CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

August 5, 1998

H.R. 3869
Disaster Mitigation Act of 1998

As ordered reported by the House Committee on Transportation and Infrastructure on June 25, 1998

SUMMARY

H.R. 3869 would amend the Robert T. Stafford Disaster Relief and Emergency Assistance Act to authorize a predisaster mitigation program and make changes to the existing disaster relief program.

H.R. 3869 would emphasize predisaster mitigation in order to reduce the long-run costs of disasters. If the authorized funding for mitigation efforts is provided and used judiciously, enactment of this bill could lead to substantial savings to the federal government by reducing the need for future disaster relief funds. CBO cannot estimate the magnitude of such savings because we cannot predict either the frequency or incidence of major natural disasters.

The bill would authorize the appropriation of $200 million over fiscal years 1998 through 2000 for a predisaster mitigation program. In addition to these specified authorizations, other provisions in H.R. 3869 would result in changes in discretionary spending, assuming appropriation of the necessary amounts. In total, CBO estimates that implementing H.R. 3869 would require net new appropriations of $600 million over the 1999-2003 period ($200 million from the amounts specified in the bill and $400 million from other provisions). That spending may be offset by savings in regular and emergency appropriations for disaster relief, but CBO cannot estimate the timing or precise amounts of the potential savings. Over the next 10 years, such savings could exceed the $200 million that the bill would authorize for predisaster mitigation efforts.

H.R. 3869 also would affect direct spending by speeding up the disbursement of some existing disaster relief funds; therefore, pay-as-you-go procedures would apply. CBO estimates that outlays from such funds would be $230 million higher in 1999 than they would be under current law, but that there would be no net change in direct spending from this provision over the 1999-2003 period. The bill also would affect direct spending by raising offsetting receipts by an estimated $3 million each year; but that increase would be matched

by increased spending because the Federal Emergency Management Agency (FEMA) would be allowed to spend, without appropriation action, any offsetting receipts.

H.R. 3869 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would significantly benefit the budgets of state, local, and tribal governments.

DESCRIPTION OF THE BILL'S MAJOR PROVISIONS

Title I would establish a program to provide financial assistance to state and local governments for predisaster mitigation activities. It also would require the President to transmit a report to the Congress that would evaluate efforts to implement the predisaster hazard mitigation programs and recommend a process for transferring greater authority over the program to states.

Title I also would remove a yearly cap of $50,000 per state on the grants that the President makes for improving and maintaining disaster assistance plans and would increase the maximum federal contribution for mitigation costs from 15 percent to 20 percent.

Title II would combine any expenses not chargeable to a specific project into a single category called management costs. It would direct the President to establish standard rates for reimbursing states for such costs.

Title II also would add new restrictions to the funds that a private nonprofit facility (PNP) could receive for repair and replacement of damaged facilities. In order to receive monies from the disaster relief fund, a PNP would have to be ineligible for a loan from the Small Business Administration (SBA), or have obtained the maximum possible loan amount from the SBA.

In addition, the bill would reduce the federal government's share of costs for repairing damaged facilities from 90 percent to 75 percent, but would allow the President the flexibility to vary the contribution between 50 percent and 90 percent if it is more cost-effective to do so. Title II would also allow the President to use the estimated cost of repairing or replacing a facility, rather than the actual cost, to determine the level of assistance to provide. H.R. 3869 would establish an expert panel to develop procedures for estimating the cost of repairing a facility.

Finally, the bill would combine the Temporary Housing Assistance (THA) and Individual and Family Grant (IFG) programs into one program, and would eliminate the community disaster loan program, a program that assists any local government that has suffered a substantial loss of tax revenues as a result of a major disaster.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that implementing H.R. 3869 would result in additional discretionary outlays of $600 million over the 1999-2003 period. These costs are likely to be at least partially offset by future savings resulting from predisaster mitigation efforts, but CBO cannot estimate the magnitude or timing of such savings H.R. 3869 would speed up spending of certain existing funds and would thus affect direct spending. However, we estimate no net change over the 1999-2003 period from that timing shift. H.R. 3869 would also increase offsetting receipts and direct spending of such receipts by approximately $3 million each year from 1999 through 2003.

The estimated budgetary impact of certain provisions in H.R. 3869 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. 3869. 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. 3869 will be enacted by the end of fiscal year 1998, and that the amounts authorized and estimated to be necessary will be appropriated near the start of each fiscal year.

	By Fiscal Year, in Millions of Dollars					
	1998	1999	2000	2001	2002	2003
SPENDING SUBJECT TO APPROPRIATION						
Spending for Disaster Relief Under Current Law						
Budget Authority/Authorization Level [a]	1,920	327	335	344	352	361
Estimated Outlays	2,000	2,580	2,060	1,741	1,211	844
Proposed Changes						
Specified Authorizations for Predisaster Mitigation						
Authorization Level	0	50	70	80	0	0
Estimated Outlays	0	25	55	73	39	8
Estimated Authorizations						
Authorization Level	0	200	50	50	50	50
Estimated Outlays	0	200	50	50	50	50
Spending for Disaster Relief Under H.R. 3869						
Estimated Authorization Level	1,920	577	455	474	402	411
Estimated Outlays	2,000	2,805	2,165	1,864	1,300	902
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	230	0	-138	-92	0

a. The 1998 level is the amount appropriated for that year, including $1.6 billion for an emergency supplemental appropriation provided in Public Law 105-74. The remainder of the 1998 level is the regular appropriation of $320 million. The levels shown for 1999 through 2003 are CBO baseline projections assuming increases for anticipated inflation. Alternatively, if the comparison were made to a baseline without discretionary inflation, the current law authorization level would be $320 million each year, but the incremental cost of the bill would be the same.

Spending Subject to Appropriation

H.R. 3869 contains provisions that would result in both costs and savings to the federal government. CBO estimates costs associated with provisions that would:

- authorize appropriations for predisaster mitigation,
- increase the federal contribution for mitigation costs,
- combine the Individual Family Grant program and the Temporary Housing Assistance program, and
- remove a cap on grants for disaster assistance plans.

CBO estimates savings associated with provisions that would:

- require PNPs to apply to the SBA for disaster loans,
- allow the President to use the estimated cost of repairs rather than the actual cost, and
- eliminate the community disaster loan program.

CBO cannot estimate the discretionary effects of provisions that would:

- achieve long-run savings associated with the predisaster mitigation efforts,
- encourage provision of financial assistance rather than provision of housing units,
- establish standardized rates for reimbursement of management costs,
- provide grants for improved floodplain mapping technologies, and
- establish a pilot program to determine the desirability of state administration of parts of the disaster relief program.

Provisions with Estimated Costs. Under current law, 15 percent of the estimated amount of grants made with respect to a major disaster would be provided to the state for post-disaster mitigation activities. H.R. 3869 would increase this percentage to 20 percent for all major disasters declared after January 1, 1997. FEMA spent $344 million for post-disaster mitigation from January 1, 1997, to June 30, 1998. If the contribution were raised by one-third, the federal government would make an additional $115 million in grants for its share of mitigation activities during this period. To assess future costs, CBO based its projection on the average annual amount of such expenses over the last five calendar years—$313 million. Using that five-year average, the rate increase from 15 percent to 20 percent would require increased funding for the federal contribution of $104 million a year over the next several years. In total, CBO estimates that implementing this provision would require the appropriation of $670 million over the 1999-2003 period: $150 million for the 1997-1998 period and $520 million for the 1999-2003 period. This estimate assumes that the funds to pay for the provision would come from future appropriations.

CBO estimates that combining the Individual Family Grant program and the Temporary Housing Assistance program would result in additional costs of approximately $40 million per year from 1999 through 2003. Under current law, the federal share for the IFG program is 75 percent of the actual cost incurred. Combining the IFG and THA programs would change the federal match to 100 percent.

CBO estimates that the costs associated with removing the yearly cap of $50,000 per state on the grants that are made to states for improvement of disaster assistance plans would be about $1 million per year. FEMA currently provides the maximum $50,000 grant to each state for disaster assistance planning. Under H.R. 3869, FEMA would no longer be bound by the cap and might increase spending on state disaster assistance programs, although such spending is subject to appropriation. Additional spending on state disaster assistance plans could result in future savings if improving these disaster plans reduces FEMA's long-run costs.

Provisions with Estimated Savings. CBO estimates that requiring the PNPs to apply to the SBA for a disaster loan before receiving funds from the disaster relief fund would yield savings of approximately $12 million per year from 1999 through 2003. The savings would result because the government would, in some cases, be providing loans instead of grants to these institutions. An average of 671 PNPs apply for assistance from FEMA each year. If H.R. 3869 were enacted, these PNPs would first apply to the SBA for a disaster loan. According to SBA, the average business loan approval rate is 52 percent and the average loan amount is $44,700 for small businesses and homes. These averages may be slightly different for PNPs if the characteristics of the average PNP differ from those of the average small business or homeowner. CBO used these data and assumed a subsidy rate of 22 percent for new SBA loans to arrive at the estimated net savings of this provision.

CBO estimates that allowing the President to use the estimated cost of repairing a facility, rather than the actual cost, to determine the level of assistance to provide would result in savings of approximately $56 million per year. According to FEMA, reliance on the estimated cost rather than the actual cost of repair would reduce the administrative burden on the agency. H.R. 3869 would also establish an expert panel, including representatives from the construction industry, to develop procedures for estimating the cost of repairing a facility. 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 compensation for underpayments. Savings from this provision may be partially offset by the additional costs of establishing an expert panel, estimating the cost of repairs with more precision, and evaluating the accuracy of estimates. CBO estimates that this provision would result in an overall 25 percent reduction in administrative costs after accounting for additional costs described above.

Based on data provided by FEMA, CBO estimates that eliminating the community disaster loan program would result in savings of approximately $23 million each year from 1999 through 2003.

Provisions with Effects CBO Cannot Estimate. The potential budgetary effects of various provisions of H.R. 3869 are uncertain 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 bill. Mitigation efforts could achieve substantial savings if damages from future disasters are lessened as a result of the predisaster mitigation measures provided for in the bill. In addition, H.R. 3869 would encourage the provision of financial assistance to disaster victims for rental of alternative housing accommodations rather than directly providing housing units. CBO expects that this provision would result in savings, but we cannot estimate the amount of the savings. Finally, H.R. 3869 also would establish standardized reimbursement rates that would reduce the administrative burden of compensating states for indirect costs not chargeable to a specific project. This provision is also likely to result in some savings in FEMA's administrative costs, but CBO has no basis for estimating the likely amount of such savings.

In addition, H.R. 3869 would authorize grants for improved floodplain mapping technologies and would establish a pilot program for the devolution of certain responsibilities to the states. At this time, CBO cannot estimate the costs associated with these provisions, or any potential savings that might later accrue from implementing them.

Direct Spending

Enacting H.R. 3869 would affect direct spending by speeding up the disbursement of funds that have already been appropriated for post-disaster mitigation under section 404 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act. The bill would allow the President to use such funds for the predisaster mitigation program if the funds are not obligated within 30 months after the declaration of the disaster for which they were provided. Based on information from FEMA, CBO estimates that currently approximately $460 million would be eligible for use by the predisaster mitigation program under this provision. Under H.R. 3869, CBO expects that those funds would be spent between 1999 and 2001, instead of between 2000 and 2002, as under current law. Outlays would increase by $230 million in 1999 and drop by an equal amount over fiscal years 2001 and 2002. The net direct spending effect of this provision would be zero over the 1999-2003 period. More funds, in addition to the estimated $460 million, could become available in the future for shifts to predisaster mitigation activity, but we cannot estimate the likely amount. Finally, this provision could lead to an increase in future appropriations to replenish the disaster relief fund's resources for post-disaster mitigation, but the magnitude and timing of any such effect is uncertain.

The bill would expand FEMA’s authority to sell temporary housing. Under the Balanced Budget Act of 1997, proceeds from nonroutine asset sales may be counted as a reduction in direct spending for pay-as-you-go purposes only if such sales would entail no net financial cost to the government. CBO estimates that the sale of temporary housing under H.R. 3869 would not result in a net cost to the government. Based on data provided by FEMA detailing the sale of manufactured homes and trailers, CBO estimates that this provision would result in increased offsetting receipts of approximately $3 million each year. Because the agency could then spend the new receipts, without appropriation action, this provision would have no net effect on direct spending.

The provision relating to sales of temporary housing would direct the President to deposit all receipts from such sales into the disaster relief fund, where they could be spent without further appropriation. Under current law, any receipts obtained are deposited into the general fund of the Treasury (and thus are not available for spending). This change would result in increased direct spending related to sales that would occur under current law. But based on information from FEMA, CBO estimates that any such effect would be insignificant because receipts from sales under existing authority are expected to be negligible.

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. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. (Enacting the bill would not affect governmental receipts.) For the purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

	By Fiscal Year, in Millions of Dollars										
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Changes in outlays	0	230	0	-138	-92	0	0	0	0	0	0
Changes in receipts	Not applicable										

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 3869 contains no intergovernmental mandates as defined in UMRA and would significantly benefit the budgets of state, local, and tribal governments. The bill would authorize $200 million over the next three years to assist in predisaster mitigation projects, and the percentage of funds available for post-disaster mitigation activities would be increased. The 25 percent state matching requirements for individual and family grants and certain housing assistance would no longer be required, reducing the burden on states by an estimated $40 million per year.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

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

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