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DISASTER ASSISTANCE

Information on Federal Costs and Approaches for Reducing Them

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss several approaches for lowering the costs of federal disaster assistance. For a number of years, there has been concern in the Congress about the increasing costs of federal disaster assistance provided by the Federal Emergency Management Agency (FEMA) and other agencies. Our statement is based on our work for the Senate Bipartisan Task Force on Funding Disaster Relief,[1] our past reviews of various federal disaster assistance programs, and our review of FEMA's strategic plan prepared pursuant to the Government Performance and Results Act. Our statement discusses (1) the components and magnitude of federal disaster assistance costs and (2) approaches that could potentially lower those costs in the future.

In summary:

- Federal disaster assistance costs billions of dollars annually. According to data compiled for the Senate Task Force, federal agencies obligated about $119.7 billion (in constant 1993 dollars) for disaster assistance during fiscal years 1977 through 1993, the majority of which was for post-disaster assistance. FEMA accounted for about 22 percent of this amount, with the remainder spread across many federal agencies, including the Small Business Administration, the U.S. Army Corps of Engineers, and the U.S. Department of Agriculture. The federal government provided assistance for an average of nearly 37 disasters or emergencies annually from fiscal years 1977 through 1997. The growth in disaster assistance costs in the 1990s has been attributed to a number of factors, including: a sequence of unusually large and costly disasters, for which the federal government has occasionally borne a larger-than-usual share of the costs; a general increase per year in the number of presidential disaster declarations; and a gradual expansion of eligibility for assistance, through legislation and administrative decisions.
- Approaches for lowering federal disaster assistance costs include (1) establishing more explicit and/or stringent criteria for providing federal disaster assistance, (2) emphasizing hazard mitigation through various incentives, and (3) relying more on insurance. Within these approaches, specific proposals vary. The extent to which the implementation of these proposals would lower the costs of federal disaster assistance is unknown.

[1]See Federal Disaster Assistance, Document No. 104-4, U.S. Senate (Washington, D.C.: U.S. Government Printing Office [GPO], 1995).

Background

While the term “disaster assistance” brings to mind the aid provided to communities and individuals after a disaster has struck, the scope of federal disaster assistance is broader. Disaster assistance involves aid provided both before and after disasters and it involves many federal agencies besides FEMA, including the U.S. Army Corps of Engineers (the Corps), the Small Business Administration (SBA), and the Departments of Agriculture, Transportation, the Interior, Commerce, and Housing and Urban Development. Moreover, these and other agencies may provide assistance under a number of different statutory authorities. Because of the numerous agencies and programs involved in providing disaster assistance, controlling federal disaster assistance costs is a difficult challenge.

FEMA is an independent agency charged with helping states and localities address natural disasters. Under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (the Stafford Act), FEMA provides financial and technical assistance to communities and individuals. In its role as coordinator of federal assistance, FEMA may request that other federal agencies provide a specific type of assistance. FEMA’s “blueprint” for the federal response to disasters, the Federal Response Plan, is a cooperative agreement signed by 26 federal agencies and the American Red Cross.

Under the Comprehensive Emergency Management concept—a concept that assumes all disasters, regardless of their size, require the same basic government strategies—disaster management is viewed as consisting of four phases, of which the first two occur before a disaster strikes.[2]

- Preparedness activities are designed to help communities and governments prepare for dealing with natural disasters; included are the development of response plans, establishing the location and identity of needed resources, planning for the evacuation of residents, and training for emergency officials.
- Mitigation activities are undertaken to reduce the losses from disasters or prevent losses from occurring; examples include constructing dams and flood control projects, retrofitting structures to withstand earthquakes, and developing land-use plans and zoning ordinances to discourage development of hazardous areas.
- Response activities are accomplished during or immediately following a disaster; examples include providing temporary shelter, food, and medical supplies and meeting other urgent needs of victims.

[2]The Comprehensive Emergency Management concept first appeared in the work of the National Governor’s Association in the late 1970s and gained acceptance in the professional emergency management community.

- Recovery activities are those that help individuals and communities rebuild following a disaster; for example, the repair or reconstruction of public facilities such as roads, water distribution systems, government buildings, and parks.

Traditionally, the role of the federal government has been to supplement the emergency management efforts of state and local governments, voluntary organizations, and private citizens; federal policy generally assumes that states (and units of local government) maintain primary responsibility. The Stafford Act contains several statements explicitly acknowledging the primary role of states. Under the act, postdisaster assistance may be provided only if the President, at the request of a state governor, declares that an emergency or disaster exists and that federal resources are required to supplement state and local resources.

Federal Disaster Assistance Costs Have Grown in Recent Years

For a number of reasons, including a sequence of unusually large and costly disasters, federal disaster assistance costs have increased in recent years. Much of the spending is overseen by FEMA—obligations from FEMA's Disaster Relief Fund totaled about $3.6 billion in fiscal year 1996 and about $4.3 billion in fiscal year 1997—but many other federal agencies are involved as well.

Components of Federal Disaster Assistance Costs

In our work for the Senate Task Force, we compiled financial data from many federal agencies concerning their disaster assistance programs and activities—which encompass all phases of emergency management—for fiscal years 1977 through 1993. (Fiscal year 1993 was the latest complete fiscal year at the time we did our work.) However, with limited exceptions, we have not done work over the past few years that would have provided us with similar data for fiscal years 1994 forward, and thus we do not know how overall costs, or their distribution among emergency management phases, may have changed.

According to data compiled for the Senate Task Force, postdisaster recovery accounted for by far the largest portion of federal disaster assistance (in constant 1993 dollars)—about $87 billion, almost three-quarters of the $119.7 billion total federal disaster assistance from fiscal years 1977 through 1993. Of the $87 billion, about $55.3 billion consisted of various disaster recovery loans made primarily by SBA and USDA; because some portion of the loans will be repaid, the entire loan amount is not necessarily a federal cost.[3] Of the remaining $31.7 billion, FEMA accounted for about one-third—$10.2 billion. Other significant amounts of disaster assistance provided were the nearly $4.1 billion obligated by the Department of Transportation for repairs to federal-aid highways and the $16 billion obligated by USDA to compensate farmers for production losses from disasters.[4]

Disaster mitigation accounted for the second-largest category of federal disaster assistance obligations—about $27 billion, or 22 percent. As we noted in our statement for this Subcommittee in late January, FEMA provides mitigation assistance under several programs and authorities and has taken a strategic approach to mitigation.[5] However, the large majority—about $25 billion—of federal mitigation obligations during fiscal years 1977 through 1993 was made by the Corps of Engineers for the design, construction, operation, and maintenance of flood control and coastal erosion control facilities. Other federal disaster mitigation efforts include (1) establishing floodplain management and building standards required by FEMA's National Flood Insurance Program and (2) conducting earthquake research and related activities under the National Earthquake Hazards Reduction program, jointly administered by FEMA, the U.S. Geological Survey, the National Institute of Standards and Technology, and the National Science Foundation.

The remainder of total federal disaster assistance reported to the Senate Task Force was obligated for immediate responses to disasters (about $3.4 billion) and for preparedness activities (about $2.3 billion). In both cases, FEMA accounted for the majority of the costs.

Factors Underlying Increasing Costs

The occurrence of large disaster assistance costs in the 1990's has been attributed to a number of factors. Since 1989, the United States has experienced a sequence of unusually large and costly disasters, including Hurricane Hugo, the Loma Prieta earthquake, Hurricane Andrew, Hurricane Iniki, the 1993 Midwest floods, and the Northridge earthquake. The close occurrence of such costly disasters in the United States is

[3]Federal costs are incurred when the loans are made at subsidized interest rates and when loans are forgiven or written off. SBA and USDA estimate that the credit subsidy rates—an estimate of the long-term cost to the government (on a net present value basis) expressed as a percentage of their loan amounts—for their fiscal year 1998 disaster loans will be about 23.5 percent and about 24 percent, respectively.

[4]Public Law 103-354, enacted in 1994, combined the policy tools of farm disaster payments and crop insurance and otherwise attempted to eliminate the need for future ad hoc disaster payments.

[5]Disaster Assistance: Information on Federal Disaster Mitigation Efforts (GAO/T-RCED-98-67, Jan. 28, 1998).

unprecedented. Furthermore, increases in population and development, especially in hazard-prone areas, increase the potential losses associated with these disaster events. For example, FEMA expects that by the year 2010 the number of people living in the most hurricane-prone counties (36 million in 1995) will double.

For several of these large disasters, the federal government has borne a larger-than-usual share of the costs. The Stafford Act provides that many disaster relief costs are to be shared by the federal government with the affected states and localities. For example, the federal share of funding is at least 75 percent for public assistance projects (to repair or replace disaster-damaged public and nonprofit facilities). Following several more recent disasters, the President has raised the federal share for some of these costs; for example, to 90 percent for the Northridge earthquake and to 100 percent for Hurricane Andrew.

There has also been an upward trend in the annual number of presidential disaster declarations. The Stafford Act authorizes the President to issue major disaster or emergency declarations and specifies the types of assistance the President may direct federal agencies to provide. For fiscal years 1984 through 1988, the average number of such declarations was 26 per year, whereas, for the periods from fiscal years 1989 through 1993 and from fiscal years 1994 through 1997, the average number was nearly 42 and 49 per year, respectively.

Additionally, more facilities have become eligible for disaster assistance. Over the years, the Congress has generally increased eligibility through legislation that expanded the categories of assistance and/or specified persons or organizations eligible to receive assistance. For example, 1988 legislation expanded the categories of private nonprofit organizations that are eligible for FEMA's public assistance program. FEMA can influence program costs by establishing and enforcing procedures and criteria for assistance within the eligibility parameters established in statutes. FEMA's Inspector General reported in 1995 that the agency's administrative decisions on eligibility for disaster assistance—such as the threshold for determining whether to repair or replace a damaged public facility—may have expanded federal disaster assistance costs.[6] We have recommended

[6]Options for Reducing Public Assistance Program Costs (Inspection Report I-02-95, July 1995).

that FEMA improve program guidance and eligibility criteria in part to help control these costs.[7]

According to the Senate Task Force report, federal budgeting procedures for disaster assistance may have influenced amounts appropriated for disaster assistance. This is because disaster relief appropriations have often been designated as "emergency" spending. If the Congress and the President agree to designate appropriations as emergencies, the appropriations are excluded from the strict budget disciplines that apply to other spending—specifically, the discretionary spending limits under the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by the Budget Enforcement Act of 1990.[8] As noted in the task force report, funds for natural disasters and other emergencies will undoubtedly be needed from time to time in amounts that are impossible to predict and thus difficult to budget for. On the other hand, one criticism of the procedures for emergency spending is that the assistance provided is more "generous" than would be the case if it had to compete with other spending priorities.

Approaches for Lowering Federal Disaster Assistance Costs

Approaches for lowering federal disaster assistance costs include (1) establishing more explicit and/or stringent criteria for providing federal disaster assistance, (2) emphasizing hazard mitigation through various incentives, and (3) relying more on insurance. Within these approaches, specific proposals—made by various entities, including the National Research Council, National Performance Review, and FEMA's Inspector General—vary. The extent to which the implementation of these approaches would lower the costs of federal disaster assistance is unknown.

Disaster Criteria

One approach to lower disaster assistance costs is to establish more explicit and/or stringent criteria for providing federal disaster assistance. Currently, much assistance is contingent on the President's declaration of an emergency or major disaster under the Stafford Act, 42 U.S.C. 5170, which provides that requests for declarations (and therefore federal assistance) "shall be based on a finding that the disaster is of such severity and magnitude that effective response is beyond the capabilities of the

[7]See Disaster Assistance: Guidance Needed for FEMA's "Fast Track" Housing Assistance Process (GAO/RCED-98-1, Oct. 17, 1997); and Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance (GAO/RCED-96-113, May 23, 1996).

[8]The Congress may offset the disaster spending in order to remain within the limits.

State and the affected local governments and that federal assistance is necessary." State governors request such declarations; FEMA gathers and analyzes facts and makes a recommendation to the President. However, the Stafford Act does not prescribe specific criteria to guide FEMA's recommendation or the President's decision. FEMA considers a number of factors, such as the number of homes destroyed or sustaining major damage, but there is no formula for applying them quantitatively.[9]

The flexibility and generally subjective nature of FEMA's criteria have raised questions about the consistency and clarity of the disaster declaration process. FEMA's Inspector General reported in 1994 that (1) neither a governor's findings nor FEMA's analysis of capability is supported by standard factual data or related to published criteria and (2) FEMA's process does not ensure equity in disaster declarations because it does not always review requests for declarations in the context of previous declarations. In response to specific congressional concerns about the process, we have reviewed and reported on the potential effects of two factors—political party affiliation and the nature of the affected area. In 1989, we reported that, for disaster declaration requests made in fiscal year 1988 and a portion of fiscal year 1989, we found no indication that political party affiliation affected the President's decisions.[10] In 1995, we reported that FEMA's disaster declaration policies and procedures do not differ with respect to whether the affected area is considered rural or urban.[11]

More explicit criteria for disaster declarations could provide a number of potential benefits. A 1993 report conducted by the National Performance Review concluded that "clear criteria need to be developed for disaster declarations to help conserve federal resources."[12] Additionally, we previously reported that disclosing the process for evaluating requests would help state and local governments decide whether they had a valid request to make, enable them to provide more complete and uniform

[9]The Stafford Act provides, through 42 U.S.C. 5163, that "[n]o geographic area shall be precluded from receiving assistance under this Act solely by virtue of an arithmetic formula or sliding scale based on income or population."

[10]Disaster Assistance: Timeliness and Other Issues Involving the Major Disaster Declaration Process (GAO/RCED-89-138, May 25, 1989).

[11]Disaster Assistance: Information on Declarations for Urban and Rural Areas (GAO/RCED-95-242, Sept. 14, 1995).

[12]National Performance Review, Creating a Government That Works Better and Costs Less: Federal Emergency Management Agency (Washington, D.C.: U.S. Government Printing Office, 1993).

information, and minimize doubts as to whether their requests were treated fairly and equitably.[13]

Mitigation

A second approach to reduce costs is to emphasize hazard mitigation through incentives. Mitigation consists of taking measures to prevent future losses or to reduce the losses that might otherwise occur from disasters. For example, building codes that incorporate seismic design provisions can reduce earthquake damage. In hearings before the U.S. Senate, the Director of the California Office of Emergency Services testified that structures designed and built to seismic design provisions of the state's Uniform Building Code withstood the forces of the Loma Prieta earthquake with little or no damage while structures built to lesser code provisions suffered extensive damage. Additionally, floodplain management and building standards required by the National Flood Insurance Program may reduce future costs from flooding. For example, FEMA estimates that the building standards that apply to floodplain structures annually prevent more than $500 million in flood losses. At a September 1993 congressional hearing, the FEMA Director said that structures built after communities join the program suffer 83 percent less damage than those built before the standards were in place.

There are a number of approaches that can provide federal incentives to encourage hazard mitigation. Our March 1995 testimony discussed recommendations by FEMA, the National Research Council, and the National Performance Review promoting the use of federal incentives to encourage hazard mitigation.[14] For example, specific initiatives for improving earthquake mitigation included linking mitigation actions with the receipt of federal disaster and other assistance and providing federal income tax credits for investments to improve the performance of existing facilities. Furthermore, to the extent that the availability of federal relief inhibits mitigation, amending postdisaster federal financial assistance could help prompt cost-effective mitigation. The National Performance Review, for example, recommended providing relatively more disaster assistance to states that had adopted mitigation measures than to states that had not. These or other proposals would require analysis to determine their relative costs and effectiveness.

FEMA's September 1997 strategic plan, entitled "Partnership for a Safer Future," states that the agency is concentrating its activities on reducing

[13]Requests For Federal Disaster Assistance Need Better Evaluation (GAO/CED-82-4, Dec. 7, 1981).

[14]GAO/T-RCED-95-140.

disaster costs through mitigation because "no other approach is as effective over the long term." The agency's hazard mitigation efforts include grants and training for state and local governments; funding for mitigating damage to public facilities and purchasing and converting flood-prone properties to open space; federal flood insurance; and programs targeted at reducing the loss of life and property from earthquakes and fires.

However, as we noted in our previous testimony for the Subcommittee, quantifying the effects of mitigation efforts can be difficult. Specifically, determining the extent to which cost-effective mitigation projects will result in federal dollar savings is uncertain, as it depends on the actual incidence of future disaster events and the extent to which the federal government would bear the resulting losses.[15]

Insurance

A third approach to reduce disaster assistance costs is to rely more on insurance. Insurance provides a way of "prefunding" disaster recovery because premiums provide a source of funds for compensating the victims of disaster losses. Like other forms of disaster relief, insurance spreads the burden of the losses borne by the disaster victims over a large number of individuals, potentially reducing the effect of the disaster on the victims without substantially increasing the burden borne by those who are otherwise unaffected.

Some studies of disaster assistance programs have concluded that providing assistance through insurance can be more efficient and more equitable than providing it through other means. As early as 1980, we reported that the combination of insurance and mitigation measures can be a better means of fairly and efficiently providing federal disaster assistance than other forms of federal disaster assistance, such as loans and grants.[16]

Over the years the Congress has considered all-risk insurance programs, under which homeowners would purchase a single, comprehensive natural hazard policy and would be able to file claims for damage to their property whenever the damage was caused by any type of natural hazard. Such an insurance program—whether operated by the private insurance industry, the government, or both—would have to be structured and priced carefully to avoid increasing federal liabilities. In previous testimony, we

[15]GAO/T-RCED-98-67, Jan. 28, 1998.

[16]Federal Disaster Assistance: What Should the Policy Be? (GAO/PAD-80-39, June 16, 1980).

expressed concerns about the ability of proposed primary insurance and reinsurance programs to fairly and efficiently spread insurance risks among policyholders, insurance companies, and the government.[17]

In summary, Mr. Chairman, the growth in the size and number of federally declared disasters in recent years is unprecedented and there is the potential for continuing increases in disaster assistance costs. We look forward to working with the Subcommittee as you consider the various proposals to help contain these costs.

This concludes my prepared remarks. We will be pleased to respond to any questions that you or other Members of the Subcommittee might have.

[17] Federal Disaster Insurance: Goals Are Good, But Insurance Programs Would Expose The Federal Government to Large Potential Losses (GAO/T-GGD-94-153, May 26, 1994).

Related GAO Products

Disaster Assistance: Information on Federal Disaster Mitigation Efforts (GAO/T-RCED-98-67, Jan. 28, 1998).

Disaster Assistance: Guidance Needed for FEMA's "Fast Track" Housing Assistance Process (GAO/RCED-98-1, Oct. 17, 1997).

Disaster Assistance: Improvements Needed in Determining Eligibility for Public Assistance (GAO/RCED-96-113, May 23, 1996).

Natural Disaster Insurance: Federal Government's Interests Insufficiently Protected Given Its Potential Financial Exposure (GAO/T-GGD-96-41, Dec. 5, 1995).

Disaster Assistance: Information on Declarations for Urban and Rural Areas (GAO/RCED-95-242, Sept. 14, 1995).

Disaster Assistance: Information on Expenditures and Proposals to Improve Effectiveness and Reduce Future Costs (GAO/T-RCED-95-140, Mar. 16, 1995).

GAO Work on Disaster Assistance (GAO/RCED-94-293R, Aug. 31, 1994).

Federal Disaster Insurance: Goals Are Good, But Insurance Programs Would Expose The Federal Government to Large Potential Losses (GAO/T-GGD-94-153, May 26, 1994).

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