



CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Peter R. Orszag, Director

August 1, 2007

Honorable John M. Spratt Jr.
Chairman
Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

I am pleased to respond to your questions about the federal funds that have been appropriated and spent for relief efforts related to Hurricanes Katrina, Rita, and Wilma. Information on funding, recent federal spending, and related budget estimates for the response to those disasters is enclosed.

If you wish further details, we will be happy to provide them. The CBO contact is Daniel Hoople, who can be reached at 226-2860.

Sincerely,

A handwritten signature in black ink that reads "Peter R. Orszag".

Peter R. Orszag

Enclosure

cc: Honorable Paul Ryan
Ranking Republican Member

The Federal Government's Spending and Tax Actions in Response to the 2005 Gulf Coast Hurricanes

August 1, 2007

As requested by the House Budget Committee, the Congressional Budget Office (CBO) has reviewed the resources provided by the federal government in response to Hurricanes Katrina, Rita, and Wilma. Such resources have been made available mainly through supplemental appropriations, but also through mandatory spending for flood insurance as well as tax relief and preferences. A precise accounting of expenditures is not readily available; nevertheless, this report analyzes spending and effects on revenues to date and estimates future outlays on the basis of the available data.

As of July 2007, the Congress and the President had provided \$94.8 billion in supplemental appropriations for the immediate relief and long-term recovery of the Gulf Coast region following the 2005 hurricanes. In addition, policymakers had increased the borrowing authority of the National Flood Insurance Program, enabling it to pay \$17 billion in claims related to the three storms. Furthermore, in CBO's and the Joint Committee on Taxation's (JCT's) estimation, provisions affecting the tax code have reduced revenues between 2006 and 2015 by \$16 billion.

Supplemental Appropriations and Agency Spending in Response to the Hurricanes

Thus far, five emergency supplemental spending bills have provided a total of \$94.8 billion in budget authority to multiple federal agencies for cleanup, rebuilding, and mitigation efforts related to the hurricanes (see Table 1). In addition to that amount, some agencies have used portions of their annual appropriations to respond to the disasters. However, because most of those agencies are not required to provide a separate accounting of such spending, CBO has been unable to track those funds. The following discussion of supplemental funds focuses on amounts provided to the Federal Emergency Management Agency (FEMA), the Department of Housing and Urban Development's (HUD's) Community Development Block Grant (CDBG) program, the Army Corps of Engineers, and the Small Business Administration (SBA). Supplemental appropriations to those agencies account for over three-quarters of all supplemental funds provided in response to Hurricanes Katrina, Rita, and Wilma. Information to track the spending of supplemental appropriations provided to other agencies in response to the storms is not readily available.

Federal Emergency Management Agency

Four days after Hurricane Katrina made landfall, the Congress and the President enacted a supplemental appropriation bill that provided \$10 billion to FEMA. Policymakers enacted a second supplemental appropriation bill six days later, which provided an additional \$50 billion to the agency. Within four weeks after Hurricane Katrina made landfall in Louisiana, FEMA had obligated nearly \$11.6 billion

Table 1.

Supplemental Appropriations Related to the 2005 Gulf Coast Hurricanes, by Agency or Department, as of July 2007

(Billions of dollars)

	Appropriations ^a
Federal Emergency Management Agency, Disaster Relief Fund	45.3
Department of Housing and Urban Development, Community Development Block Grants	16.7
Department of Defense	9.4
Army Corps of Engineers	8.4
Department of Transportation	4.4
Department of Education	2.0
Small Business Administration	1.6
Federal Emergency Management Agency, Community Disaster Loans	1.3
Department of Veterans Affairs	1.2
Department of Agriculture	1.0
Other Department of Homeland Security	0.8
Department of Health and Human Services	0.7
Other Agencies	2.1
Total	94.8

Source: Congressional Budget Office.

Note: Numbers may not sum to the total because of rounding.

- a. Amounts include appropriations and transfers enacted in Public Laws 109-61 (enacted September 2, 2005), 109-62 (enacted September 8, 2005), 109-88 (enacted October 7, 2005), 109-148 (enacted December 30, 2005), 109-174 (enacted February 18, 2006), 109-234 (enacted June 15, 2006), and 110-28 (enacted May 25, 2007).

in funding from its Disaster Relief Fund (DRF).¹ Of that amount, about \$6.4 billion went to Louisiana, and \$3.9 billion went to Mississippi. Outlays over the period totaled \$1.7 billion.² About \$1.4 billion went to provide temporary housing assistance for individuals, and nearly \$260 million was directed to public assistance projects to rebuild damaged infrastructure.

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1. That amount probably overstates the government's obligations during this period for activities carried out by other federal agencies because FEMA records such obligations when another agency is tasked with a responsibility rather than when the performing agency records the obligation. Of the \$11.6 billion in recorded obligations, approximately \$6.3 billion was for assignments to be carried out by other federal agencies. For more information, see Government Accountability Office, *Disaster Relief: Governmentwide Framework Needed to Collect and Consolidate Information to Report on Billions in Federal Funding for the 2005 Gulf Coast Hurricanes*, GAO-06-834 (September 2006).
 2. By comparison, that amount probably understates the government's actual expenditures during this period because FEMA does not record expenditures for tasks undertaken by other federal agencies until the performing agency has been reimbursed for the completed work.

Table 2.**Status of the Disaster Relief Fund for the 2005 Gulf Coast Hurricanes as of July 2007**

(Billions of dollars)

	Katrina	Rita	Wilma	Total
Supplemental Appropriations	n.a.	n.a.	n.a.	45.3
Funds Allocated	34.6	4.2	2.7	41.5
Funds Obligated	33.9	4.1	2.6	40.6
Funds Expended	25.3	3.0	1.8	30.1

Source: Congressional Budget Office based on information from the Federal Emergency Management Agency.

Note: n.a. = not applicable.

By July 2007, FEMA had allocated about \$41.5 billion (91.5 percent) of the supplemental funding it had received for relief and recovery from Hurricanes Katrina, Rita, and Wilma. Of those funds, about \$30 billion has been spent (see Table 2). Of the supplemental funds provided, FEMA has not yet allocated about \$3.8 billion for specific purposes. Figure 1 shows CBO's estimate of the pace of FEMA's expenditures from the DRF since September 2005.

At the end of May 2007, more than 107,000 households across the United States were receiving temporary housing assistance from FEMA as a result of Hurricanes Katrina and Rita.³ Of the \$30 billion in hurricane-related expenditures from the DRF, \$11.7 billion (39 percent) has been spent on housing, and \$6.5 billion (22 percent) has been spent on public infrastructure projects. Of the remaining \$11.8 billion in expenditures, \$8.5 billion has gone toward administrative expenses and activities of other federal agencies (see Table 3).

Community disaster loans (CDLs) have been another source of hurricane relief provided by FEMA. After the three storms, policymakers appropriated about \$1.3 billion for the subsidy cost of CDLs to local governments that suffered substantial losses in tax revenue and other sources of income as a result of the hurricanes.⁴

3. Section 408 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act authorizes FEMA to provide direct housing assistance (by purchasing or leasing temporary units such as mobile homes) or financial aid for the rental of units in the private market.
4. The Congress initially appropriated about \$1 billion for CDLs for the Gulf Coast region, and the loans were estimated to have a subsidy rate of 75 percent (mainly because of a provision of law that prevented the loans from being forgiven). That provision was repealed by Public Law 110-28. CBO estimates that those loans are now fully covered by the government (that is, they have a subsidy rate of 100 percent), for an additional cost of \$320 million.

Table 3.

Hurricane-Related Expenditures by the Federal Emergency Management Agency, by Purpose, as of July 2007

(Billions of dollars)

	Amount
Housing Assistance	11.7
Public Assistance	6.5
Administration	4.8
OFA Operations	3.7
Other	3.3
Total	30.0

Source: Congressional Budget Office based on information from the Federal Emergency Management Agency.

Note: OFA operations = mission assignments to other federal agencies as outlined in the National Response Plan.

As of June 2007, FEMA had approved 152 CDLs at an estimated cost of about \$1.2 billion. In the future, FEMA may make additional loans at a cost of \$101 million.⁵

Community Development Block Grant Program

In the aftermath of Hurricanes Katrina, Rita, and Wilma, the Department of Housing and Urban Development received supplemental appropriations of \$16.7 billion to rebuild the Gulf Coast region through the Community Development Block Grant program. The majority (about 95 percent) of those funds were allocated to the states of Louisiana and Mississippi. The remaining \$782 million was divided among Texas, Florida, and Alabama.

As of July 2007, about \$16.2 billion of the funds provided to the CDBG program had been obligated;⁶ approximately \$4.8 billion (about 28 percent) had been disbursed. The majority of that spending was recorded from March through July 2007 (see Figure 2).

Based on quarterly reports submitted by the state recovery agencies, CBO estimates that, at the end of fiscal year 2006, little money had been spent by the CDBG program for the 2005 Gulf Coast hurricanes. By the end of the first quarter of fiscal year 2007, the program had cumulative expenditures of about \$1 billion, the vast majority

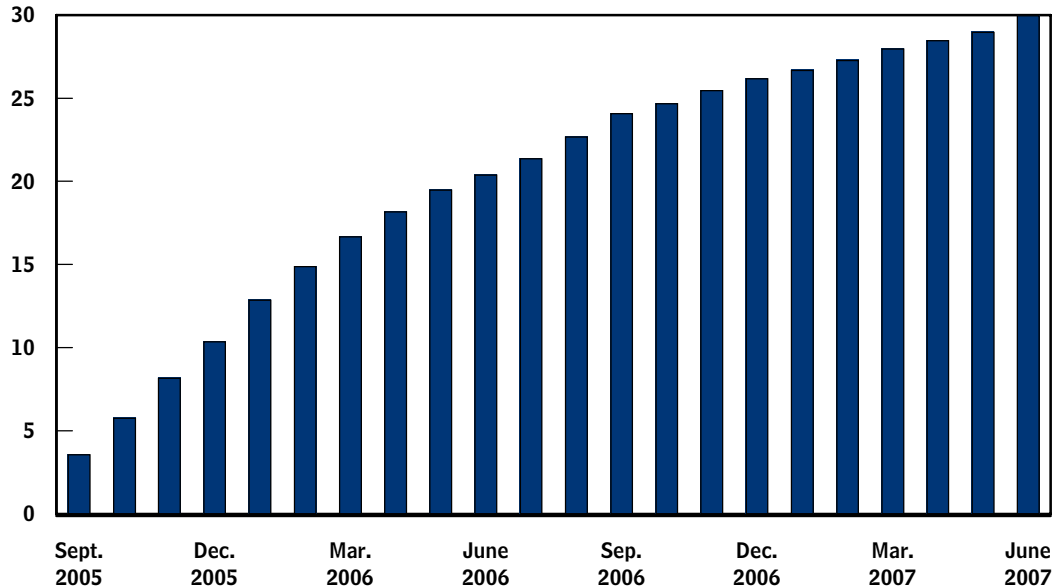
5. See Nonna A. Noto, *FEMA's Community Disaster Loan Program: Action in the 110th Congress*, CRS Report for Congress RL34065 (Congressional Research Service, June 27, 2007).

6. Funds appropriated to the CDBG program in response to Hurricanes Katrina, Rita, and Wilma are considered obligated when HUD has approved an action plan by the state for using the funds that have been allocated to it.

Figure 1.

Estimated Cumulative Outlays of the Disaster Relief Fund for the 2005 Gulf Coast Hurricanes

(Billions of dollars)



Source: Congressional Budget Office.

Note: Estimates are based on monthly outlay data provided by the Department of the Treasury and Disaster Relief Fund reports submitted by the Federal Emergency Management Agency.

of which had gone to Mississippi's Homeowner Assistance Program (\$585 million) and Ratepayer Mitigation Program (\$390 million).

To date, the bulk of the expenditures by the CDBG program has been directed to housing programs. According to preliminary HUD reports of state-generated expenditure data, about \$4 billion (86 percent) of the \$4.8 billion in spending has been used for replacement and repair of the public and private housing stock and for rental assistance.⁷ About \$610 million has been spent on infrastructure projects (mostly in the form of repairs performed by utility companies), and the remaining \$200 million has been used for other purposes.

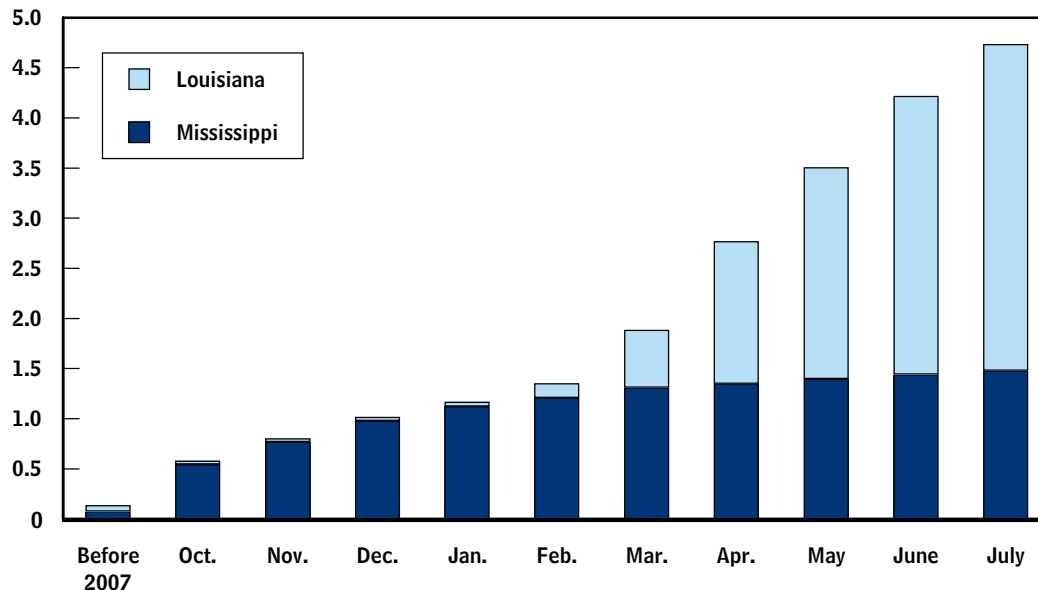
On the basis of the action plans developed by the state recovery agencies and approved by HUD, CBO estimates that about 67 percent of the \$11.9 billion in remaining spending will be used for housing programs, 9 percent for repair and reconstruction of infrastructure, 6 percent for economic development projects, and 3 percent for administration. An additional 15 percent remains unprogrammed.

7. That amount includes administrative expenses related to the homeowner grant programs in Louisiana and Mississippi.

Figure 2.

Cumulative Outlays in Fiscal Year 2007 for Hurricane-Related Community Development Block Grants to Louisiana and Mississippi

(Billions of dollars)



Source: Congressional Budget Office.

Note: Estimates are based on outlay totals provided by the Department of the Treasury, reports of state-generated expenditure data by the Department of Housing and Urban Development, and weekly grant information published by the Louisiana Recovery Authority and the Mississippi Development Authority. Estimated cumulative expenditures for Texas, Florida, and Alabama as of July 2007 total about \$11 billion. The estimate for July is based on an extrapolation of reported expenditures through the middle of the month.

Army Corps of Engineers

Following the 2005 Gulf Coast hurricanes, the Corps of Engineers received about \$8.4 billion in supplemental appropriations. (That amount does not include reimbursements from FEMA's Disaster Relief Fund for activities related to the Corps's immediate response to the disaster.)⁸ Of the \$7 billion provided through supplemental appropriations in 2006, \$6 billion has been allocated to the state of Louisiana (\$2.4 billion to complete the system of hurricane protection as conceived before

8. As laid out in the National Response Plan (created by the federal government to better organize the responsibilities of various public and private entities following a disaster), the Corps of Engineers is responsible for coordinating Emergency Support Function No. 3—Public Works and Engineering. In that role, the Corps receives funding from FEMA for disaster response activities, including providing life-sustaining commodities and services (such as ice, water, temporary power, and debris removal).

Hurricane Katrina and \$3.6 billion to strengthen the system beyond that level). CBO estimates that, as of July 2007, the Corps has expended about \$1.6 billion of those funds.

An additional \$1.3 billion has been allocated to Louisiana from the \$1.4 billion provided to the Corps in Public Law 110-28. As of July 2007, none of those funds had been obligated or expended.

Small Business Administration

Following the hurricanes, the Small Business Administration received about \$1 billion in supplemental appropriations to make direct loans to individual homeowners and businesses located in areas affected by the storms. (In addition, about \$550 million was provided for administrative expenses.) Of the 422,700 loan applications that SBA received, the agency approved about 119,000 of them, for an aggregate loan value of \$6.9 billion.⁹

Using information from SBA, CBO estimates that, as of July 2007, about \$1.0 billion in approved loans remains to be disbursed. By the end of 2007, CBO estimates, SBA will have spent about half of the funding it received for administrative expenses related to the hurricanes.

Projected Spending of Remaining Supplemental Appropriations

On the basis of appropriations to date, CBO estimates that FEMA, HUD, the Army Corps of Engineers, and SBA will spend an additional \$30 billion over the 2008–2012 period for disaster relief and recovery related to Hurricanes Katrina, Rita, and Wilma (see Figure 3). About \$22 billion of those expenditures can be ascribed to FEMA's Disaster Relief Fund and the CDBG program.

Spending by the National Flood Insurance Program

The National Flood Insurance Program (NFIP) has received more than 224,000 claims for losses related to Hurricanes Katrina and Rita. Over 70 percent of such claims were resolved within five months of the disasters, according to FEMA, and about 98 percent of them had been settled by the summer of 2006.¹⁰ (Figure 4 shows the cumulative monthly expenditures for the NFIP during fiscal year 2006.) Specifically, as of May 2007, approximately 174,300 claims had been paid in full, 46,700 had been closed without payment, and about 3,000 claims remained unsettled.

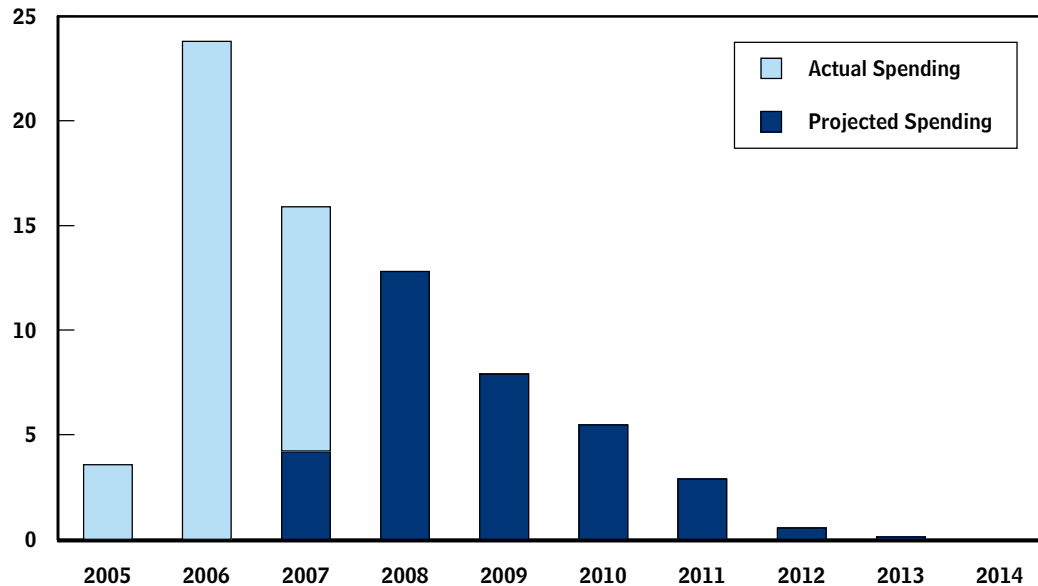
9. Those figures take into account loans that were canceled after being approved.

10. See the statement of Edward L. Connor, Deputy Assistant Administrator, Federal Emergency Management Agency, before the Subcommittee on Housing and Community Opportunity of the House Committee on Financial Services, June 12, 2007.

Figure 3.

Actual and Projected Spending of Supplemental Appropriations Provided to Selected Agencies for the 2005 Gulf Coast Hurricanes

(Billions of dollars)



Source: Congressional Budget Office.

Note: The spending shown is for the Federal Emergency Management Agency, the Department of Housing and Urban Development, the Army Corps of Engineers, and the Small Business Administration.

To meet the unprecedented volume of claims following the 2005 hurricane season, the Congress and the President raised the NFIP's statutory borrowing authority from \$1.5 billion to \$20.8 billion.¹¹ By June 2007, the NFIP had borrowed a total of \$17.5 billion from the Treasury, including \$650 million during 2007. The program will exhaust its remaining borrowing authority (\$3.2 billion) by 2010, in CBO's estimation, and it has little chance of securing the resources necessary to fully repay the debt.¹² CBO estimates that, in total, the NFIP will spend \$17.3 billion between 2005 and 2008 to pay claims resulting from the 2005 hurricanes.

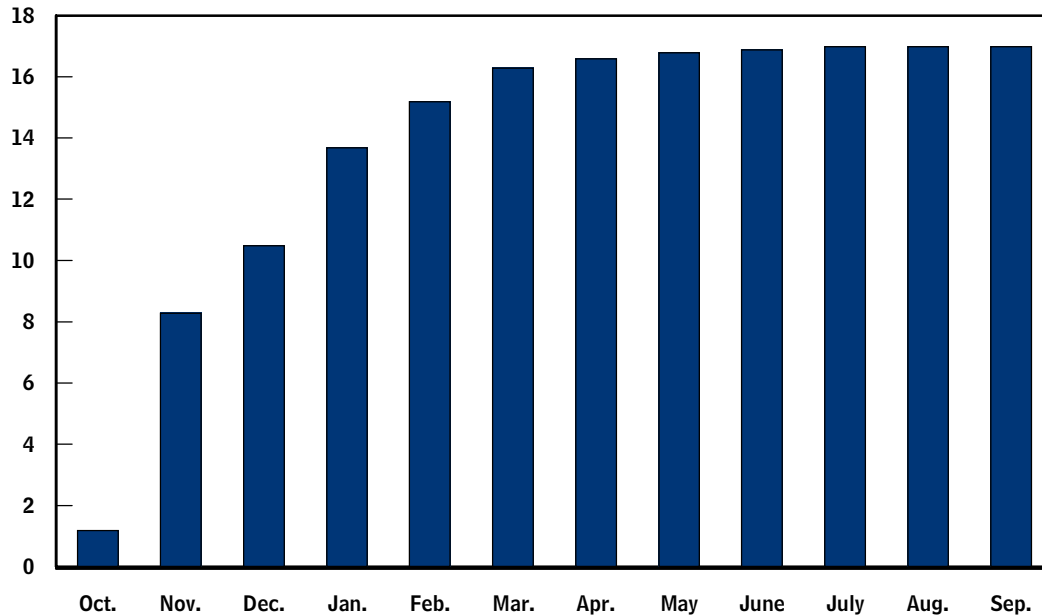
11. See Public Laws 109-65 (enacted September 20, 2005), 109-106 (enacted November 21, 2005), and 109-208 (enacted March 23, 2005).

12. For a more detailed account of CBO's views on the fiscal solvency of the National Flood Insurance Program, see the statement of Donald B. Marron, Acting Director, Congressional Budget Office, *The Budgetary Treatment of Subsidies in the National Flood Insurance Program*, before the Senate Committee on Banking, Housing, and Urban Affairs, January 25, 2006.

Figure 4.

Estimated Cumulative Outlays of the National Flood Insurance Program for the 2005 Gulf Coast Hurricanes, Fiscal Year 2006

(Billions of dollars)



Source: Congressional Budget Office.

Note: Estimates are based on monthly outlay data from the Department of the Treasury.

Tax Measures Enacted in Response to the 2005 Hurricanes

CBO and JCT have estimated that hurricane-related tax provisions enacted during the 109th and 110th Congresses will reduce revenues by about \$16 billion over the 2006–2015 period.¹³

- *The Katrina Emergency Tax Relief Act of 2005 (Public Law 109-73).* The law provided several types of tax relief to businesses and individuals. JCT has estimated that the law will reduce revenues by about \$6 billion, almost entirely during 2006 and 2007. The provisions with the largest effects on revenues allowed taxpayers to deduct personal property losses from their taxable income and delay paying income tax on the proceeds from insurance. The law also allowed taxpayers to deduct larger amounts of charitable donations from their income.

13. Congressional Budget Office, *The Budget and Economic Outlook: Fiscal Years 2007 to 2016* (January 2006).

- *The Gulf Opportunity Zone Act of 2005 (Public Law 109-135)*. JCT has estimated that the law will reduce revenues by a total of \$9 billion from 2006 through 2015, a decline stemming mostly from providing tax incentives to newly designated “Gulf Opportunity Zones” (composed of areas that were hardest hit by Hurricane Katrina). The incentives include additional authority to issue certain types of tax-preferred bonds and new investment incentives for businesses.

The Congress subsequently extended those tax provisions at an estimated cost of about \$704 million over the 2007–2016 period.¹⁴

Cost Estimates for Selected Legislation in the 110th Congress Related to the 2005 Hurricanes

Thus far during the 110th Congress, the House of Representatives has passed several pieces of legislation related to the 2005 hurricanes. In CBO’s estimation, three of those bills, if enacted, would result in significant discretionary spending, assuming the appropriation of the necessary and specified amounts.

- *H.R. 1227, the Gulf Coast Hurricane Housing Recovery Act of 2007*. CBO estimates that H.R. 1227, as passed by the House on March 21, 2007, will result in additional discretionary outlays of \$2.8 billion over the 2008–2012 period for housing assistance in areas of the Gulf Coast.
- *H.R. 1361, the RECOVER Act*. In CBO’s estimation, H.R. 1361, as passed by the House on April 18, 2007, would result in additional discretionary outlays of \$2.5 billion over the 2008–2012 period for SBA’s disaster loan program.
- *H.R. 1495, the Water Resources Development Act*. H.R. 1495, as passed by the House on April 19, 2007, contained several provisions that would authorize coastal restoration projects and water control infrastructure in Louisiana and Mississippi to correct hurricane damage. Those provisions would cost about \$3 billion, CBO estimates, and the projects would be completed within 10 years.

In addition, the House of Representatives passed several bills that were ultimately enacted as part of the U.S. Troop Readiness, Veterans’ Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007.¹⁵

14. See Public Laws 109-432 (enacted December 20, 2006) and 110-28 (enacted May 25, 2007).

15. That law included provisions that were identical or substantially similar to the Katrina Housing Tax Relief Act (H.R. 1562), the Hurricanes Katrina, Rita, and Wilma Federal Match Relief Act of 2007 (H.R. 1144), an act to permit the Secretary of Education to continue to waive certain regulatory requirements with respect to the use of aid funds for restarting school operations after Hurricanes Katrina and Rita (H.R. 1262), and an act to amend the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006, to authorize the Federal Emergency Management Agency to provide additional assistance to state and local governments for utility costs resulting from the provision of temporary housing units to evacuees from Hurricane Katrina and other hurricanes (H.R. 858).