUMMARY

H.R. 1144 would remove provisions in current law that prohibit the Federal Emergency Management Agency (FEMA) from forgiving about $1.3 billion in loans made to certain local governments following the 2005 Gulf Coast hurricanes. Under procedures specified in the Federal Credit Reform Act for recording the cost of direct federal loans, the Administration estimated that those FEMA loans would cost about $1 billion, reflecting a subsidized interest rate and the considerable likelihood that some of the loans would not be repaid. H.R. 1144 would modify the terms of those loans, effectively converting them to grants at an estimated cost of $321 million. Enacting H.R. 1144 would affect direct spending because that cost would be incurred without any subsequent legislation. The legislation would not affect revenues.

Under current law, funds appropriated to the FEMA Disaster Relief Fund are available for certain public assistance and infrastructure repair projects; however, state and local governments must provide a portion of the project's costs to match the FEMA funds. In some cases, states are able to use funds from other federal programs to provide matching funds. In other instances, state and local sources are used to provide the matching funds. H.R. 1144 would direct FEMA to provide 100 percent of the funds for projects related to the 2005 Gulf Coast hurricanes; thus, no local matching funds would be required for such FEMA recovery projects. CBO does not expect that this proposed change in the match requirement would have a significant effect on the pace of federal expenditures for hurricane relief efforts. It is possible that implementing H.R. 1144 could lead to an increase in the need for additional appropriations to FEMA to provide disaster relief. CBO has no basis for assessing the total needs for such funds in the Gulf states relative to the amounts the Congress has already provided. Furthermore, H.R. 1144 does not authorize the appropriation of additional funds for disaster relief.

H.R. 1144 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would benefit some local governments in Louisiana and Mississippi.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 1144 is shown in the following table. The costs of this legislation fall within budget function 450 (community and regional development).

	By Fiscal Year, In Millions of Dollars					
	2007	2008	2009	2010	2011	2012
CHANGES IN DIRECT SPENDING						
Community Disaster Loan Forgiveness						
Estimated Budget Authority	321	0	0	0	0	0
Estimated Outlays	321	0	0	0	0	0

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted in fiscal year 2007. The cost of a legislated change in the terms of existing loans is recorded in the year that such legislation is enacted.

Community Disaster Loan Forgiveness

In 2005 and 2006, the Congress authorized FEMA to make about $1.3 billion in loans to local governments in Louisiana and Mississippi suffering substantial revenue loss as a result of the 2005 Gulf Coast hurricanes (see Public Laws 109-88 and 109-234). Under procedures specified in the Federal Credit Reform Act for recording the cost of direct federal loans, the Congress provided about $1 billion in budget authority for such loans, reflecting the estimated cost to the federal government of subsidized interest rate of those loans and the considerable likelihood that some of the loans would not be repaid.

The Stafford Act requires partial or full forgiveness of community disaster loan repayments if, after three years, local revenue remains insufficient to meet operating expenses. Separate provisions within Public Laws 109-88 and 109-234, however, prohibit FEMA from forgiving this cohort of community disaster assistance loans. As such, CBO assumes that local communities will make loan repayments over the next several years with an estimated net present value of $321 million.

H.R. 1144 would strike the provisions of current law that prohibit loan forgiveness for this FEMA loan cohort. Based on information from the Administration, CBO expects that this legislative modification to the terms of those loans would lead to forgiveness of the loans. Under the Federal Credit Reform Act, the budgetary cost of legislative modifications to the terms of existing loans—the net present value of the cost of the modification—is recorded on the budget in the same year that the legislation making the modification is enacted. Thus, CBO estimates that this provision would cost $321 million in 2007.

Increase in Federal Share of Disaster Assistance

FEMA is authorized under the Stafford Act to provide assistance, using funds appropriated to its Disaster Relief Fund, to areas affected by a major disaster. For certain types of assistance, state and local governments must match federal dollars with funding from other sources. This matching requirement varies from nothing to 25 percent, depending on the type of assistance and the magnitude of the disaster.

H.R. 1144 would require the federal share for disaster assistance to be 100 percent for FEMA's essential assistance, public infrastructure, debris removal, and individual and housing programs. This requirement would apply to FEMA projects in the states of Louisiana, Mississippi, Texas, and Florida related to recovery from Hurricanes Katrina, Rita, and Wilma.

As a result, CBO expects that the pace of FEMA's contract obligations could accelerate over the next few years for projects already approved by the agency. However, CBO does not expect that there would be a significant acceleration of program expenditures as a result of this provision because FEMA and the Gulf states indicate that other factors, such as local rules and planning requirements governing infrastructure projects and the availability of contractors strongly influence the pace of project expenditures. Therefore, CBO estimates that enacting this provision would have no significant effect on direct spending.

Implementing this provision of H.R. 1144 could lead to a need for additional appropriations to FEMA to fund projects currently scheduled to receive only partial assistance from federal funds. This cost estimate does not include an estimate of any such additional costs, however, because CBO has no basis to assess the total needs for such funds in the Gulf states relative to the amounts the Congress has already provided. Furthermore, H.R. 1144 does not authorize the appropriation of additional funds to FEMA for disaster relief.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 1144 contains no intergovernmental or private-sector mandates as defined in UMRA. The bill would authorize FEMA to convert to grants certain disaster loans awarded after the 2005 hurricane season. Local governments in Louisiana and Mississippi would benefit from the cancellation of repayment requirements for about $1.3 billion in loans.

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