CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 29, 1998

S. 2361
Disaster Mitigation Act of 1998

As ordered reported by the Senate Committee on Environment and Public Works on July 29, 1998

SUMMARY

S. 2361 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.

S. 2361 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 $175 million ($35 million a year) over fiscal years 1998 through 2002 for a predisaster mitigation program. In addition to these specified authorizations, other provisions in S. 2361 would result in changes in discretionary spending, assuming appropriation of the necessary amounts. In total, CBO estimates that implementing S. 2361 would require net new appropriations of $585 million over the 1999-2003 period: $140 million from the amounts specified in the bill ($175 million minus the 1998 authorization of $35 million) and $445 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 $140 million that the bill would authorize for predisaster mitigation efforts over fiscal years 1999 through 2002.

S. 2361 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. S. 2361 would affect direct spending in two other ways that would have no significant budgetary impact. It would expand the definition of public safety officer to include certain federal and state emergency management personnel, thereby increasing payments for death benefits from the public safety officers program administered by the Department of Justice. The bill also would raise offsetting receipts by an estimated $3 million each year, but that increase would be matched by higher spending because the Federal Emergency Management Agency (FEMA) would be allowed to spend those receipts without appropriation action.

S. 2361 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. The predisaster mitigation program would expire on October 1, 2003. S. 2361 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.

In addition, title II 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 make the contribution as much as 90 percent if the President determines that funds will be used for mitigation activities. 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. S. 2361 would establish an expert panel to develop procedures for estimating the cost of repairing a facility.

Title II 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.

Finally, title II would authorize the President to provide assistance to any local government that helps to suppress a fire that threatens the destruction of public or private forests and grasslands.

Title III would expand the definition of public safety officer to include permanent employees of FEMA and employees of state or local emergency management agencies whose duties are determined to be hazardous and related to a major disaster. As a result, more employees would be eligible for death, disability, and education benefits.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO estimates that implementing S. 2361 would result in additional discretionary outlays of $582 million over the 1999-2003 period ($137 million from authorizations specified in the bill and $445 million from other provisions). 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. S. 2361 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. S. 2361 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 S. 2361 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 S. 2361. The costs of this legislation fall within budget function 450 (community and regional development).

	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	35	35	35	35	0
Estimated Outlays	0	18	32	35	35	17
Estimated Authorizations						
Authorization Level	0	197	62	62	62	62
Estimated Outlays	0	197	62	62	62	62
Spending for Disaster Relief Under S. 2361						
Estimated Authorization Level	1,920	559	432	441	449	423
Estimated Outlays	2,000	2,795	2,154	1,838	1,308	923
CHANGES IN DIRECT SPENDING						
Estimated Budget Authority	0	0	0	0	0	0
Estimated Outlays	0	230	b	-138	-92	b

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.

b. Less than $500,000.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that S. 2361 will be enacted near the beginning of fiscal year 1999, and that the amounts authorized and estimated to be necessary will be appropriated near the start of each fiscal year.

Spending Subject to Appropriation

S. 2361 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,
- remove a cap on grants for disaster assistance plans, and
- increase certain disability and education benefits by expanding the definition of public safety officers.

CBO estimates savings associated with provisions that would:

- 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 the testing and application of hazard identification technologies,
- establish a pilot program to determine the desirability of state administration of parts of the disaster relief program, and
- authorize the President to provide fire suppression assistance to local governments.

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. S. 2361 would increase this percentage to 20 percent for all major disasters declared after March 1, 1997. FEMA spent $332 million for post-disaster mitigation from March 1, 1997, to August 31, 1998. If the contribution were raised by one-third, the federal government would make an additional $111 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 $655 million over the 1999-2003 period: $135 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 S. 2361, 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.

S. 2361 would make certain federal and state emergency management employees eligible for disability and education benefits. Enacting the legislation could increase payments of these benefits, assuming appropriation of any necessary amounts. CBO estimates that the effect on discretionary spending would be less than $500,00 a year because the number of additional people qualifying for these benefits would likely be very small.

Provisions with Estimated Savings. 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. S. 2361 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, CBO assumes that 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 S. 2361 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, S. 2361 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, S. 2361 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, S. 2361 would authorize grants for 50 percent of the cost of testing new hazard identification technologies (such as 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.

Finally, based on information from FEMA, CBO estimates that the provision authorizing the President to provide additional assistance to local governments for fire suppression would probably have no significant net budgetary impact. Additional costs for providing this assistance are likely to be at least partially offset by administrative savings; but CBO cannot estimate the precise net effect of this provision.

Direct Spending

Enacting S. 2361 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 S. 2361, 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.

In addition, the bill would change the definition of public safety officer to include permanent employees of FEMA and employees of a state or local emergency management agency whose duties are determined to be hazardous and related to a major disaster or emergency. CBO estimates than any change in direct spending would be less than $500,000 a year because the number of additional beneficiaries is likely to be very small.

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 S. 2361 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. The use of existing unexpended balances for predisaster mitigation will increase outlays in 1999, but have no net impact over the next five years. CBO estimates that other effects on direct spending would be less than $500,000 a year. (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

S. 2361 contains no intergovernmental mandates as defined in UMRA and would significantly benefit the budgets of state, local, and tribal governments. The bill would authorize $175 million over the next five 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.

The bill would also amend the definition of public facilities to exclude public golf courses, making them no longer eligible for funding under the Stafford Act. In addition, states or local governments which take longer than three years after declaration of a major disaster to file a claim for assistance would be subject to a potential reduction in the federal government's share of their claim.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

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

PREVIOUS CBO ESTIMATE

On August 5, 1998, CBO prepared a cost estimate for H.R. 3869, the Disaster Mitigation Act of 1998, as ordered reported by the House Committee on Transportation and Infrastructure on June 25, 1998. H.R. 3869 differs from S. 2361 in that it would provide higher authorization levels for the predisaster mitigation program and would add new restrictions to the funds that a private nonprofit facility could receive for repair and replacement of damaged facilities. H.R. 3869 does not contain provisions that would affect fire suppression assistance and public safety officer benefits as S. 2361 does. Other differences in the two bills do not affect the cost estimates.

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