

**THE NEED FOR GRANT REFORM AND THE FASTER
AND SMARTER FUNDING FOR FIRST RESPONDERS
ACT OF 2005**

HEARING

BEFORE THE

**SUBCOMMITTEE ON EMERGENCY
PREPAREDNESS,
SCIENCE, AND TECHNOLOGY**

OF THE

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**THE NEED FOR GRANT REFORM AND THE
FASTER AND SMARTER FUNDING FOR FIRST
RESPONDERS ACT OF 2005**

Tuesday, April 12, 2005

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EMERGENCY PREPAREDNESS,
SCIENCE, AND TECHNOLOGY
COMMITTEE ON HOMELAND SECURITY,
Washington, DC.

The subcommittee met, pursuant to call, at 2:09 p.m., in Room 2212, Rayburn House Office Building, Hon. Peter King [chairman of the subcommittee] presiding.

Present: Representatives King, Simmons, Rogers, Pearce, McCaul, Cox, Pascrell, Sanchez, Lowey, Norton, Etheridge, and Thompson.

Mr. KING. [Presiding.] Good afternoon. The Committee on Homeland Security Subcommittee on Emergency Preparedness, Science, and Technology will come to order. The subcommittee is meeting today to hear testimony on the need for grant reform and the Faster and Smarter Funding for First Responders Act of 2005.

As the Chairman of the subcommittee and also as someone from New York, there is no issue more important to me than this as we deal with the threat of homeland security. The purpose of this hearing is to look at the need to reform the Federal Terrorism Preparedness grant process and particularly we want to focus on several widely reported problems with the current system. These include, one, the reliance on arbitrary formulas rather than risk or need, the lack of federal terrorism preparedness standards or goals which would guide the expenditure of the terrorism grants, and also the failure of current programs to consider the risks of rural jurisdictions in allocating such funds, for example, agro-terrorism.

Another significant issue which has received some coverage in recent days is the slow rate of draw-down by state and local recipients of terrorism preparedness grants and the failure of many states and territories to allocate funds within their jurisdictions are on the basis of risk and need.

As I said at the outset, to me there is no more important issue as we go forward in this war against international terrorism, that homeland security money be spent properly, that it go where it is needed. Money is spent everywhere and thus we are spending it nowhere. If we are going to make adequate use of the money, effective use of the money, it has to go to the areas that have the greatest need. So that is the thrust of Chairman Cox's bill.

I commend him, once again, and also the Ranking Member, Mr. Thompson, and as the bill moves forward, it is something that we are going to pursue very aggressively. This hearing today is the first hearing, and there is a full committee hearing I believe coming on Thursday, and it is going to move forward from there.

So with that, I want to thank all of the witnesses for agreeing to be here today, and I now recognize the Ranking Member, the gentleman from New Jersey, Mr. Pascrell.

Mr. PASCRELL. I thank the Chairman. I am going to hold my time to a minimum. After 9/11, the urgency to provide support for our first responders finally punctured the collective mind of Congress. We began spending over \$3 billion annually to help our men and women on the frontlines to prevent and prepare for future terrorist attacks.

Unfortunately, the current mechanisms for distributing grant funding to the local level is fundamentally broken. We have a system where grant funding is distributed to a large extent on minimum funding allocations rather than on risk. This is wrong. We must prioritize our homeland security grant funding so that we are spending federal money where it is needed the most, as the Chairman pointed out.

I am heartened by the bipartisan unity displayed so far and I want to commend Chairman Cox and Ranking Member Thompson for their efforts in regard to the Faster and Smarter Funding for First Responders Act. The foundation of this legislation rests on common sense. It will require the Department to work hand in hand with first responders to finally determine what "being prepared" means to different communities. It will mandate that we assess both the threats and the vulnerabilities confronting America's localities to form a picture of the risks they actually face; that recognizes that antiterrorism grant decisions could be based primarily on the highest priorities for defending America. This is absolutely critical. Dispensing terrorism preparedness money on arbitrary political formulas is the height of cynicism and counterproductive to national security.

Indeed, the legislation takes large steps to correct many of the problems with the current system. We continue to ignore the most pressing need of most jurisdictions for homeland security, and that is staffing. Personnel shortages are placing a strain on local budgets across all levels of government and encompassing all first responder disciplines. While we continue to prohibit state and local governments from using homeland security funding to hire personnel, the administration has proposed eliminating much of the COPS program and some of the SAFER programs that provide such resources.

So as we hold hearings on this first responder legislation, we must carefully examine not only how funding is distributed, but also the uses of that funding. I am very interested in hearing from our distinguished witnesses, Mr. Chairman. They bring a breadth of experience and knowledge that is vital in our efforts to improve our security grant system.

Thank you, Chairman Cox and Subcommittee Chairman King for holding this hearing. Thank you, Mr. Chairman.

Mr. KING. I thank the Ranking Member.

I recognize the gentleman from California, Chairman of the full committee, Mr. Cox.

Mr. COX. Thank you, Mr. Chairman.

Good afternoon, and let me join in welcoming our witnesses. We have two outstanding panels, first to give us the Washington perspective, and second, the perspective from the States. This subcommittee hearing is the latest in a series of hearings by the Homeland Security Committee and the select committee that preceded it, on the need for first responder grant reform. It is especially fitting that we are focusing on the needs of our nation's first responders this week, just a few days after thousands of firefighters from across the country attended the Congressional Fire Service Institute's annual national fire and emergency services dinner.

As first responders learn to adapt to our new counterterrorism priorities, we have to give them the support necessary to fulfill their crucial role in defending the country. This is the core of our national security mission. The Faster and Smarter Funding for First Responders Act of 2005, which was introduced today by myself, Ranking Member Thompson and every single Republican and Democratic member of our committee, is now numbered H.R. 1544, and will do just that.

Since the tragic events of 9/11, Congress has appropriated over \$40 billion to help states, localities and first responders improve our nation's preparedness for future acts of terrorism. The President's budget for fiscal year 2006 requests additional billions, representing an increase of about 2000 percent over 2001 levels. Yet billions of these dollars remain in the pipeline unspent, despite the fact that the threat of terrorism remains very real. Any day could bring another damaging terrorist attack on U.S. soil.

It is clear that despite the enormous increase in authorized and appropriated funding by Congress, the homeland security grantmaking process is broken. According to reports issued by the witnesses on our first panel today, the grantmaking process is plagued by inefficiencies and administrative problems. The lack of risk-based priorities and terrorism preparedness standards to guide federal, state and local government spending decisions means that national security funds are often used for less important purposes.

The leading cause for this breakdown is that the law requires the Department of Homeland Security to allocate terrorism preparedness funding in a formulaic manner, unrelated to risk. That pattern is often repeated at the state level. In the immediate aftermath of 9/11, Congress passed the USA Patriot Act, which put into law these arbitrary political formulas for the distribution of antiterrorism grants to the States. The Patriot Act guarantees that every state, no matter its actual risk, must receive a fixed percentage of the total grant funding each year, and that percentage is the same from state to state, from Rhode Island to New York. It does not matter. Everybody gets the same amount.

Neither does DHS allocate the remaining funds, the other half, on the basis of risk or need. Those funds go according to another formula, population. We just cannot afford to keep spending these huge amounts of money without regard to risks. We do a disservice to our citizens and to our first responders if we refuse to acknowl-

edge that in a world of limited resources in which time is not on our side, we must prioritize our spending where it is needed most.

This is not in any way to suggest that only large urban areas ought to receive federal homeland security dollars. To the contrary, while many major metropolitan areas are terror targets, they are by no means the only places that have a real risk of terrorism and are in need of funding. States with major agricultural industries such as Iowa, Missouri and North Carolina represented at our hearing today can also legitimately cite risks worth being protected against. They have assets that are crucial to our nation. They provide much of the food that we eat. They are thick with defense assets, energy, banking, finance and other critical infrastructure sectors. The current system simply ignores these risks because they are not located in major metropolitan areas.

Since 9/11, many government agencies and outside experts have identified a host of problems with our homeland security grantmaking process. I look forward to working with Ranking Member Thompson, Subcommittee Chairman King and Ranking Member Pascrell and all members of the Committee on Homeland Security on solving these problems. We owe it to the men and women who put their lives at risk every day to keep us safe. We owe it to them to make sure that they all go home safely as well.

Thank you, Mr. Chairman.

Mr. KING. Thank you, Chairman Cox.

I now recognize the Ranking Member of the full committee, the gentleman from Mississippi, Mr. Thompson.

Mr. THOMPSON. Thank you very much, Mr. Chairman.

As has already been stated, I joined Chairman Cox earlier today in introducing this Act. It is basically the same bill that was passed by the select committee last year. I look forward to its speedy consideration, not just by the committee on Thursday, but ultimately by the full body of Congress, but also for our first responders whether they are firefighters, law enforcement, or EMS providers. Our first line of defense, we want to say thank you for a job well done. I hope with this bill we can do it in terms of getting resources to you a little better, but also we hope that once we get the resources to the states they in turn get the equipment and the other items to those departments, volunteer or paid, in a better time.

From my standpoint, representing a rural district, I am concerned a little bit about how we dispense the resources. This bill adequately addresses identifying risk and some other things that we have not had in the past. So whether you have a nuclear facility, a port or other significant assets, we will be able to address some of those resource allocations because of that. But from the standpoint of my position, Mr. Chairman, I am excited about this legislation. There are some things in this legislation we will talk about a little later. I think we will get the money out faster to the communities where the need is greatest, based on a state comprehensive plan. It also provides monies to Native Americans and other people that in the past did not get included in other legislation.

So we are correcting some errors of the past, notwithstanding most of us saw 60 Minutes on Sunday and we still have some work

to be done associated with it. So I look forward to the testimony and welcome the witnesses to this hearing.

Mr. KING. I thank the Ranking Member for his remarks.

Now, I would like to introduce the first panel we have with us today. We have, first, Mr. J. Richard Berman, the Assistant Inspector General for Audits, Office of the Inspector General, Department of Homeland Security; Dr. Veronique de Rugy, a Fellow at the American Enterprise Institute; and Dr. William Jenkins, Director of Homeland Security and Justice Issues in the GAO.

As I said, I thank the witnesses for being here today and ask them if they could possibly keep their remarks to within 5 minutes. Your full statement will be made part of the record.

I recognize Mr. Berman.

STATEMENT OF J. RICHARD BERMAN ASSISTANT INSPECTOR GENERAL FOR AUDITS, OFFICE OF INSPECTOR GENERAL, U.S. DEPARTMENT OF HOMELAND SECURITY

Mr. BERMAN. Mr. Chairman and members of the subcommittee, thank you for the opportunity to be here today to discuss our work at the Department of Homeland Security's first responder grant programs. My remarks will focus on the March, 2004 report entitled Distributing and Spending First Responder Grant Funds, and the actions taken by the department to address the recommendations made in that report.

Additional IG audits of state and local spending of first responder funds are ongoing. Generally, we found that while the department had significantly reduced the time it took to process grant applications, states, local jurisdictions and first responder organizations have been slow to draw-down and spend first responder grant funds. For example, of the \$882 million awarded in fiscal year 2002 and the first part of fiscal year 2003, 79 percent remained in the U.S. Treasury in February, 2004. As of April 2005, 29 percent of the \$882 million still had not been drawn down.

Draw-downs do not tell the whole story, however. We also found that while only a small percentage of the funds have been drawn down, much of the remainder had been committed or obligated by the states. The department's Office for Domestic Preparedness, or ODP, responded positively to our report and agreed with most of our recommendations. In addition, the department has made considerable progress in responding to state and local officials's calls for establishment of a one-stop shop that would consolidate the various preparedness grants into a single comprehensive program.

Further, the Secretary created the Task Force on State and Local Homeland Security Funding, whose report published in June of 2004 mirrored many of the findings of our audit. I would like to highlight four of the major findings and recommendations we made, along with the status of the department's actions to address them. First, we identified numerous reasons for the delayed spending. In some instances, states and local jurisdictions have delayed spending funds pending the completion of statewide risk assessments and homeland security strategies and the development of detailed spending plans.

In addition, the need to adhere to state and local administrative practices, including legal and procurement requirements, often de-

laid the spending of grant funds. In some instances, equipment back-orders were encountered, caused by the same equipment being purchased by the military. We recommended that ODP identify and publish best practices that result in faster and more efficient grant processing and spending, and they are doing that.

Second, states needed to provide more meaningful reporting of progress. While only a small percentage of the funds had been drawn down, the amount of draw-downs alone does not provide a clear picture of a state's actual progress because many states did not reflect funds obligated or committed. We recommended that ODP require more meaningful reporting by states so it can track progress more accurately and assist states when necessary. ODP has implemented several improvements in the reporting process, including requirements for an initial strategy implementation plan and a biannual strategy implementation report.

Third, state and local officials told us that planning efforts were often delayed because first responders and emergency officials did not have clear federal guidance on equipment, training, exercises and preparedness levels, making it difficult for them to prioritize their needs. We recommended that ODP accelerate the development of federal guidelines for such activities.

In addition to guidance already developed, the department earlier this month issued an interim national preparedness goal. The goal is a product of a capabilities-based planning process that led to the identification of core capabilities that the nation and its states, communities and citizens need to possess. By mid-April 2005, the department plans to issue detailed instruction on how communities use the goal and a description of how the goal will be used in the future to manage federal preparedness assistance.

Fourth, at the time of our audit, ODP had not implemented a formal grant monitoring system and ODP staff had not conducted field visits or very frequent field visits to monitor grant recipients. We recommended that ODP publish program monitoring guidance and ensure that states report their progress in achieving program performance goals and objectives. We also recommended that ODP monitor state oversight of local jurisdictions's compliance with grant requirements and develop performance standards that can be used to measure the overall success of the grant programs, including baselines against which to measure progress.

ODP updated its grant monitoring guidance in fiscal year 2004 and established new monitoring goals. According to the guidance, at least one office file review and one on-site visit should be completed for each fiscal year.

That completes my summary of remarks. I would be happy to answer any questions you may have.

[The statement of Mr. Berman follows:]

PREPARED STATEMENT OF J. RICHARD BERMAN

Mr. Chairman and Members of the Committee:

Thank you for the opportunity to be here today to discuss our work on the Department of Homeland Security's (the Department's) first responder grant programs. My remarks will focus on our March 2004 report entitled, "Distributing and Spending "First Responder" Grant Funds," and the actions taken by the Department's Office for Domestic Preparedness (ODP), and its Office of State and Local Government Coordination and Preparedness (SLGCP), of which the ODP is now a part, to resolve recommendations made in that report. Our audit covered funds awarded under the

fiscal year 2002 State Domestic Preparedness Program (SDPP), the fiscal year 2003 State Homeland Security Grant Program (SHSGP), and the fiscal year 2003 SHSGP Part II.

Generally we found that states, local jurisdictions, and first responder organizations had been slow to receive and spend ODP first responder grant funds. For example, as of February 2004, of the \$882 million in fiscal year 2002 SDPP and fiscal year 2003 SHGP funds awarded by the ODP, 79 percent still remained in the U.S. Treasury. Because our report is a year old, we have updated a table showing more current draw down information and attached it to this statement as Attachment 1. As of April 2005, only 19 percent of the \$882 million has not been drawn down.

We identified numerous reasons for the delayed spending. In some instances, states and local jurisdictions had delayed spending funds pending the completion of state-wide risk assessments and homeland security strategies and the development of detailed spending plans. We also identified numerous other reasons for delayed spending—some unavoidable but others that could be mitigated. For example, many states and jurisdictions complained of unclear federal guidance, inadequate staffing resulting from the economic downturn and budget shortages, and, in some instances, equipment backorders caused by the same equipment being purchased by our military.

Expenditures do not tell the whole story, however. We also found that while only a small percentage of the funds had been drawn down, much of the remainder had been committed or obligated. In addition, these are reimbursement programs, and some states and jurisdictions had already purchased equipment but had not yet requested reimbursement under the grants.

SLGCP responded positively to our report and agreed with most of our recommendations. In addition, the Department has made considerable progress in responding to state and local government officials' calls for the establishment of a "one-stop-shop" that would consolidate the various preparedness grants into a single, comprehensive program. The Department also created the Task Force on State and Local Homeland Security Funding. The Task Force report, published in June 2004, mirrored many of the findings of our audit. Further, the GAO published a report in February 2005, *HOMELAND SECURITY—Management of First Responder Grant Programs Has Improved, but Challenges Remain*, that documents the Department's progress in many of the areas identified in our report.

Following are the major findings and recommendations we made along with the status of the Department's actions to address them.

Delayed Spending of Grant Funds

We found that state and local government administrative practices often delayed their spending of grant funds. Often, the ability of states and localities to spend grant funds expeditiously was complicated by the need to adhere to state and local legal and procurement requirements and approval processes.

We recommended that the ODP identify and publish best practices that result in faster and more efficient grant processing and spending. For example, identify state procurement practices that result in first responder equipment being supplied in a timely and cost effective manner.

Department efforts are under way to identify and disseminate best practices, including how states and localities manage legal and procurement issues that affect grant distribution. The Department's Homeland Security Advisory Council Task Force stated in its June 2004 report that some jurisdictions have been "very innovative" in developing mechanisms to support the procurement and delivery of emergency-response-related equipment. The task force recommended that, among other things, the Department should, in coordination with state, county, and other governments, identify, compile, and disseminate best practices to help states address grant management issues. The ODP has established a new Homeland Security Preparedness Technical Assistance Program service to enhance the grant management capabilities of state administrative agencies. Also, the Department established a password protected web site, *Lessons Learned Information Sharing*, which allows states, local governments, and first responder organizations to share best practices.

Need for More Meaningful Reporting by States

Although only a small percentage of the funds had been drawn down, the amount States' reported drawing down did not provide a clear picture of states' actual progress for three reasons. First, some states had obligated and spent substantial amounts but had not yet drawn down the funds. Second, states were inconsistent in how they reported funds as being obligated. Third, 30 of the 56 states and territories reported on a cash basis and did not report obligations at all.

We recommended that the ODP require more meaningful reporting by states so it can track progress more accurately and assist states when necessary. Specifically,

we recommended they ensure that the definition of obligation is consistent for both programmatic and financial reporting purposes and require states using a “cash basis” accounting system to report the value of binding agreements to be funded by first responder grant funds. The Task Force also recommended standardized terminology and real-time tracking capabilities.

The ODP has not changed its reporting requirements for obligations. However, starting in fiscal year 2004 and continuing in fiscal year 2005, states are required to submit Initial Strategy Implementation Plans that show how planned grant expenditures are linked to larger projects, which in turn support specific goals and objectives in the state homeland security strategy. In addition to these plans, the ODP requires states to submit biannual strategy implementation reports showing how the actual expenditure of grant funds is linked to strategy goals and objectives. While these changes should be helpful, we will continue to follow-up with the ODP on implementing our recommendation to report obligations.

Need for Clear Federal Guidance

State and local officials told us that planning efforts were often delayed because first responders and emergency officials did not have clear federal guidance on equipment, training, exercises, and preparedness levels, making it difficult for them to prioritize their needs.

We recommended that the ODP accelerate the development of federal guidelines for first responder capabilities, equipment, training, and exercises.

In responding to our recommendation, ODP’s Executive Director said that, in addition to developing a standardized Weapons of Mass Destruction awareness training program, ODP was developing national performance standards for assessing domestic preparedness capabilities and identifying gaps in those capabilities. Homeland Security Presidential Directive-8 called for a new national preparedness goal and performance measures, standards for preparedness assessments and strategies, and a system for assessing the nation’s overall preparedness. The Department issued an Interim National Preparedness Goal on April 1, 2005. The goal is a product of a capabilities-based planning process that led to the identification of core capabilities that the Nation and its states, communities, and citizens need to possess. By mid-April 2005, the Department plans to issue detailed instructions on how communities can use the Goal and a description of how the Goal will be used in the future to manage Federal preparedness assistance. For fiscal year 2006, states and urban areas are to update their Homeland Security Preparedness Strategies to reflect how they will address seven National Priorities in order to receive further Federal preparedness assistance. These priorities include: (1) implement the National Incident Management System and National Response Plan; (2) expanded regional collaboration; (3) implement the Interim National Infrastructure Protection Plan; (4) strengthen information sharing and collaboration capabilities; (5) strengthen interoperable communications capabilities; (6) strengthen capabilities for detection, response, and decontamination of chemical, biological, radiological, nuclear, or explosive materials; and (7) strengthen medical surge and mass prophylaxis capabilities. For fiscal year 2007, states and urban areas will need to revise their Homeland Security Preparedness Strategies to align with the Final National Preparedness Goal in order to receive further Federal preparedness assistance. The Department plans to issue the Final National Preparedness Goal and a Target Capabilities List, updated to include the target levels of capabilities, on October 1, 2005.

Need to revise the 45 day Transfer Rule

Fiscal year 2003 appropriation language required states to transfer grant funds within 45 days of the funds being awarded by the ODP. We found no evidence that the 45-day transfer rule sped up spending. States met the requirement by declaring funds obligated once they decided how they would distribute them to jurisdictions. The rule did not get the funds into the hands of the jurisdictions or streamline burdensome administrative processes.

We recommended that the ODP seek a legislative change to revise or eliminate the 45-day transfer rule to allow more time for planning.

The requirement was lengthened to 60 days by the fiscal year 2005 appropriation (House Conference Report 108–774).

Formal Grant Monitoring System Lacking

At the time of our audit, the ODP had not implemented a formal grant monitoring system, and ODP staff had not conducted frequent field visits to monitor grant recipients.

We recommended that the ODP publish program monitoring guidance and ensure that states report their progress in achieving program and performance goals and objectives. We also recommended that the ODP monitor state oversight of local ju-

risdictions' compliance with grant requirements, and develop performance standards that can be used to measure the overall success of the grant programs, including baselines against which to measure progress.

The ODP updated its grant-monitoring guidance in fiscal year 2004 and established new monitoring goals. According to the guidance, at least one office file review and one on-site visit should be completed for each state each fiscal year. In addition, the requirements for Initial Strategy Implementation Plans and biannual strategy implementation reports, discussed earlier, should improve monitoring. As of September 2004, the ODP had filled 138 staff positions, as compared with 63 filled positions at the end of fiscal year 2003. That should help alleviate the staffing shortages that contributed to ODP's inability to conduct frequent grantee monitoring.

Approved Equipment Lists Change Each Year

The approved equipment list changed each year, generally broadening the selection of equipment permitted. State and jurisdiction officials complained that keeping track of what could be purchased with each grant was confusing and time consuming. We agreed and saw no reason that a single list could not be applied to all years.

We recommended that the ODP allow states to use the most recent ODP-approved equipment list when purchasing equipment with prior-year grant funds.

However, the ODP did not agree with our recommendation, stating that "allowing grantees to use current or future equipment lists that may differ from those provided by ODP in previous years will ultimately have a negative impact upon accounting practices, vendor selection, equipment maintenance, and training and calibration programs managed by ODP grantees." We will continue to look at this issue as we continue our audits of state and local spending of first responder grant funds.

Consolidation of Preparedness Grants Under SLGCP

The Department has made considerable progress in consolidating grant programs into a one-stop-shop for states and local jurisdictions. In developing and implementing a national program to enhance the capacity of state and local agencies to respond to incidents of terrorism, the Department has integrated numerous distinct, yet related, preparedness grant initiatives and programs into a single program under the auspices of SLGCP. Under the \$2.6 billion Fiscal Year 2005 Homeland Security Grant Program, SLGCP consolidated the application process and administration of six programs: State Homeland Security Program, Urban Areas Security Initiative, Law Enforcement Terrorism Prevention Program, Citizen Corps, Emergency Management Performance Grants, and Metropolitan Medical Response System Program Grants. Attachment 2 lists the Department's major preparedness grant programs, including those still outside SLGCP.

Although SLGCP has program management and monitoring responsibility for grants awarded under the Fiscal Year 2005 Homeland Security Grant Program, it relies upon the Justice Department's Office of the Comptroller for grant fund distribution and assistance with financial management support. In the Department's 2004 financial statement audit report, the independent auditors noted that SLGCP management was not actively involved in the financial reporting of its activities and had not obtained a thorough understanding of the control activities over its financial reporting process performed by the Justice Department. As a result, SLGCP lacks assurance that the processing of its financial activities coincides with its business operations, are reported accurately, and controlled properly.

That concludes my prepared remarks, Mr. Chairman. I will be happy to answer any questions you or the members may have.

Attachment 1

Department of Homeland Security Office of State and Local Government Coordination and Preparedness First Responder Grants FYs 200–2004				
Grants	Awarded (\$4.6B)	Drawn February 2004 (\$342M)	Drawn April 2005 (\$1.7B)	Percent Drawn (37%)
FY 2002 State Domestic Prepared- ness Pro- gram	\$315,841,000	\$114,637,167	\$278,058,077	88
FY 2003 State Homeland Security Grant Pro- gram Part I	566,295,000	70,721,430	350,759,198	62
FY 2003 State Homeland Security Grant Pro- gram Part II	1,500,000,000	156,409,171	759,595,402	51
FY 2004 Homeland Security Grant Pro- gram	2,220,000,000	—	317,763,857	14
Grand total	4,602,136,000	341,767,768	1,706,176,534	37

Note: The fiscal year 2004 grant includes funds for State Homeland Security, Law Enforcement Terrorism Prevention, and Citizen Corps Programs.

Source: U.S. Department of Justice, Office of Justice Programs

State	FY 2002 State Domestic Preparedness Program			
	Awarded (\$316M)	Drawn February 2004 (\$115M)	Drawn April 2005 (\$278M)	Percent Drawn (88%)
Alabama	\$5,317,00	\$2,866,889	\$3,415,121	64
Alaska	2,783,000	71,600	2,661,315	96
American Samoa ...	828,000	181,808	714,671	86
Arizona	5,770,000	2,552,407	5,522,838	96
Arkansas	4,141,000	1,409,37	3,945,997	95
California	24,831,000	2,519,960	22,365,829	90
Colorado	5,220,000	528,749	4,893,363	94
Connecticut	4,626,00	1,245,65	4,227,554	91
Delaware	2,887,000	0	2,887,000	100
District of Columbia	2,747,000	2,558,690	2,558,690	93
Florida	12,967,000	8,702,835	12,967,000	100
Georgia	7,797,000	942,500	2,393,000	31
Guam	892,000	753,037	782,786	88
Hawaii	3,172,000	74,071	1,748,006	55
Idaho	3,226,00	640,401	2,395,696	74
Illinois	10,604,000	5,777,509	10,226,949	96
Indiana	6,400,00	1,151,268	4,833,571	76
Iowa	4,308,000	3,444,273	4,307,046	100
Kansas	4,151,000	3,940,345	4,081,006	98
Kentucky	5,048,000	759,630	4,723,981	94
Louisiana	5,331,000	686,341	5,330,997	100
Maine	3,213,000	2,657,172	3,213,000	100
Maryland	5,881,000	4,244,702	5,881,000	100
Massachusetts	6,579,000	5,929,733	6,559,646	100
Michigan	8,958,000	5,875,820	8,841,855	99
Minnesota	5,631,000	3,014,307	5,473,066	97
Mississippi	4,255,000	107,619	3,145,484	74
Missouri	6,079,000	4,225,100	6,051,500	100
Montana	2,967,000	1,245,902	2,950,859	99
Nebraska	3,502,000	1,865,113	3,445,584	98
Nevada	3,693,000	2,874,192	3,498,038	95
New Hampshire	3,328,000	424,849	2,238,692	67
New Jersey	7,948,000	0	3,442,939	43
New Mexico	3,574,000	106,091	3,125,886	87
New York	14,953,000	0	14,400,000	96
North Carolina	7,706,000	3,517,086	7,569,851	98
North Dakota	2,794,000	1,240,166	2,794,000	100
Northern Mariana Islands	835,000	545,917	631,603	76
Ohio	9,897,000	5,435,537	9,894,773	100
Oklahoma	4,656,000	0	1,729,388	37
Oregon	4,637,000	682,6882	3,404,254	73
Pennsylvania	10,512,000	2,578,4511	8,625,437	82
Puerto Rico	4,894,000	182,426	989,817	20
Rhode Island	3,063,000	1,170,550	2,371,377	77
South Carolina	5,028,000	2,539,155	5,025,963	100
South Dakota	2,868,00	1,362,448	2,868,000	100
Tennessee	6,140,000	2,026,109	6,137,538	100
Texas	16,196,000	1,587,327	14,505,713	90
Utah	3,849,000	2,001,356	3,664,922	95
Vermont	2,772,000	1,883,177	2,772,000	100
Virginia	7,062,000	5,560,966	7,062,000	100
Virgin Islands	861,000	125,923	299,010	35
Washington	6,276,000	2,527,968	6,274,466	100
West Virginia	3,567,000	3,567,000	3,567,000	100
Wisconsin	5,925,000	2,724,977	5,925,000	100
Wyoming	2,696,000	0	2,696,000	100
Grand total	315,841,000	114,637,167	278,058,077	88

State	FY 2003 State Homeland Security Grant Program Part I			
	Awarded (\$566M)	Drawn February 2004 (\$71M)	Drawn April 2005 (\$350M)	Percent Drawn (62%)
Alabama	\$9,457,000	\$98,821	\$1,392,304	15
Alaska	4,995,000	25,255	1,716,783	34
American Samoa ...	1,482,000	0	924,430	62
Arizona	10,584,000	1,440,515	5,973,784	56
Arkansas	7,394,000	2,521,666	4,599,720	62
California	45,023,000	2,966,828	20,219,379	45
Colorado	9,480,000	0	4,067,980	43
Connecticut	8,265,000	0	3,189,322	39
Delaware	5,185,000	0	3,544,671	68
District of Columbia	4,910,000	0	2,767,903	56
Florida	23,654,000	2,273,323	14,717,142	62
Georgia	14,188,000	1,858,500	8,355,600	59
Guam	1,596,000	75,566	477,945	30
Hawaii	5,693,000	127,534	1,504,445	26
Idaho	5,803,000	572,511	4,281,841	74
Illinois	18,879,000	4,955,513	14,513,986	77
Indiana	11,399,000	4,859,562	6,844,335	60
Iowa	7,656,500	58,210	3,752,731	49
Kansas	7,401,000	252,327	5,022,728	68
Kentucky	9,001,000	1,655,413	5,679,514	63
Louisiana	9,451,000	95,686	4,403,442	47
Maine	5,751,000	1,009,281	2,920,002	51
Maryland	10,585,000	275,912	7,358,991	70
Massachusetts	11,711,000	40,803	6,662,261	57
Michigan	15,918,000	574,941	10,143,155	64
Minnesota	10,076,000	351,914	6,396,071	63
Mississippi	7,582,000	724,245	4,372,455	58
Missouri	10,834,000	1,815,200	8,187,100	76
Montana	5,303,000	233,966	4,000,972	75
Nebraska	6,254,500	551,663	5,052,655	81
Nevada	6,771,000	1,259,919	5,028,183	74
New Hampshire	5,727,000	334,006	2,851,128	50
New Jersey	14,222,000	0	3,371,396	24
New Mexico	6,401,000	73,673	3,268,846	51
New York	26,492,000	13,000,000	23,400,000	88
North Carolina	13,908,000	516,434	8,319,525	60
North Dakota	4,983,000	565,640	3,496,377	70
Northern Mariana Islands	1,496,000	0	1,221,848	82
Ohio	17,510,000	2,652,971	14,598,963	83
Oklahoma	8,304,000	0	3,209,367	39
Oregon	8,336,000	199,478	3,967,113	48
Pennsylvania	18,570,000	209,395	11,930,437	64
Puerto Rico	8,727,000	0	372,770	4
Rhode Island	5,489,000	1,899,312	2,926,272	53
South Carolina	9,017,000	276,082	7,221,765	80
South Dakota	5,131,000	1,011,363	3,476,128	68
Tennessee	10,978,000	22,742	6,207,870	57
Texas	29,538,000	1,652,929	25,295,231	86
Utah	6,937,000	1,190,913	5,400,517	78
Vermont	4,963,000	1,466,921	3,046,183	61
Virginia	12,716,000	4,175,589	10,826,160	85
Virgin Islands	1,542,000	14,173	1,374,337	89
Washington	11,294,000	6,355,323	9,244,406	82
West Virginia	6,340,000	1,319,768	6,318,501	100
Wisconsin	10,565,000	3,109,642	8,967,750	85
Wyoming	4,827,000	0	2,374,477	49
Grand total	566,295,000	70,721,430	350,759,198	62

State	FY 2003 State Homeland Security Grant Program Part II			
	Awarded (\$1,500M)	Drawn February 2004 (\$156M)	Drawn April 2005 (\$759M)	Percent Drawn (51%)
Alabama	\$25,049,000	\$1,622,255	\$8,322,439	33
Alaska	13,230,000	42,651	5,992,365	45
American Samoa ...	3,926,000	214,152	1,287,923	33
Arizona	28,033,000	1,268,220	14,939,062	53
Arkansas	19,585,000	3,241,401	10,603,463	54
California	119,256,000	19,071,957	54,682,765	46
Colorado	25,111,000	36,388	5,024,511	20
Connecticut	21,893,000	0	4,004,009	18
Delaware	13,733,000	0	5,402,463	39
District of Columbia	13,006,000	1,734,000	4,416,788	34
Florida	62,655,000	5,871,373	20,782,841	33
Georgia	37,579,000	2,171,100	18,652,100	50
Guam	4,226,000	0	516,940	12
Hawaii	15,079,000	1,144,242	3,046,943	20
Idaho	15,375,000	890,469	7,984,990	52
Illinois	50,005,000	0	13,695,463	27
Indiana	30,194,000	9,763,354	23,326,932	77
Iowa	20,282,000	267,648	7,375,994	36
Kansas	19,603,000	18,143	11,165,231	57
Kentucky	23,838,000	728,915	10,744,098	45
Louisiana	25,037,000	543,563	12,093,956	48
Maine	15,232,000	672,150	10,434,854	69
Maryland	28,037,000	379,785	16,665,648	59
Massachusetts	31,020,000	3,020,181	17,888,354	58
Michigan	42,162,000	194,246	12,329,274	29
Minnesota	26,690,000	494,163	16,031,381	60
Mississippi	20,083,000	391,420	8,010,850	40
Missouri	28,697,000	3,092,700	13,957,000	49
Montana	14,047,000	86,157	10,220,280	73
Nebraska	16,568,000	1,503,965	12,300,789	74
Nevada	17,935,000	845,534	14,437,350	80
New Hampshire	15,172,000	61,911	8,488,729	56
New Jersey	37,671,000	2,318,265	10,142,511	27
New Mexico	16,956,000	0	4,055,589	24
New York	70,172,000	60,000,000	63,000,000	90
North Carolina	36,840,000	250,620	17,575,785	48
North Dakota	13,200,000	148,962	7,688,381	58
Northern Mariana Islands	3,963,000	0	1,006,511	25
Ohio	46,378,000	1,500,277	28,437,748	61
Oklahoma	21,996,000	183,362	3,189,827	15
Oregon	22,081,000	675,958	11,729,706	53
Pennsylvania	49,189,000	866,720	18,318,697	37
Puerto Rico	23,118,000	0	0	0
Rhode Island	14,540,000	9,285,838	10,647,548	73
South Carolina	23,882,000	262,375	15,127,185	63
South Dakota	13,591,000	0	11,230,930	83
Tennessee	29,080,000	0	8,261,025	28
Texas	78,238,000	649,310	50,318,015	64
Utah	18,374,000	3,388,303	13,904,574	76
Vermont	13,147,000	559,084	8,922,639	68
Virginia	33,683,000	11,140,543	31,434,282	93
Virgin Islands	4,085,000	0	3,523,107	86
Washington	29,917,000	1,211,789	12,773,364	43
West Virginia	16,792,000	0	12,565,609	75
Wisconsin	27,985,000	4,595,725	24,491,538	88
Wyoming	12,784,000	0	6,425,046	50
Grand total	1,500,000,000	156,409,171	759,595,402	51

State	FY 2004 Homeland Security Program		
	Awarded (\$2.2B)	Drawn April 2005 (\$317M)	Percent Drawn (14%)
Alabama	\$36,853,000	\$2,714,470	7
Alaska	19,465,000	1,558,172	8
American Samoa	5,776,000	345,872	6
Arizona	41,243,000	4,516,940	11
Arkansas	28,815,000	4,907,162	17
California	175,457,000	6,853,827	4
Colorado	36,944,000	9,369,112	25
Connecticut	32,403,000	0	0
Delaware	20,206,000	36,042	0
District of Columbia	19,248,000	0	0
Florida	92,182,000	4,201,648	5
Georgia	55,288,000	4,462,400	8
Guam	6,217,000	0	0
Hawaii	22,186,000	363,684	2
Idaho	22,621,000	1,648,342	7
Illinois	73,571,000	20,142,691	27
Indiana	44,422,000	4,719,597	11
Iowa	29,841,000	1,863,059	6
Kansas	28,842,000	765,145	3
Kentucky	35,073,000	1,086,071	3
Louisiana	36,836,000	1,334,610	4
Maine	22,409,000	4,575,818	20
Maryland	41,251,000	1,158,382	3
Massachusetts	45,638,500	2,199,964	5
Michigan	62,032,000	3,944,784	6
Minnesota	39,267,000	5,347,176	14
Mississippi	29,547,000	1,829,395	6
Missouri	42,221,000	10,413,200	25
Montana	20,668,000	1,075,630	5
Nebraska	24,376,000	4,234,831	17
Nevada	26,387,000	3,886,240	15
New Hampshire	22,321,000	189,655	1
New Jersey	55,424,000	3,518,168	6
New Mexico	24,946,000	307,972	1
New York	103,243,000	88,671,000	86
North Carolina	54,203,000	88,960	0
North Dakota	19,421,000	5,753,980	30
Northern Mariana Islands	5,830,000	0	0
Ohio	68,235,000	21,261,300	31
Oklahoma	32,362,000	319,486	1
Oregon	32,487,000	7,552,711	23
Pennsylvania	72,370,500	1,055,308	1
Puerto Rico	34,014,000	0	0
Rhode Island	21,392,000	1,631,709	8
South Carolina	35,138,000	1,796,420	5
South Dakota	19,996,000	4,946,423	25
Tennessee	42,786,000	1,316,749	3
Texas	115,110,000	17,806,205	15
Utah	27,033,000	9,691,504	36
Vermont	19,342,000	3,912,941	20
Virginia	49,556,000	14,257,501	29
Virgin Islands	6,009,000	153,185	3
Washington	44,015,000	884,477	2
West Virginia	24,705,000	9,279,040	38
Wisconsin	41,173,000	13,814,902	34
Wyoming	18,809,000	0	0
Grand total	2,207,206,000	317,763,857	14

Attachment 2
MIGRATION OF DHS GRANT PROGRAMS

Administering Office	Program	Appropriation		Migration Year
		FY 2004	FY 2005	
DHS/SLGCP	Homeland Security Grant Program	\$3,195,000,000	\$2,610,000,000	2004
	- Formula-Based Grants/State Homeland Security Grant Program (ODP)	1,700,000,000	1,100,000,000	2004
	- Law Enforcement Terrorism Prevention Grants (ODP)	500,000,000	400,000,000	2004
	- Citizen Corps (EP&R)	40,000,000	15,000,000	2004
	- High-Threat, High-Density Urban Areas Grants/Urban Areas Security Initiative (ODP)	725,000,000	885,000,000	2005
	- Emergency Management Performance Grants (EP&R)	180,000,000	180,000,000	2005
	- Metropolitan Medical Response System (EP&R)	50,000,000	30,000,000	2005
	Demonstration/Continuing/Competitive Training Grants (ODP)	60,000,000	55,000,000	2005
	Firefighter Assistance Grants (EP&R)	750,000,000	715,000,000	2004
	Rail, Freight, and Transit Security Grants	N/A	150,000,000	N/A
	Port Security Grants (TSA)	125,000,000	150,000,000	2005
	Intercity Bus Security Grants (TSA)	10,000,000	10,000,000	2005
	Trucking Industry Security Grants (TSA)	22,000,000	5,000,000	2005
	DHS/EP&R	Urban Search and Rescue	60,000,000	30,000,000
National Disaster Medical System		34,000,000	34,000,000	N/A
Sources: House Report 108-774; House Report 108-280; DHS Fiscal Year 2005 Homeland Security Grant Program—Program Guidelines and Application Kit; and DHS/SLGCP A-133 Audit				

Mr. KING. Thank you, Mr. Berman.
I now recognize Dr. de Rugy.

**STATEMENT OF DR. VERONIQUE de RUGY, FELLOW,
AMERICAN ENTERPRISE INSTITUTE**

Ms. DE RUGY. Chairman King, Congressmen, and members of the subcommittee, it is my pleasure to appear before you today to discuss the need for grant reform and the Faster and Smarter Funding for First Responders Act of 2005.

The terrorist attack of September 11 revealed some gaps in the ability of local officials to respond to terrorist attacks on major urban centers. In response, Congress moved swiftly to appropriate homeland security funds to state and local governments. A significant portion of that effort was directed to first responder programs.

However, on the issue of homeland security, the most important question is whether America is getting the maximum level of benefit in exchange for this increasing spending. Because we are talking of homeland security and of the safety of the American people, there is no room for wasteful spending for pork or for politics. Any dollar misspent or wasted is a dollar that is not spent to protect us.

Our first priority should be to ensure that the funding is directed to where the intelligence and law enforcement assessment indicates that it is the most needed. A recurring recommendation from GAO over the years has been the need to use risk management and other important elements in developing a national strategy to fight terrorism. Risk management is about assessing risk and setting priorities. It is about sound cost and benefit analysis and it is about tradeoffs. It means spending our resources on the places where we are the most vulnerable, and not spending money where we are not.

Here, "vulnerable" is defined as places where attacks are likely or if successful, would be devastating. As Secretary Chertoff noted, we have to put our resources where the highest risks are. Risk management means taking a finite security budget and making the best use of it.

Unfortunately, terrorism grants to state and local governments are allocated based in part on a political formula that provides every state with an equal guaranteed minimum amount of state grants regardless of risk and need. Many glitches in homeland security grant distribution are the result of this formula. Currently, state and rural, less populated areas or populated area, but less likely to be targeted by terrorist acts, often receive a disproportionate amount of grant money. For instance, Wyoming and Alaska ranked number one and two in per capita spending, while New York and California finished around the bottom respectively.

The underlying theory behind this all-state minimum formula is that terrorists could strike anywhere. That is true. What is not true, though, is that each state and locality faces an equal threat. We could talk about this. Accordingly, reforms to the grant system is a real priority. It is the priority. The highest priority for the federal government spending is not to service every one of state and local governments needs. The priority must be to create a true national preparedness system. To that effect, we should ask ourselves

whether the grant system, which has been proven many, many times to be a very ineffective way to provide government service, is really the best way to provide homeland security. We should also figure out who is the best player suited to address a given risk: the federal, the state or local government, or the private sector.

Finally, funds should be distributed strictly based on risk and vulnerability. The first step in that direction should be to get rid of the requirement that every state get part of the homeland security money. To the extent that state minimums are included, these minimums should be kept low in order to provide maximum funding to areas of our greatest need.

The legislation you are considering today would change the criteria used to distribute funding based on risk of attack and the magnitude of potential damages. Under Chairman Cox's proposal, most states would get 0.25 percent of the available first responder dollars instead of 0.75 percent. However, those states with substantial lands or water borders with Canada and Mexico would be eligible for 0.45 percent. Compared to the status quo, the Faster and Smarter Funding for First Responders Act of 2005 would be an important step in the right direction and a serious improvement on how we are spending homeland security funds to protect our nation.

Thank you for the opportunity to appear before this committee today. I would be happy to answer your questions.

[The statement of Ms. de Rugy follows:]

PREPARED STATEMENT OF DR. VERONIQUE DE RUGY

Chairman King, Congressman and members of the subcommittee, my name is Veronique de Rugy, and I am a research scholar at the American Enterprise Institute, here in Washington DC. It is my pleasure to appear before you today to discuss "The Need for Grant Reform and The Faster and Smarter Funding for First Responders Act of 2005."

International terrorism is probably the greatest security challenge America faces today. Policy makers have responded in two ways—going after terrorists abroad and improving security against terrorism at home by boosting homeland security funding. Regarding the latter, Congress and the administration moved swiftly to create a Department of Homeland Security and increased total funding for homeland security activities by 195 percent between FY2001 and FY2006.¹ Total spending directed to homeland security activities will be at least \$49.9 billion for FY 2006, roughly \$450 per American household.²

On the issue of homeland security, the most important question is whether America is getting the maximum level of benefit in exchange for this increase in spending. A substantial portion of new homeland security spending is being used for grants to state and local governments. However, currently grants to the state and local government appear to be allocated without risk and cost benefit analysis, leading to a large amount of wasteful spending. Unfortunately, in the realm of homeland security, wasteful spending jeopardizes the American people security.

The absolute amount of money spent on homeland security is not the issue in this testimony, but the political process leading to the way the money is spent is. Economics suggests that if homeland security spending decisions are made on a political basis rather than on a sound cost benefit analysis, it will lead to the traditional public choice failures that plague government spending more generally. As a result,

¹ Author's calculation based on *The Budget of the United States Government, Fiscal year 2006*, Table S-5, (Washington: Government printing Office, February 2005) and Office of Management and Budget, "Securing the homeland, Strengthening the Nation" <http://www.whitehouse.gov/homeland/homeland—security—book.pdf>

² Author's calculation based on *The Budget of the United States Government, Fiscal year 2006*, Table S-5, (Washington: Government printing Office, February 2005) and Current Population Survey, March 2003.

homeland security funding is likely to be misallocated, resulting in a less than optimal level of security in America.

In the first part of my testimony I will look at the way economists think about homeland security spending decisions in general. Then I will apply these conclusions to the particular problem of grants to first responders. I conclude that there is an urgent need to reform the grant system toward a risk-based system, which would include removing the provision for minimum state allocations.

II. The Economics of Homeland Security

The terrorist attacks in 2001 stimulated a concerted effort to adopt security measures that would reduce the risks of similar events in the future. This was and is a logical response, as security, by definition, is about prevention of adverse consequences from the intentional actions of others. Economists think about security policies in terms of tradeoffs, formally comparing the costs and the benefits, both pecuniary and non pecuniary.³

We all make security tradeoffs. For example, when we lock the door to our house in the morning, we assess the small inconvenience of carrying a key in exchange for a modicum of security against a burglary. People make security decision tradeoffs all the time, choosing more or less security as situations change. Optimal security decisions and policies require a good understanding of the risks and tradeoffs we face.

Even presuming that politicians have chosen the level of spending on Homeland Security desired by voters, it is natural to ask whether that level is optimal. It is difficult both for scientists and for citizens to assess risks of events with low probability—such as acts of terrorism.⁴ Uncertainty is what could greatly magnify the terrorist threat, far beyond the actual damage that any single terrorist strike has historically caused. In fact, it seems that it is precisely because of the uncertainty that accompanies the terrorist threat, and the associated costs (e.g. the provision of security at a myriad potential targets, reduced investments because of generalized uncertainty, disruption of travel, tourism, and perhaps also trade), that few terrorists, armed with relatively primitive means, can effectively threaten even a powerful nation.⁵

Thus, while the risks are difficult to quantify, there is reason to suspect that individuals may irrationally ratchet up their assessments of terrorist risk, and hence, may ratchet up their demand for homeland security spending. This may induce Congress to invest in projects that would not pass a cost benefit test. But again, the problem is doing falling to make efficient spending choice is that each misspent dollar is one that we do not direct to an effective protection of the American people and as such is one that reduces our security.

What to invest in?

While terrorism is only recently the dominant security issue in the U.S., economists have long studied the optimal provision of security more generally. In Gary Becker's seminal paper on the economics of crime, he uses the tools of economics to think about the incentives of criminals and how to influence their behavior.⁶ He explains that we can decrease unwanted behaviors by increasing their expected costs or decreasing their expected benefits. This approach applies to terrorism as well.

The primary method of discouraging terrorists is to make it more difficult to attack our assets. In effect, this reduces the "benefit" of a terrorist attack—since there presumably will be less damage—and forces terrorists to incur higher "cost" as they seek alternate targets. We install Jersey barriers to keep trucks away from important buildings, screen airline passengers, and employ internet firewalls. But it is important to make sure that the resources used to fight terrorism are being used effectively. This is not always the case. If a certain strategy reduces the threat of terrorism but has very high costs, it may not be the best use of resources if there is another approach that generates similar benefits but has lower costs to society.

For traditional criminals, potential incarceration is an important "cost" consideration and an efficient tool in deterring crime. And it is an effective use of resources since imposing stiff jail sentences is cheaper than guarding every house. Unfortu-

³ For a good discussion about the concept of tradeoffs see James Buchanan, *Cost and Choice, An Inquiry in Economic Theory*, Collected Works of James Buchanan Volume 6, (Indianapolis: Liberty Fund).

⁴ The difficulty of estimating low probability risks is stressed by Kunreuther et al. (1978).

⁵ See Manuel Trajtenberg, "Defense R&D in the Anti-Terrorist Era," NBER Working Paper No. 9725, May 2003.

⁶ Becker, Gary. "Crime and punishment: An economic approach," *Journal of Political Economic*, 1968.

nately, this approach is generally not effective against terrorists because they tend to be ideological extremists who give little weight to the personal costs of their actions. Suicide bombers, for example, will not be deterred by jail time. The most serious implication is that the possibility of deterrence is greatly reduced.⁷

Second, we can combat terrorism by decreasing the expected benefits to terrorists, either by increasing the probability of thwarting an attack or by decreasing the damage from a non-thwarted attack. To thwart attacks, we spend money on the CIA, FBI, and law enforcement to try to detect terrorist plots in advance. To decrease the damage from attack, we spend money on first responders, build fewer skyscrapers, and buy gas masks. One important implication of Becker (1968) is that there are tradeoffs between thwarting attacks and decreasing their damage: the more effective we are at thwarting attacks, the less we presumably should spend on decreasing their damage, and vice versa.

Taking the analysis a step further, the most efficient options to combat terrorism tend to be efforts to detect terrorists themselves or to respond effectively to minimize the damage after an attack has occurred. Spending to defend particular targets is generally less efficient. Both results stem from the fact that there are an almost unlimited number of targets, and the terrorist gets to choose where to attack. For example, suppose there are 100 potential targets that we could perfectly defend for \$20,000 a piece, that the damage from un-defended attack would be \$500,000, and that we could mitigate one-tenth the damage from attack by spending \$50,000 on first responders.

If we knew where the terrorists would attack, we could spend \$20,000 to save \$500,000, which would be a prudent investment. But if don't know the target, we would have to spend \$2,000,000 to defend all 100 targets, which outweighs the \$500,000 in damage. On the other hand, even if we did not know the target, we could spend \$50,000 on first responders to reduce the damage by \$250,000, which is an efficient tradeoff.

Of course, if we could track down terrorists in advance successfully, that would prevent attacks on *all* possible targets, that approach would have similar efficiency properties as spending on first responders. In fact, it is possible that spending more money on intelligence and investigation might be far more cost effective than spending a little on every possible target or even waiting to be attacked and then cleaning up efficiently.

This raises again the notion of tradeoffs. Since the number of possible attacks is effectively unlimited and the resources we can devote to the fight against terror are limited, it means that spending should not occur without a careful cost-benefit analysis. It is perfectly reasonable to decide not to implement an antiterrorism measure, not because it has no benefit, but because the tradeoffs are too high. For instance, locking up every Arab-looking person would reduce the potential for terrorism perpetrated by Islamic fundamentalists, but no reasonable person would suggest this approach because the costs (both pecuniary and moral) are too high. In the US, there are laws that prohibit police from profiling by characteristics like race, because we believe that such measures are unacceptable, but not because we believe them to be ineffective.

In the same way, some antiterrorist countermeasures might yield very high returns and reduce exposure to attacks tremendously, but the costs of implementing them are extremely high. If we install Jersey barriers around all major buildings and critical assets in the country, our exposure to attacks will be substantially lower, but the costs involved would be astronomically high.

⁷ See John R. Lott Jr. (2001), *The Bias Against Gun: Why Almost Everything You Have Heard About Gun Control is Wrong*, (Washington DC: Regnery Publishing, Inc), Chapter 6. Lott tests the economic model (that if you make something more difficult or increase the cost of being caught for doing something people do less of it) on perpetrators of multiple victim public killers. He finds that in this case, although legal sanctions such as higher death penalty execution rates should imply both fewer attacks and fewer people harmed, it is less of a significant factor in deterring multiple victim killings than it is in deterring normal murders. Also See Frey et al (2003)

Table 1. Cost Effectiveness of Selected Antiterrorism Expenditures

		Wasteful Outlays	Major Sacrifices
	High Cost	Screen Every airline passenger	Surround all critical infrastructure with concrete Jersey barriers
Cost to Prevent			
Terrorist Attack		Simple Steps	Efficient Outlays
	Low Cost	Store fewer chemicals at water-treatment plants	Place barricades on airplane cockpit doors
		High Benefit	Low Benefit
		Benefit From Reduced Exposure to Attack	

Efficient expenditures concentrate limited resources on the most cost-effective expenditure rather than simply on the effective ones. In other words, because security always involves a tradeoff, more security spending does not always mean more security and more security does not always make us better off.

Who should pay for Homeland Security?

Before turning to an evaluation of grant programs, one should also evaluate the economic reasoning behind federal provision of homeland security. National defense is often cited as the archetypal public good, i.e., one person's consumption of the good does not prevent another person from consuming the same good.⁸ Another characteristic of public goods is that they are non-excludable, i.e., it is hard or impossible to prevent anybody that desires from getting access to and enjoying the public good once it is produced. Private goods have opposite characteristics: they are rival and excludable.

Economic theory suggests that it is efficient to have governments provide public goods, but to resort to private markets for the provision of non-public goods, e.g., governments should provide national defense, but markets should produce washing machines.

As already mentioned, a key feature of terrorism is that the threat is generalized (it can happen anywhere, at any time) and yet any particular attack is "local." By implication, homeland security is a mix of public and private goods. Accordingly, governments should provide some types of homeland security, while other types are best left to private markets. For example, governments should invest in intelligence gathering to track down terrorists, since this is a public good that benefits all citizens. But the protection of private property, such as personal residences, should be left to individuals because it is not a public good.⁹

A similar logic applies to which aspects of homeland security are public goods at the national versus state level. (See Table 2.) Espionage, intelligence, and immigration control benefit all the states, so the *federal* government should make these investments. But the benefits of protection of public infrastructure like bridges and water treatment plants are enjoyed by the residents of a particular state, rather than many states, so these investments should be made at the *state* level. In the same way, the benefits of building a strong first responder's capacity will be enjoyed by the residents of a particular state, so the investment should be made at the state level. This is not to say that the entire economy might not suffer were a specific bridge to be destroyed, but rather, that the principle economic impact of such an unfortunate event would be felt locally.¹⁰ Identically, even the entire country will

⁸ See for example Gold (1999) for a good review of the literature and a discussion of defense as a public good.

⁹ Of course, saying that some areas of homeland security have public features and should probably be provided by the government does not exclude the possibility of inefficient and wasteful provision of that good.

¹⁰ An argument in favor of federalization of these investments is that because investing in protection is likely to displace a terror attack, the private sector or local and state governments might have an incentive to overspend on homeland security.

suffer if one given state was suffer a successful terrorist attack, the benefits of a well functioning first responder's response are mainly local ones.

Table 2: Who should be responsible for Homeland Security?

Federal Government	State and Local Government	Private Sector
Espionage Intelligence Immigration Electric	Protection of Infrastructures such as: Bridges, Water Preservoirs, and Ports First Responders.	Protections of Infrastructures such as: Privately owned infrastructures Stadiums, Skyscrapers and individual houses

A Public Choice Approach to Homeland Security Spending

Public choice theory also can be applied to homeland security spending. Many decisions on homeland security come through the political process. According to public choice economics, each participant has an incentive to maximize the political benefits of any particular action. This means that decisions are not always based on an assessment of the common good.

Public Choice theory underlines the different incentives and processes that operate when goods are sought through political means rather than through economic means.¹¹ For instance, if you have to use your own money to buy the lock on the door to protect your house, you will make sure that the increased security from the lock is worth the price of the lock. In the words of Buchanan (1969), an individual spending his own money makes sure that anticipated benefits exceed the costs.¹² In the political process though, the people buying the lock are rarely the ones paying for the lock. As such, they have less reason to balance costs and benefits.

The political appropriation and distribution of goods concentrates its benefits and disperses its costs. Many people can be taxed at a low rate so a small number of people can be given large sums. Special interests groups have an incentive to lobby the government to see that wealth is transferred to them. The term economists use to describe such lobbying is "rent-seeking."¹³ These pressure groups have a clear advantage in a political process where politicians are frequently accused of hearing nothing from the many and a lot from the few.¹⁴

But policymakers represent an interest group too. In seeking reelection, they have an incentive to please those who might have money or votes to contribute to them. For instance, being elected by state voters rather than federal ones, a Congressman has an incentive to try to bring back to his state as much federal money as possible rather than to fight to cut down federal spending.¹⁵ A good example of this phenomenon is the increasing number of low priority and wasteful spending items—also called pork barrel spending—introduced by Congress at the last moment into federal spending bills and directed at a specific state locality or at a specific facility. In the

¹¹ See James Buchanan and Gordon Tullock (1962), *The Calculus of Consent*, University of Michigan Press, Ann Harbor.

¹² James Buchanan, *Cost and Choice, An Inquiry in Economic Theory*, Collected Works of James Buchanan Volume 6, (Indianapolis: Liberty Fund).

¹³ For a discussion about the economics of interest groups see Mancur Olson (1982), 'The logic', in *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, New Haven: Yale University Press, p. 17–35. Also see George J. Stigler (1974), 'Free Riders and Collective Action: An Appendix to Theories of Economic Regulation', *Bell Journal of Economics and Management Science*, 5 (2), p. 359–65. Gary S. Becker (1983), 'Theory of Competition Among Pressure Groups for Political Influence', *Quarterly Journal of Economics*, XCIII (3), August, p. 371–400. For a good description of the theory of rent seeking see Gordon Tullock (1967), 'The Welfare Costs of Tariffs, Monopolies, and Theft', *Western Economics Journal*, V, p. 224–32 and Robert Tollison (1982), 'Rent Thinking: A Survey', *Kylos*, 35 (4), p. 575–601.

¹⁴ For discussion about the dynamic of pressure groups see Becker, G. (1983), "A Theory of Competition among Interest Groups for Political Influence," *Quarterly Journal of Economics* 98, 371–400 and Becker, G. and C. Mulligan (1998), "Deadweight Costs and the Size of Government," NBER Working Paper 6789.

¹⁵ For a discussion on pork Barrel Spending see for example Acemoglu, D. and J. Robinson (2001), "Inefficient Redistribution," *American Political Science Review* 95, 649–61 and Baron, D. (1991), "Majoritarian Incentives, Pork Barrel Programs, and Procedural Control," *American Journal of Political Science* 35, 57–90. See also Coate, S. and S. Morris (1995), "On the Form of transfers to Special Interests," *Journal of Political Economy* 103, 1210–35 and Shepsle, K. and B. Weingast, (1981), "Political Preferences for the Pork Barrel: A Generalization," *American Journal of Political Science* 25, 96–112.

same way, politicians are likely to favor and transfer wealth to targeted industries—like the farm or the automobile industry.¹⁶

Thus, constituencies and interest groups are created for each particular political benefit program, and it may become, if this theory is correct, nearly impossible to develop policy initiatives without their input. This of course has major implications for the way politicians will make decisions about homeland security spending. First, because policymakers who are ultimately making homeland security decisions are often not the ones making the tradeoffs, it is possible that they will throw money at the problem rather than finding the most cost-effective antiterrorist measure to adopt. Also, lawmakers are likely to use homeland security funds to achieve non-homeland security agendas through the use of pork barrel spending and corporate welfare.

Finally, “homeland security” pressure groups—e.g. first responders, state officials and/or specific industries like the airline industry—may have an incentive to lobby lawmakers to try to grab a bigger share of the funding allocated to homeland security programs and/or to transfer their responsibilities to the federal government. In a recent paper, Besley et al. (1999) look at the tradeoffs between centralized and decentralized provision of local public and private goods.¹⁷ They emphasize the importance of the politics of decision making for the move toward more centralization of local responsibilities and the inefficient allocation of resources resulting from this process.¹⁸ Federalization of airline screeners and the trend toward the federalization of law enforcement and first responder programs are recent examples that may be consistent with this evidence.

V. First Responder Grants

The September 11th attacks revealed some gaps in the ability of local officials to respond to terrorist attacks on major urban cities. In response, Congress moved swiftly to appropriate homeland security funds to state and local governments. Total federal homeland security spending to state and local governments increased from \$2.7 billion in FY2001 to \$8 billion in FY2006 (a 1962 percent increase).¹⁹

A significant portion of that effort was directed to “first responder” programs—essentially federal funds for state and local police and fire departments. Homeland Security funding to state and local governments for first responder programs increased from \$616 million in FY2001 to \$3.36 billion in FY2006 (a 500 percent increase).²⁰ But the biggest share of this first responder program explosion took place in the form of grants to lower level governments.

While the quantity of funds is significant, the funds are not being allocated according to a plan that was devised by security experts or by economists. In keeping with the way Washington spends federal taxpayer’s money to the states—whether for highways, education or emergency preparedness—DHS follows in part a formula set by Congress that provides every state with a guaranteed minimum amount of state grants regardless of risk or need. Specifically, the formula written into law by Congress into the Patriot Act after September 11th guaranteed each state 0.75 percent of the total amount appropriated to DHS for state terrorism preparedness grants, with smaller shares going to territories like Puerto Rico. It amounts to 40 percent of the total pot of money being divided up equally among the states, regardless of size, risk, or need.

Prior to September 11th, total funding covered by the formula—i.e the State Homeland Security Grant Programs (SHSGP), which is the sum of a series of separate grants, plus Critical Infrastructure Protection Grants—amounted to \$97 million.²¹ It means that in 2001 the guaranteed minimum each state would receive was less than \$1 million. However, due to the 20-fold increase in this program between FY2001 and FY2003 from \$97 million to \$2,066 million the minimum guaranteed

¹⁶Grossman, G. M. and E. Helpman (1994), “Protection for Sale,” *American Economic Review* 84, 833–50.

¹⁷Timothy Besley and Stephen Coate (1999), “Centralized Versus Decentralized Provision of Local Public Good: A Political Economy Analysis,” NBER Working Paper No. 7084.

¹⁸See also, Stephen Coate (1997), “Distributive Policy Making as a Source of Inefficiency in Representative Democracies, Institute of Economic Research, University of Pennsylvania, Working Paper No. 97–041.

¹⁹Author’s calculation based on *The Budget of the United States Government, Fiscal year 2006 Appendix*, Department of Homeland Security, Department of Justice, and Department of Health and Humane Services and Chairman Cox (2004), House Select Committee On Homeland Security, “An Analysis of First Responder Grant Funding,” p. 25.

²⁰Shawn Reese, “FY2006 Appropriations for State and Local Homeland Security,” Congressional Research Service, RS22050, February 14, 2005, p.1. <http://www.ndu.edu/library/docs/crs/crs-rs22050-14feb05.pdf>

²¹The data on funding can be found in House Select Committee On Homeland Security, “An Analysis of First Responder Grant Funding,” p. 25.

amount each state was receiving went from \$1 million to \$15.5 million regardless of risk or need.²² In FY2004, this minimum guaranteed sum was roughly \$13 million. In FY2005, the amount allocated decreased along with the minimum guaranteed but still be significant.

After this 40 percent of SHSGP is allocated to states, the 60 percent left over is apportioned among states based on population, not risk. For the smallest states, this formula means an additional \$2 million on top of the guaranteed minimum. In FY2004, the two combined allocation formulas resulted in Wyoming, the least populous state, receiving \$17.5 million and California, the most populous state, receiving \$164 million regardless of risk or need.²³ And according to the same calculation, in FY2004 Wyoming is guaranteed to receive a minimum of \$15 million and California, the most populated state, at least \$133 million.

The underlying theory behind this all-state-minimum formula is that terrorists could strike anywhere and that heads of homeland security agencies in rural and small states throughout the country have now become convinced that their turf is just as threatened as Washington, New York or Chicago. The journalist Amanda Ripley adds in the *New York Times Magazine* “when asked about relative risks, these officials talk about relative worth and the right of their citizens to get the same kind of protection that they are afforded in other places in the country.”²⁴

The theory that money should be spent smoothly across states has not been supported by reasoned analysis during the public policy debate. And experts in the field have reached different conclusions. The Insurance Services Office (ISO)—a private company—serves the insurance industry by maintaining data on risks of all kinds and helping insurance companies underwrite policies at prices commensurate with those risks. In 2003 ISO did a research project to set objective prices for terrorism insurance. They surveyed five former FBI, CIA and Pentagon intelligence experts and applied their opinions to a database of 300,000 potential targets. They then used this information to set baseline rates for terrorism insurance. Their conclusion is the following: The highest risk cities in the U.S. are New York, Washington, DC, Chicago, San Francisco and those at high risk of attack are Los Angeles, Philadelphia, Houston, Seattle and Boston.²⁵

Many other glitches in the homeland security grant distribution are the result of those two government formulas. For instance, among the top 10 states and districts receiving grants only the District of Columbia also appeared on a list of the top 10 most at risk places.²⁶ Currently, states in rural, less populated areas, or populated areas—but less likely to be targeted by terrorist acts—often receive a disproportionate amount of grant money.

Table 4 shows how much in dollars per capita each state received from State Homeland Security Grants Programs for FY2004. New York State received 4.68 percent of general grant money while its population accounts for 6.55 percent of the nation’s population. California received 7.95 percent of general grant money while its population accounts for 12 percent of the nation’s population. And Wyoming, which has a population that accounts for 0.17 percent of the nation’s population, receives 0.85 percent of all the grant monies. This translates to \$5.41 per capita in New York State, \$4.97 per capita in California and \$37.74 per capita in Wyoming. And spending on U.S. territories is equally variable. In FY2004, the US Virgin Islands received \$104.35 per capita, Guam \$90.36, and Northern Mariana Islands \$54.

One should not conclude that more money should be handed to states with a lower dollar grant per capita or with a large population like California or that money should be taken away from small states with high dollar per capita. Cox (2004) points out “It is not the case that American Samoa should receive proportionately less or should, in the nature of things, receive more or less than anywhere else, except in my view, if security needs require it.”²⁷ In other words, grant money should only be distributed based on an evaluation of risk and security need and

²² In FY2003 the amount covered by the formula was \$2.066 billion. The \$15.5 million is calculated with the following formula: $\$2.066.000 \times 0.0075 = \15.49 million.

²³ Author’s calculation based on data collected from The Office of Domestic Preparedness, FY2003, State Homeland Security Grant Program (SHSGP), part I, <http://www.ojp.usdoj.gov/odp/docs/ODPAApplication.txt> and Part II <http://www.ojp.usdoj.gov/odp/docs/fy03shsgp2.pdf>

²⁴ Amanda Ripley, “How We Got Homeland Security Wrong,” *Time Magazine*, Monday March 22, 2004.

²⁵ The Insurance Services Office, “ISO continues to help you response to the Terrorism Insurance Act of 2002,” May 2003. For more detailed information see www.iso.com.

²⁶ Author’s calculation based The Office of Domestic Preparedness, FY2004, State Homeland Security Grant Program (SHSGP), part I, and Part II.

²⁷ Congressional Quarterly, “Republican Cox Delivers Remarks at McGraw-Hill Homeland Security Summit,” June 4, 2004.

nothing else. The political formulas used now to allocate the money disconnect the funding from the risk of being attacked.

The same lack of assessment of risk and need exists in the way states allocate or pass through the funding from DHS to their localities (they are obligated to pass through 80 percent of the money received).²⁸ For instance, Carafano (2004) reports “California distributes its federal grants in base-amounts of \$5,000 to each county, an amount so small and arbitrary it seems that it is difficult to imagine how it could be used productively.”²⁹

Finally, almost three years after the State Homeland Security Grant Program was launched, first responders across the Nation have not received the vast majority of the \$6.3 billion that congress and the Administration have allocated in terrorism preparedness grants since September 11 (FY2002 to FY2004).³⁰ In fact \$5.2 billion in the Department of Homeland Security grant money remains in the administration pipeline, waiting to be used. And soon the money allocated for FY2005 and requested by the President FY2006 will be added to the funding pipeline (another \$5.2 billion).

Table 4. Dollars Per Capita Received by States From Homeland Security First Responder Grant Programs for FY2004

State	Grant Dollars per Capita	State	Grant Dollars per Capita
Virgin Islands	104.35	Oregon	9.18
Guam	90.36	Puerto Rico	8.82
Northern Marina Islands	54.00	Kentucky	8.57
Wyoming	37.74	South Carolina	8.52
American Samoa	37.54	Alabama	8.24
District of Columbia	34.16	Louisiana	8.24
Vermont	31.43	Colorado	8.17
North Dakota	30.82	Minnesota	7.81
Alaska	30.18	Wisconsin	7.57
South Dakota	26.32	Maryland	7.53
Delaware	24.86	Missouri	7.45
Montana	22.66	Arizona	7.43
Rhode Island	20.00	Tennessee	7.37
Hawaii	17.75	Washington	7.22
New Hampshire	17.44	Indiana	7.21
Maine	17.26	Massachusetts	7.14
Idaho	16.65	Virginia	6.75
Nebraska	14.10	North Carolina	6.49
West Virginia	13.73	New Jersey	6.45
New Mexico	13.39	Georgia	6.40
Nevada	11.84	Michigan	6.19
Utah	11.56	Ohio	6.00
Kansas	10.65	Pennsylvania	5.89
Arkansas	10.63	Illinois	5.85
Mississippi	10.32	Florida	5.45
Iowa	10.20	New York	5.41
Connecticut	9.30	Texas	5.24
Oklahoma	9.27	California	4.97

Source: Author’s calculation based on Office of Domestic Preparedness, “Fiscal Year 2004 Homeland Security Grant Program” and US Census Bureau, “Annual Population Estimates 2000–2003.”

²⁸House Select Committee On Homeland Security, “An Analysis of First Responder Grant Funding,” p. 6.

²⁹James Jay Carafano, “Homeland Security Dollars and Sense #1: Current Spending Formulas Waste Aid to States,” 2004.

³⁰House Select Committee On Homeland Security, “An Analysis of First Responder Grant Funding,” p. 9.

VI. Use Of Homeland Security Grants

The lack of risk-based funding coupled with the absence of federal terrorism preparedness standards or goals to guide expenditure of funds at the state and local levels has resulted already in some questionable uses of homeland security grants (whether they are DOJ, HHS or DHS grants).³¹ Expressing his concern, former Senate Budget Committee Chairman Nickles notes, “Congress is creating programs under the banner of homeland security, which in some cases, some cities and some states are using as more or less revenue sharing.”³² And Chairman Chris Cox notes that “there have been numerous reports suggesting that the first responder monies that have been received and spent to date have not necessarily gone to the first responders who need it most, or for projects that materially enhance our homeland security.”³³

The data support their fears. The misuse of federal funds by states and local governments includes:

- 63,000 spent on a decontamination unit that is now stored in a warehouse in rural Washington State because the state does not have a HAZMAT team to use it.³⁴
- \$22,800 spent by Mason County, WA to buy six radios that are incompatible with county radios.³⁵
- \$30,000 used by officials in Lake County, TN, to help a high school buy a defibrillator to have on hand for a basketball tournament.³⁶
- \$500,000 spent by Outagamie County, WI. (pop. 165,000) to buy chemical suits, generators, rescue saws, disaster-response trailers, emergency lighting, escape hood, and a bomb disposal vehicle.³⁷
- \$98,000 spent on training courses in incident management by the Tecumseh fire department in Lenawee County, MI that no one attended.³⁸
- \$557,400 awarded to North Pole, a town in Alaska (1,570 people), for homeland security rescue and communications equipment.³⁹
- \$183,000 spent by Tiptonville, TN (7,900 people) to buy an all-terrain vehicle, a couple of defibrillators and protective suits for the volunteer fire department.⁴⁰

These are not isolated cases of unfortunate uses of homeland security funds. Meanwhile, as Senator Nickles points out, “[Large and high risk cities] are as likely to waste homeland funds as low risk areas.”⁴¹ Senator Conrad notes, “I have heard from individual departments that spending initiatives that were pending previously that were not approved, once they were given the label of homeland security, whether or not they fit the description, sailed through.”⁴² For instance, Washington DC—incontrovertibly one of the high threat areas in the country—used the region’s first wave of homeland security aid as “seed money” for a computerized car towing system that the mayor had promised for three years to help combat fraud by private towing companies and to buy leather jackets.⁴³ D.C. also used \$100,000 to fund the mayor’s popular summer jobs program.⁴⁴

³¹This is not surprising considering that, until recently, the planning to spend first responder grants often occurred after the grants were actually received.

³²Congressional Quarterly, “Transcript of Senate Budget Committee Hearing on FY2005 Homeland Security Department Budget,” February 25, 2004.

³³House Select Committee On Homeland Security, “An Analysis of First Responder Grant Funding,” p. 7.

³⁴House Select Committee On Homeland Security, “An Analysis of First Responder Grant Funding,” p. 7, followed up with an interview of Mason County Sheriff on March 3rd.

³⁵Ibid, p. 7.

³⁶House Select Committee On Homeland Security, “An Analysis of First Responder Grant Funding,” p. 8.

³⁷Ibid.

³⁸Alice Lipowicz, “For Michigan Volunteers, Free Training Course Proves Too Expensive,” Congressional Quarterly, March 11, 2004.

³⁹Alice Lipowicz, “North Pole Receives Homeland Security Funds,” Congressional Quarterly, October 22, 2002.

⁴⁰CBS News, “Handouts for Homeland,” 60 minutes transcript, April 10, 2005. <http://www.cbsnews.com/stories/2005/03/31/60minutes/printable684349.shtml>

⁴¹Congressional Quarterly, “Transcript of Senate Budget Committee Hearing on FY2005 Homeland Security Department Budget,” February 25, 2004, p. 7.

⁴²Congressional Quarterly, “Transcript of Senate Budget Committee Hearing on FY2005 Homeland Security Department Budget,” February 25, 2004.

⁴³“Anti-terrorism Funds Buy Wide Array of Pet Projects; Some of Region’s Unused Million Could be Lost,” JoBecker, Sarah Cohen, and Spencer S. Hsu, The Washington Post, November 23, 2003, followed up with an interview of D.C. Deputy Mayor’s office, March 2, 2005.

⁴⁴“Anti-terrorism Funds Buy Wide Array of Pet Projects; Some of Region’s Unused Million Could be Lost,” JoBecker, Sarah Cohen, and Spencer S. Hsu, The Washington Post, November 23, 2003.

According to DHS officials, DHS spending has been the subject of many audits, none of which found any systemic cases of fraud or abuse of program funds. Indeed, many of the purchases made with DHS funds were allowable and justified under Department guidelines. To end the discussion there, however, ignores the larger point that the system for disbursing homeland security funds is flawed and does not ensure that the greatest priorities are funded. While the audits did not find systemic problems, some of their specific recommendations fit well with Chairmen Nickles and Cox' arguments on this point. For instance, the Inspector General's audit of first responder grants admonishes, "Efforts to monitor and measure the impact of first responder grants needs to be improved."⁴⁵ The Inspector General's report on Port Security Grant Program notes that many grants were given to port security projects that "appeared to be for a purpose other than security against an act of terrorism."⁴⁶

Spending \$58,000 on a rescue vehicle capable of boring through concrete to search for victims in collapsed buildings in Colchester, Vermont (18,000 people), for example, may be allowable and justifiable under DHS guidelines, but are those guidelines appropriate?⁴⁷ And while there may be some ways to justify spending homeland security funds in this location, we should question whether locations like Vermont, Michigan, or Tennessee are truly the front lines in the war on terror.

VII. Are Federal Grants to States Efficient?

The real question is whether these problems with homeland security grants to the states are not simply symptomatic of any federal grant system. If that is the case, it means there are more productive ways to protect America than federal grant programs to state and local governments.

In theory, the United States is a federal system, meaning that the federal government was designed to have specific limited powers with most basic functions left to the States. But in the last fifty years, the federal government has undertaken a large number of activities that were traditionally and constitutionally reserved to the states. To extend its power into state affairs the federal government has developed a vast and complex system of grants to states and local government.⁴⁸

In FY2005, the total amount of federal grants paid out to the states and local government is scheduled to reach well over \$425.8 billion. President Bush requested \$435.7 billion for grants for FY2006.⁴⁹ According to the GAO, over the past 20 years the number of federal grant programs to states and local government has proliferated from less than 450 in 1980 to roughly 700 in 2001.⁵⁰ These grants are directed towards a huge range of activities such as education, healthcare, transportation, housing and more.

To be sure, these grants are an imposition of federal priorities on state and local government.⁵¹ But are they an economically efficient way to manage homeland security spending?⁵²

Numerous reports have pointed at the complexity and redundancy in the federal grant industry as well as at the mismanagement, fraud and abuse of federal funds. The GAO notes "GAO's work has been pointing out the chronic problems of federal grants since at least 1975."⁵³ And in spite of GAO recommendations and occasional reforms, the same problems remain. So although the initial goal of grant programs might be a high-minded purpose—such as help for poorer regions or homeland security—they frequently have turned out to be an extremely ineffective way to achieve a policy goal.

The unsatisfactory performance of federal grant programs has been repeatedly reported. Indeed, the Office of Management and Budget regularly points out that

⁴⁵ Office of Inspector General, Department of Homeland Security, "An Audit of Distributing and Spending 'FirstResponder' Grant Funds," March 2004, <http://www.dhs.gov/interweb/assetlibrary/OIG—ODP—03—04.pdf>

⁴⁶ Office of Inspector General, January 2005, p. 34.

⁴⁷ Kate O'Beirne, "Introducing Pork-Barrel Homeland Security," National Review, August 11, 2003.

⁴⁸ For a brief history of the federal grant system see Congressional Research Service, "Federal Grants to State and Local Governments: A Brief History," Library of Congress, February 19, 2003. Also see General Accounting Office, "Federal Assistance: Grant System continues To Be Highly Fragmented," United States Accounting Office, GAO-03-718T, April 29, 2003.

⁴⁹ *The Budget of the United States Government, FY2006, Analytical Perspectives*, p. 123.

⁵⁰ GAO-03-718T, p. 4.

⁵¹ For a comprehensive criticism of the Federal Grant Programs see Chris Edwards, "Downsizing the Federal Government," Cato Institute Policy Analysis no. 515, June 2, 2004.

⁵² For an excellent discussion about federalism see Michael Greve, "Big Government Federalism," Federalist Outlook No. 3, March 1st, 2001. http://www.aei.org/publications/filter_.pubID.12576/pub—detail.asp

⁵³ GAO-03-718T, p. 6.

grant programs have poorer performance, on average, than other federal programs.⁵⁴ These grants often come within the frame of one-size-fits all federal regulation, which reduces States' incentive to be innovative.

This abundant literature serves as evidence that federal grants and funds to states are a wasteful way of providing government services to Americans. There is no reason to believe that it will suddenly become an effective way to enhance America's homeland security. In addition to the problems underlined in the previous section, GAO reports that homeland security grants are already following the same troubling pattern of other federal grants.⁵⁵ First, the amount of homeland security funds transferred to lower level governments is growing at an impressive rate. Homeland security funds—which included grants from DHS, DOJ and HHS—handed down to the states for first responders alone increased from \$2.7 billion in FY2001 to \$5.5 billion in FY2005.⁵⁶ In FY2005, a total of \$8.4 billion will be paid by the Department of Homeland Security in the form of grants to state and local governments to finance homeland security activities. The president's FY2006 budget proposed to raise that amount to \$9.1 billion.⁵⁷

Second, excessive complexity and duplication in the federal homeland security grant industry is already quite evident. For instance, GAO describes the extreme complexity and fragmentation of the major federal homeland security assistance programs targeted to first responders.⁵⁸ Some grants go to state emergency management agencies, some go to state fire marshals, some go directly to local first responders and some go to the cities. Some grants are paid by DHS through the Office of Domestic Preparedness and/or through FEMA, some are paid by the Department of Justice through the Office of Justice Programs and/or through the Office of Community Policing Services and others are paid by the Department of Health and Human Services through the CDC and/or through the health Resources and Service Administration. Finally, there at least 16 overlapping grant programs for local first responders such as firefighters and local law enforcement—highlighting the problem of duplication in the federal grant program.⁵⁹

And like other grant programs, homeland security grants have spurred much wasteful lobbying activity.⁶⁰ Edwards (2004) reports “On March 4th 2004, 3,000 officials flew into Washington to lobby Congress for larger first responder grants; they were followed on March 16 by firefighters from across the country coming to lobby Congress.”⁶¹ Other officials are coming to complain about the level of grants they are getting compared to others and asking for a level playing field.

And yet, when Senator Nickles asked Homeland Secretary Ridge in February 2004 “these [first responder] funds, correct me if I am wrong, these funds really aren't supposed to be a subsidy for local police and fire, is that correct?” former Secretary Ridge replied without blinking “That's correct.”⁶²

Our homeland security is only as strong as the weakest link. Most dollars spent on anything else than the weakest link—in term of probability of something happening, the likelihood of it succeeding and the consequences of it occurring—are likely to be a waste of money. It means that giving state and local government money to increase their capacity to response to a terrorist attacks is the wrong answer. The Council on Foreign Relations measured the cost of equipping every state and U.S. territory with enough resources to conduct each critical homeland security task could be at least \$103 billion per year.⁶³ And this level of funding could not even guaranty the U.S against devastating attacks.

According to security expert Bruce Schneier “critical to any security decision is this notion of trade-offs, meaning the cost—in terms of money, convenience, comfort, freedoms and so on—that inevitably attached themselves to any security system.” He adds “better understanding of trade-offs leads to a better understanding of secu-

⁵⁴ *The Budget of the United States Government, FY2005, Analytical Perspectives*, p. 114 and p. 119.

⁵⁵ *Ibid.*, p. 9.

⁵⁶ House Select Committee On Homeland Security, “An Analysis of First Responder Grant Funding,” see Table p. 25.

⁵⁷ *The Budget of the United States Government, FY2006, Analytical Perspectives*, p. 123.

⁵⁸ GAO-03-718T, p. 13.

⁵⁹ *Ibid.*, p. 13.

⁶⁰ Chris Edwards, “Downsizing the Federal Government,” p. 32.

⁶¹ *Ibid.*, p.32.

⁶² Congressional Quarterly, “Transcript of Senate Budget Committee Hearing on FY2005 Homeland Security Department Budget,” February 25, 2004, p. 2 and p. 9.

⁶³ The Council On Foreign Relations, Independent Task Force, *Emergency responders: Drastically Underfunded, Dangerously Unprepared*, 2003, p. 13. <http://www.cfr.org/pdf/Responders-TF.pdf>

city decisions.”⁶⁴ A recurring recommendation from the GAO over the years has been the need to use risk management as an important element in developing a national strategy to fight terrorism.⁶⁵

Risk management is about playing the odds. It is figuring out which attacks are worth worrying about and spending money on and which are better left ignored. It is spending more resources on the serious attacks—defined as being very likely or if successful having devastating effects—and spending less on the trivial ones. It is taking a finite security budget and making the best use of it. In other words, homeland security should be about wise choices, not just increased spending.

Risk management is also about figuring out who is the best player suited to address a given risk. At the federal level, homeland security should be about preventing adverse consequences from the intentional and unwarranted actions of others. In that sense, federal homeland security grants are not making us more secure. The grant programs—especially the first responder grants—are predicated on the notion of cleaning up after terrorists successfully attack. This is a huge waste of our scarce federal resources. Cox (2003) notes, “The mission of the Department of Homeland Security must be first and foremost to prevent another deadly attack on the United States.”⁶⁶ And he adds “A dollar spent on preventing the next terror attack is vastly superior to spending dollars on cleaning up the mess when we fail to do job one, which is preventing terrorism.”⁶⁷

Homeland security should be based on the investigation, interdiction and elimination of terrorist threats. As Governor Mitt Romney (R-MA), co-chairman of the National Governors Association’s homeland security efforts, points out “Many states are focusing too much efforts on preparing to respond when the most important investment would be preventing terrorist attacks.”⁶⁸ It means that the billions going to states and local governments would be best spent on bolstering the ability of federal law enforcement and intelligence services to achieve these goals instead of subsidizing local fire stations throughout the country.

Alternatively, instead of wasting money on building response capacity, federal funding could be spent to create a truly national prevention system with a robust capacity for state and local intelligence, early warning, exchange and exploitation of information and domestic counterterrorism. According to James Carafano (2004), grant programs have proven far more effective when federal money has been used to fund vulnerability assessments and to encourage public-private partnerships that adopt sustainable and effective security programs.⁶⁹

It does not mean that investing money on first responders is not important. However, states and local communities should be in charge of most of their preparedness efforts. If police officers feel they need more equipment to do their job, or firefighters need training or gym memberships they are not getting right now, they should turn to their state and local officials for funding.

More importantly, leaving the responsibility for developing proper first responder policies to the states makes much sense. Federalizing first responder programs accentuates the public choice problem that already plagues the political process. When first responder programs are funded at the federal level, a Congressman from Wyoming has no incentive admitting that his state is not a likely target or that if it ever were a target, the level of damages would be limited. This same Congressman has no incentive to turn down federal money, and even less incentive to volunteer sending his state taxpayer’s dollars to benefit other states. By contrast, when first responder programs are states’ responsibility, then this same Wyoming Congressman in theory should have a stronger incentive to assess risk and potential damages to his state accurately. He should have an incentive to decide whether to spend more on homeland security or on other accounts.

It does not mean that local communities would never have any claim to federal funds in case of a terrorist attack. But these funds should be accessed only when needed in case of an emergency, in the same way that FEMA funds can be accessed

⁶⁴ Bruce Schneier, *Beyond Fear: Thinking Sensibly About Security in an Uncertain World*, (New York: Copernicus Books, 2003), p. 3

⁶⁵ General Accounting Office, “Homeland Security A risk Management Approach Can Guide Preparedness Efforts,” GAO-02-208T, October 31, 2001, p. 2. Also see “Combating Terrorism: Selected Challenges and related Recommendations,” GAO-01-822 September 20, 2001.

⁶⁶ Jeremy Torbin, “Preventing Terrorism Tops Cox’s Agenda for New House Homeland Security Committee,” Congressional Quarterly, Tuesday, February 11, 2003.

⁶⁷ *Ibid.*

⁶⁸ Mitt Romney, Testimony before the Committee on Governmental Affairs, U.S. Senate, May 5, 2003. <http://www.senate.gov/-gov-affairs/051503romney.pdf>

⁶⁹ James Carafano, “Homeland Security Dollars and Sense #2: Mismatched Maritime Priorities,” Webmemo #648, February 2005.

following a natural disaster.⁷⁰ But implementing this system should not be an excuse to federalize the cost of state and local responsibilities.

Economics and public choice theory suggest a natural organization that appears to have eluded lawmakers so far. Not every jurisdiction needs a bomb squad. What every jurisdiction needs is to know where they can get a bomb squad if they need one, and/or where to ask if they need to find a bomb squad. Today, it is incredibly easy and fast for a team of specialized responders to fly from one state to another and to help the state in distress. After September 11th, individuals, firefighters, police officers and many others all over the country mobilized to help New York and Washington. And that would happen again.

VIII. The Need for Grant Reform

The evidence suggests that homeland security grants to state and local governments are at times wasted. Accordingly, reform of this system is a worthy priority. The highest priority for federal spending is not to service every one of state and local governments' needs. The priority must be to create a true national preparedness system. To that effect, funds should be distributed strictly based on risk and vulnerability. A first step in that direction would be to eschew the requirement that every state get part of the homeland security money. Also, because the grant system has proven to be very ineffective in the past, money should not be allocated through grants.

On July 22, 2004, the National Commission on Terrorist Attacks Upon the United States (9/11 Commission) issued *The 9/11 Commission* report recommending among other things that federal homeland security assistance be distributed to state and local government based on risk and vulnerability. It added that, "Federal homeland security assistance should not remain a program for general revenue sharing. It should supplement state and local resources based on the risks or vulnerabilities that merit additional support."⁷¹

Other critics of the present funding distribution method include House Homeland Security Committee Chairman Chris Cox. To that effect, his legislation, the "Faster and Smarter Funding for First Responders Act of 2005" would authorize the Secretary of the Department of Homeland Security (DHS) to change the criteria used to distribute funding to DHS' major programs in order to base grants to state and local governments primarily based on the risk of terrorist attacks and the magnitude of potential damages—not population.⁷² Under the Cox proposal, most states would get a 0.25 percent of the available first responder dollars—instead of 0.75 percent. However, those States with substantial land or water borders with Canada and Mexico would be eligible for 0.45 percent.

Last year, the House version of intelligence reform legislation (HR10) included language, which originated in the House Selected Committee on Homeland Security, changing the funding formula to base homeland security grants on risk assessment and changing the formula so each state would receive at least 0.25 percent of the total grant pool (versus 0.75 percent with the current formula). It immediately triggered very strong oppositions in the Senate. Senator Leahy (D-VT), member of the powerful Homeland Security Appropriations Subcommittee, for instance, has argued that dropping the all-state minimum formula would "shortchange rural states."⁷³ In the end, the language did not survive the House-Senate conference.

A surprising endorsement of the intelligence bill's risk or threat-based model came from seventeen fire and police organizations. In a letter to Rep. Peter Hoekstra (R-Mich), chairman of the congressional conference committee, they wrote "We believe that the funds should be distributed based on a risk or threat-based model."⁷⁴ They even went further than the House version of the intelligence bill (HR10). They wrote, "To the extent that state minimums are included, we urge that the minimums be kept low, in order to provide maximum funding to areas of greatest

⁷⁰This of course does not mean that we think FEMA is doing an effective job. The media constantly reports about the mismanagement of FEMA and its failure to deliver disaster relief. See for instance Washington Post, "Housing Problems Beset FEMA in Florida," Monday August 23 2004, p A 2.71

⁷¹The National Commission on Terrorist Attacks Upon the United States, *The 9/11 Commission Report*, (Washington: GPO, July 22 2004), p. 396.72

⁷²Information on "The Faster and Smarter Funding for First Responders," HR. 3266, can be found at <http://homelandsecurity.house.gov/release.cfm?id=216>

⁷³Amanda Ripley, "How We Got Homeland Security Wrong," March, 2004, p. 5.

⁷⁴Alice Lipowicz, "First Responder Groups Endorse Risk-Based Grants Formula," Congressional Quarterly, October 22nd, 2004.

need.”⁷⁵ Yet, again the victory of logic over state dependency did not see the light of day due to the extreme resistance to the idea.

This year, the President’s FY2006 budget also tries to move toward a risk based allocation of homeland security funds. To that effect, the administration’s budget rightfully restrains the amount of grants going to state and local governments. It also makes an effort to restructure DHS grants to focus on strategic needs rather than giving fixed allocations to individual states. Moreover, the President decided to adopt the basic principles of the “Faster and Smarter Funding for First responders Act,” as passed by the House in H.R. 10 during the 108th Congress and change the formula so that states would get a 0.25 percent of the available funds.⁷⁶

Secretary Chertoff explains “We have to put the resources where the highest threats are.” He has ordered an internal review of his agency’s organization, operations and policies. In a statement before the House Appropriations Committee’s Homeland Security Subcommittee, Chertoff said, “I want to emphasize that our analysis of threats and risks posed to the United States by terrorists will drive the structure, operations, policies and missions of the department, and not the other way around.”⁷⁷

Delivering a speech at the George Washington University Homeland Security Policy Institute, the Secretary explained, “We need to adopt a risk-based approach in both our operations and our philosophy. Risk management is fundamental to managing the threat, while retaining our quality of life and living in freedom.” More importantly, he added, “Here I inject a note of caution because the media and the public often focus principally on threats. Threats are important, but they should not be automatic instigators of action. A terrorist attack on the two-lane bridge down the street from my house is bad but has a relatively low consequence compared to an attack on the Golden Gate Bridge. At the other end of the spectrum, even a remote threat to detonate a nuclear bomb is a high-level priority because of the catastrophic effect.”

If the President’s proposal or the “Faster and Smarter Funding for First responders Act 2005” were adopted, it would be an important step in the right direction and a serious improvement of how we are spending homeland security funds to protect our nation. However, it probably won’t go through without other serious resistances in the Senate.

The Senate already offered signs that lawmakers may buck the Bush administration on spending priorities. An amendment to the 2006 budget resolution (S Con Res 18) offered by Senator Susan Collins (R-Maine) and Joe Lieberman (D-Conn.) restoring \$855 million in first responder funding that was eliminated by the administration was approved earlier in March. In a prepared statement, Joe Lieberman explained “Homeland security cannot be had on the cheap and our first responders must have the training and equipment they need to keep our community as safe as possible.”⁷⁸

In a few days, Senator Collins will reintroduce her S. 2845 bill, the Senate version of the intelligence reform legislation. Unfortunately, S. 2845 retains some of the flawed structure for allocating homeland security assistance grants. Under S. 2845, DHS would first allocate the higher base amount to each State, and then an additional amount on the basis of risk. The failure of S. 2845 to reform this structure means that DHS will be instructed to allocate far too much funding without regard to any risk. Also, S. 2845 does not require DHS to evaluate and prioritize applications based upon risk or need.

At the end of the day, the differences between the House and the Senate can be explained by the fact that Senators from rural States have grown accustomed to grabbing disproportionate slices of the federal money pie. More generally, block grants are to the states and localities what entitlements are to citizens: money that flows to them automatically from the federal government. The lure of easy money for their recipients has made them popular with Congress.

X. Conclusion

In the largest open society in the world, improving homeland security is a challenging task. Among other vulnerable targets, the United States has thousands of miles of borders, thousands of bridges, sports stadiums and shopping malls, hundreds of skyscrapers and power plants. Certainly, the attacks on Washington DC

⁷⁵ Alice Lipowicz, “First Responder Groups Endorse Risk-Based Grants Formula,” Congressional Quarterly, October 22nd, 2004.

⁷⁶ *Budget of the United States FY2006*, Appendix, p. 478.

⁷⁷ Jim Morris, “Chertoff Orders Thorough Review of the DHS structure and Operations,” Congressional Quarterly, March 2nd, 2005.

⁷⁸ Sean Madigan, “Senate Restores \$855 Million in First Responder Funding,” Congressional Quarterly, March 17, 2005.

and New York have put immense pressure on the Administration and Congress to show that security against future attacks is being enhanced.

A common path to bad security is knee jerk reaction to the news of the day. Sadly, too much of the U.S. government's response post 9/11 seems to be exactly that. Some are telling us that we are in graver danger than ever everywhere in the country and that in order to be secure, homeland security spending needed to increase drastically. Yet, because most of the money is allocated on a political basis rather than a sound cost benefit analysis, much of the new spending will not result in sound security. In other words, the security we are getting against terrorism is likely to be ineffective, yet comes at an enormous expense.

By definition, the purpose of homeland security is to make America safer. As such, wasteful spending and grants to state and local governments do not achieve that goal. In the same way, the federalization of law enforcement and fire departments appear to be ineffective ways to address our homeland security problem. In some cases, they might increase our feeling of security but in reality they might even make us less safe.

Economics suggests the following: spending decisions should be based on a true cost benefit analyses. It means that homeland security money should be spent strictly based on risk and potential damage. To that extend, minimum guaranteed of funding for state and local government is inappropriate. Identically, tools that have been proven to be ineffective in the past should not be used for homeland security. It means that we should move away from the grant system altogether. To the extent that this pure reform could not be achieved, it is clear that moving to a system that mainly allocates money based on risk is an option far superior to the status quo.

Economics also underlines the need to more formally deliberate what level of government is the best suited to make homeland security investments taking under considerations the public choice ramifications of the alternatives. And finally, it requires paying particular attention to pork barrel spending and sanctioning it.

The challenge of determining what the best security investments are will remain and should be left to security experts rather than politicians. Governments, by nature, are very inefficient institutions. We must accept this as fact. So instead of thinking that the solution to 9/11 is more and more of the same approaches that failed us, policymakers should start doing the analysis needed and making the tradeoffs as to where we should focus our limited security resources.

Mr. KING. Thank you, Dr. de Ruyg.
Dr. Jenkins?

**STATEMENT OF DR. WILLIAM O. JENKINS, JR., DIRECTOR,
HOMELAND SECURITY AND JUSTICE ISSUES, GOVERNMENT
ACCOUNTABILITY OFFICE**

Mr. JENKINS. Mr. Chairman and members of the subcommittee, I appreciate the opportunity to be here today to discuss our work on federal first responder grants. These grants are one means of achieving a very important goal: enhancing the ability of first responders to prevent where possible, prepare for, respond to, and recover from terrorist and other incidents with well-planned, well-coordinated and effective efforts that involve a variety of first responders from multiple jurisdictions.

In the 3 1/2 years since the tragic events of September 11, the federal government has significantly increased the resources and attention it has devoted to national preparedness and the capabilities of first responders. ODP has led federal efforts to enhance first responder capabilities in part through its management of federal first responder grants. In fiscal years 2002 through 2005, ODP grant funding, primarily for first responders, rose from about \$435 million to almost \$3.3 billion. About 70 percent of these funds were for two programs: the state homeland security grants and the urban areas security initiative grants.

These increases have been accompanied by debate on the most appropriate means of allocating the funds, developing priorities for

their use, and assessing their use. As ODP grant guidance and reporting requirements have evolved, it has been faced with the need to balance flexibility and speed with the need for consistency and appropriate planning. ODP has provided states with flexibility in determining how to manage and allocate their grant funds, and states have varied in the methods used to allocate and manage their first responder grants. ODP expects to issue a compendium of grant management best practices across states and localities in May of this year.

To encourage greater consistency in the way in which states and localities approach assessing new needs in developing their plans, ODP has also developed an initial set of 15 scenarios, 12 of which are terrorist events. These scenarios form the basis for identifying needed key first responder capabilities that can be used to assess existing gaps in capabilities, developing plans for closing those gaps, and assess progress in achieving and maintaining those designated capabilities.

As we noted in our May 2004 report on the management of funds in the national capital region, effectively managing first responder grant funds requires the ability to measure progress and provide accountability for the use of the funds. To do this, it is necessary to, one, develop and implement strategies for the use of the funds that identify key goals and priorities; two, establish performance baselines; three, develop and implement performance goals and data quality standards; four, collect reliable data; five, annualize that data; six, assess the results of that analysis; and seven, take action based on those results.

This strategic approach to homeland security includes identifying threats and managing risks, aligning resources to address them, and assessing progress in preparing for those threats and risks. At the same time, it is important to recognize that the equipment, skills and training required to prepare for identified terrorist threats and risks might be applicable to non-terrorist risk as well. For example, the equipment, skills and training required to respond effectively to a discharge of lethal chlorine gas from a rail car is much the same where the cause of the discharge is a derailment or a terrorist act.

DHS's task of defining a national preparedness goal and translating that definition into capabilities that are meaningful and readily transferable to a wide variety of local jurisdictions around the nation is not yet complete. DHS must continue to listen and respond constructively to the concerns of states, local jurisdictions, tribal governments and other interested parties as it strives to complete this task, one that is necessarily iterative.

At the same time, state and local and tribal governments and the private sector must recognize that the process is iterative. It will include periodic adjustments and refinements and that risks are not equally distributed across the nation.

In closing, no one level of government can successfully address the challenges of developing needed first responder capabilities alone. A fundamental challenge has been and remains the need for regional and statewide planning. The federal government can play a leadership role in developing requirements and providing support

for state, regional and local governments to assess, develop and maintain needed first responder capabilities.

That concludes my statement, Mr. Chairman. I would be pleased to answer any questions you or other members of the committee may have.

[The statement of Mr. Jenkins follows:]

PREPARED STATEMENT OF WILLIAM O. JENKINS, JR.

HOMELAND SECURITY

Management of First Responder Grant Programs and Efforts to Improve Accountability Continue to Evolve

Mr. Chairman and Members of the Subcommittee: I am pleased to be here today to discuss federal funding for first responders. The events of September 11, 2001, highlighted the critical role of the nation's first responders in preventing, preparing for, responding to, and recovering from the effects of a terrorist attack. In fiscal years 2002 through 2005, the Office for Domestic Preparedness (ODP) within the Department of Homeland Security (DHS)¹ managed first responder grants totaling approximately \$10.5 billion. The bulk of this funding has been for the State Homeland Security Grant Program² (statewide) and the Urban Areas Security Initiative (urban area) grants. Although the grant programs have evolved over time, this money has generally been available for planning, equipment, exercises, training, and administrative costs. The grants have also generally been targeted at preventing, preparing for, responding to, and recovering from terrorist events.

The amount of federal funding for ODP grant programs has increased significantly since September 11. Accompanying this increase has been a discussion at the federal, state, and local levels of the most appropriate means of allocating these funds, developing plans that set priorities for their use, and assessing the effective use of the funds. Several factors could affect how these things are done in the future. For example, recent congressional proposals have addressed the most appropriate means to allocate grant funds to states. In addition, the issuance of Homeland Security Presidential Directive 8 (HSPD-8) in December 2003—calling for, among other things, a new national preparedness goal and performance measure that pertained to “all hazards”—placed first responder grant programs, including those managed by ODP, into a broader context that is to consider the nation's readiness to respond to all major events, including natural disasters as well as acts of terrorism.

We are currently conducting a review of DHS's implementation of HSPD-8 and expect to issue our report in the summer of 2005, looking at how DHS is working with state and local governments and first responders to implement it.

My statement today provides information on the history and evolution of the two largest grant programs, particularly with respect to ODP grant award procedures; timelines for awarding and transferring grant funds; and accountability for effective use of grant funds. My comments are based on our report³ on the management of first responder grant programs as well as updated information on DHS's progress since the report's issuance in addressing its challenges.

¹Grants funds for domestic preparedness programs for state and local governments are also provided by other DHS components and other agencies, including the Departments of Justice and Health and Human Services.

²In fiscal year 2002, the grant program was called the State Domestic Preparedness Program.

³See GAO, *Homeland Security: Management of First Responder Grant Programs Has Improved, but Challenges Remain*, GAO-05-121, (Washington, D.C.: Feb. 2, 2005). As part of the review, we visited five selected states: Arizona, California, Florida, Missouri, and Pennsylvania. We conducted our work from November 2003 through November 2004 in accordance with generally accepted government auditing standards. See also GAO, *Homeland Security: Management of First Responder Grants in the National Capital Region Reflects the Need for Coordinated Planning and Performance Goals*, GAO-04-443, (Washington, D.C.: May 28, 2004).

Summary

Federal first responder grants are a means of achieving an important goal—enhancing the ability—through equipment, skills, and training—of first responders to prevent, prepare for, respond to, and recover from terrorist and other incidents with well-planned, well-coordinated efforts that involve police, fire, emergency medical, public health, and other personnel from multiple jurisdictions. As we noted in our May 2004 report on the management of first responder funds in the National Capital Region, effectively managing first responder grant funds requires the ability to measure progress and provide accountability for the use of public funds. This includes developing and implementing strategies, establishing baselines, developing and implementing performance goals and data quality standards, collecting reliable data, analyzing the data, assessing the results, and taking action based on the results. This strategic approach to homeland security includes identifying threats and managing risks, aligning resources to address them, and assessing progress in preparing for those threats and risks.

ODP has modified grant award procedures for states and localities. ODP developed procedures and guidelines for awarding statewide and urban area grants to states, and for determining how states and localities could expend funds and seek reimbursement for first responder equipment or services they purchased. As part of this process, ODP gave states some flexibility by allowing them to determine how grant funds were to be managed and distributed within their states and whether purchases would be made locally or at the state level.

Congress, ODP, states, and localities have acted to expedite grant awards by setting time limits for the grant application, award, and distribution processes and by instituting other procedures. ODP also took steps to expedite the transfer of funds from states to local jurisdictions, allowing states, for example, to transfer grant funds to localities before all required documentation had been submitted to ODP. Nevertheless, the ability of states and localities to spend grant funds expeditiously was complicated by the need to fulfill state and local legal and procurement requirements, which in some cases added months to the purchasing process. Some states have modified their procurement practices, and ODP is identifying best practices to aid in the effort, but challenges remain.

ODP has taken steps to improve accountability in the state preparedness planning process. For example, in fiscal year 2003, ODP required states to update homeland security strategies. These strategies are intended to guide state and local jurisdictions in targeting grant funds. In tandem with this effort, ODP revised its grant-reporting method, moving away from requiring states, localities, and urban areas to submit itemized lists of first responder equipment they plan to purchase toward a more results-based approach, whereby grant managers at all levels must demonstrate how grant expenditures are linked to larger projects that support goals in the states' homeland security strategies. In addition, as part of a broader effort to meet mandates contained in HSPD-8, ODP has begun drafting national preparedness standards that are intended to ensure more assessments of first responder needs on a national basis. DHS recently issued a document entitled "Interim National Preparedness Goal", which reflects the department's progress in developing readiness targets, priorities, standards for preparedness assessments and strategies, and a system for assessing the nation's overall level of preparedness.

In our prior work, we have recommended that expenditures in the National Capital Region and state and local expenditures for interoperable communications be guided by a strategic plan that identifies priorities, and that fund expenditures be monitored to ensure that they are targeted in compliance with the goals and priorities identified in the plan. The National Capital Region's Senior Policy Group and DHS generally agreed with these respective recommendations. The Senior Policy Group, in conjunction with representatives from the jurisdictions in the National Capital Region, has been working to develop a regionwide plan for the use of first responder funds. On November 1, 2004, DHS's SAFECOM program issued its methodology to assist states in developing statewide interoperable communications plans that could be used to guide future expenditures.

The task of enhancing first responder capabilities across the nation is a complex and daunting one. ODP must continue to work with state, local, and tribal governments, and the private sector to finish the tasks it has begun. At the same time, state, local, and tribal governments, and the private sector must recognize that the process is iterative, will include periodic adjustments and refinements, and that risks are not equally distributed across the nation.

Background

The Department of Justice established the ODP in 1998 within the Office of Justice Programs to assist state and local first responders in acquiring specialized

training and equipment needed to respond to and manage terrorist incidents involving weapons of mass destruction. ODP, which was transferred to DHS upon its creation in March 2003, has been a principal source of domestic preparedness grant funds. These grants are a means of achieving an important goal—enhancing the ability of first responders to prevent, prepare for, respond to, and recover from terrorist incidents with well-planned and well-coordinated efforts that involve police, fire, emergency medical, public health, and other personnel from multiple jurisdictions. In March 2004, the Secretary of Homeland Security consolidated ODP with the Office of State and Local Government Coordination to form the Office of State and Local Government Coordination and Preparedness (SLGCP). In addition, other preparedness grant programs from agencies within DHS were also transferred to SLGCP. SLGCP, which reports directly to the Secretary, was created to provide a one-stop shop for the numerous federal preparedness initiatives applicable to state and local first responders. Within SLGCP, ODP continues to have program management and monitoring responsibilities for the domestic preparedness grants.

Status of Grant Funding and Allocation

From fiscal year 2002 through fiscal year 2005, the amount of domestic preparedness grants awarded by ODP increased from about \$436 million to about \$10.5 billion. The scope of ODP's grant programs expanded as well, from funding only first responder advanced equipment, exercises, and administrative activities in fiscal year 2002 to funding a range of preparedness planning activities, exercises, training, equipment purchases, and related program management and administrative costs in fiscal year 2005. During fiscal years 2002 through 2005, the State Homeland Security Grant Program and Urban Areas Security Initiative program accounted for about 69 percent of total ODP grant funds. Table 1 shows the amounts provided for the domestic preparedness grant programs.

Table 1: ODP Grant Program Funding for Fiscal Years 2002 through 2005
Dollars in thousands

Grant program	2002	2003	2004	2005	Total	Percent of total funding
State Homeland Security Grant Program	\$315,700	\$2,066,295	\$1,675,058	\$1,062,285	\$5,119,338	48.9
Urban Areas Security Initiative	(a)	596,351	671,017	854,657	2,122,025	20.3
Subtotal	315,700	2,662,646	2,346,075	1,916,942	7,241,363	69.2
Other Grants	^b 119,979	^c 388,081	^d 1,349,491	^e 1,361,637	3,219,188	30.8
Total	435,679	3,050,727	3,695,566	3,278,579	10,460,551	100.0

Source: ODP.

a Not funded in this year.

b Includes the following five grant programs: Law Enforcement Enhancement Program, New York Equipment Replacement Program, National Domestic Preparedness Consortium, Homeland Defense Equipment Reuse Program Pilot Project Support Grant, and Domestic Preparedness Training and Technical Assistance Program—St. Petersburg College.

c Includes the following 15 grant programs: Urban Areas Security Initiative Port Security Grant Program, Urban Areas Security Initiative Transit Security Grant Program, Urban Areas Security Initiative Pilot Projects, Urban Areas Security Initiative Radiological Defense System, Counterterrorism Institute Grant Program, TOPOFF II, Washington Metropolitan Area Transit Authority, Airborne Imaging in Support of Emergency Operations, Testing and Evaluation of Emergency Response Equipment, Terrorism Early Alert and Strategic Planning System, Homeland Defense Equipment Reuse Program, Northern Virginia Emergency Response Coalition Grant Program, Domestic Preparedness Equipment Training and Technical Assistance Program, National Domestic Preparedness Consortium and Multistate Anti-Terrorism Information Exchange Project.

d Includes the following seven grant programs: Assistance to Firefighters Grant, Citizen Corps Program, Competitive Training Grants Program, Information Technology and Evaluation Program, Law Enforcement Terrorism Prevention Program, Operation Safe Commerce—Phase III, and Urban Areas Security Initiative Transit Security Program.

e Includes the following eight grant programs: Assistance to Firefighters Grant, Buffer Zone Protection Program, Citizen Corps Program, Competitive Training Grants Program, Emergency Management Performance Grants, Law Enforcement Terrorism Prevention Program, Metropolitan Medical Response System, and Operation Safe Commerce—Phase III.

For fiscal years 2002 through 2005, ODP awarded approximately \$2.1 billion in urban area grant funds to selected urban areas identified by DHS. The amount of individual urban area grants is determined through a combination of factors, including current threat estimates, an assessment of each area's critical assets, and population density. For the same period, ODP awarded approximately \$5.1 billion in statewide grant funds to states to enhance domestic preparedness. Under its current funding formula,⁴ approximately 40 percent of statewide grant funds are shared equally among states, while the remaining amount is distributed according to state population.⁵

Several congressional proposals have been advanced to alter the statewide funding formula to base it more directly on risk considerations. One proposal would largely maintain the portion of funds shared equally by the states but would base the distribution of the remaining funds on a risk-based formula similar to the one currently used for urban area grants. Another proposal from the House Homeland Security Committee would reduce the minimum amount of funding shared equally by states to approximately 14 percent of total funding and establish a board to allocate the remaining funds through an evaluation of threat, vulnerability, and the potential consequences of a terrorist attack.

GAO supports a risk-based approach to homeland security. Adoption of a risk management framework can aid in assessing risk by determining which vulnerabilities should be addressed in what ways within available resources. Assessing risk for specific assets or locations is defined by two conditions: (1) probability or likelihood, quantitative or qualitative, that an adverse event would occur, and (2) consequences, the damage resulting from the event, should it occur. Because it is unlikely that sufficient resources will be available to address all risks, it becomes necessary to prioritize both risks and the actions taken to reduce those risks, taking cost into consideration. For example, which actions will have the greatest net potential benefit in reducing one or more risks?

ODP Grant Award Procedures

Over time, ODP has modified its grant application processes and procedures for awarding grants to states, governing how states distribute funds to local jurisdictions, and facilitating reimbursements for states and localities. To obtain funding, state and urban area grantees must submit applications to ODP and have them approved. In fiscal year 2004, ODP began to streamline the application process. According to ODP, based on feedback from the grantees, and to continue to improve the grant programs, it combined three grant programs into a single grant application solicitation. In fiscal year 2005, the number of combined programs increased

⁴The current formula provides each state, the District of Columbia, and the Commonwealth of Puerto Rico 0.75 percent and each territory 0.25 percent of the total grant funds. The remaining grant funds are allocated to states and territories on a population-share basis.

⁵The funding formula was also used in fiscal years 2004 and 2005 for two other grant programs managed by ODP: the Law Enforcement Terrorism Prevention Program and Citizen Corps Program.

to six. ODP stated that the consolidation was done to streamline the grant application process and better coordinate federal, state, and local grant funding distribution and operations.

For the statewide grant programs, ODP has allowed the states flexibility in deciding how the grant programs are structured and implemented in their states. In general, states are allowed to determine such things as the following:

- the formula for distributing grant funds to local jurisdictional units; .
- the definition of what constitutes a local jurisdiction eligible to receive funds, such as a multicounty area; .
- the organization or agency that would be designated to manage the grant program; and .
- whether the state or local jurisdictions would purchase grant-funded items for the local jurisdictions.

Urban area grantees, for the most part, have had flexibilities similar to those of the states and could, in coordination with members of the Urban Area Working Group, designate contiguous jurisdictions to receive grant funds. For the first round of the urban area grants in fiscal year 2003, the grants were made directly to the seven urban areas identified as recipients.⁶ Starting with the second round of urban area grants in 2003, grants were made to states, which then subgranted the funds to the designated urban areas, but retained responsibility for administering the grant program. The core city and county/counties work with the state administrative agency to define the geographic borders of the urban area and coordinate with the Urban Area Working Group.

Once the grant funds are awarded to the states and then subgranted to the local jurisdictions or urban areas, certain legal and procurement requirements have to be met, such as a city council's approval to accept grant awards. Once these requirements are satisfied, states, local jurisdictions, and urban areas can then obligate their funds for first responder equipment, exercises, training, and services. Generally, when a local jurisdiction or urban area directly incurs an expenditure, it submits related procurement documents, such as invoices, to the state. The state then draws down the funds from the Justice Department's Office of Justice Programs.⁷ According to this office, funds from the U.S. Treasury are usually deposited with the states' financial institution within 48 hours. The states, in turn, provide the funds to the local jurisdiction or urban area.

Timelines Established for Awarding and Transferring Grant Funds

Since the first announcement of the dramatic increase in first responder grants after the terrorist attacks of September 11, 2001, the speed with which the funding reached localities has been a matter of concern and some criticism. Congress, state and local officials, and others expressed concerns about the time ODP was taking to award grant funds to states and for states to transfer grant funds to local jurisdictions. Beginning in fiscal year 2003, ODP, at congressional direction, demonstrated significant progress in expediting grant awards to states. For the fiscal year 2002 statewide grants, ODP was not required to award funds to states within a specific time frame. During fiscal year 2002, ODP took 123 days to make the statewide grant application available to states and, on average, about 21 days to approve states' applications after receipt. For the second round of fiscal year 2003 statewide grants, however, the appropriations act required that ODP make the grant application available to states within 15 days of enactment of the appropriation and approve or disapprove states' applications within 15 days of receipt. According to ODP data, ODP made the grant application for this round of grants available to states within the required deadline and awarded over 90 percent of the grants within 14 days of receiving the applications. The appropriations act also mandated that states submit grant applications within 30 days of the grant announcement. According to ODP data, all states met the statutory 30-day mandate; in fact, the average number of days from grant announcement to application submission declined from about 81 days in fiscal year 2002 to about 23 days for the second round of fiscal year 2003 statewide grants.

The transfer of funds from states to local jurisdictions has also received attention from Congress and ODP. To expedite the transfer of grant funds from the states to local jurisdictions, ODP program guidelines and subsequent appropriations acts

⁶The seven urban area recipients were Los Angeles and San Francisco, California; Chicago, Illinois; New York City, New York; Houston, Texas; Seattle, Washington; and the National Capital Region. Since then, urban area recipients have grown to include 50 recipients in 27 states and the National Capital Region in fiscal year 2005.

⁷The Comptroller's Office within the Office of Justice Programs continues to act as financial manager for DHS first responder grant programs. DHS plans to establish its own Office of Grant Operations within ODP during fiscal year 2005.

imposed additional deadlines on states. For the fiscal year 2002 statewide grants, there were no mandatory deadlines or dates by which states should transfer grant funds to localities. One of the states we visited, for example, took 91 days to transfer these grant funds to a local jurisdiction while another state we visited took 305 days. Beginning with the first round of fiscal year 2003 statewide grants, ODP required in its program guidelines that states transfer grant funds to local jurisdictions within 45 days of the grant award date. Congress subsequently included this requirement in the appropriations act for the second round of fiscal year 2003 statewide grant funds. To ensure compliance, ODP required states to submit a certification form indicating that all awarded grant funds had been transferred within the required 45-day period. States that were unable to meet the 45-day period had to explain the reasons for not transferring the funds and indicate when the funds would be transferred. According to ODP, for the first and second rounds of the fiscal year 2003 grants, respectively, 33 and 31 states certified that the required 45-day period had been met.⁸

To further assist states in expediting the transfer of grant funds to local jurisdictions, ODP also modified its requirements for documentation to be submitted as part of the grant application process for fiscal years 2002 and 2003. In fiscal year 2002, ODP required states to submit and have approved by ODP budget detail worksheets and program narratives indicating how the grant funds would be used for equipment, exercises, and administration. If a state failed to submit the required documentation, ODP would award the grant funds, with the special condition that the state could not transfer, expend, or draw down any grant funds until the required documentation was submitted and approved. In fiscal year 2002, ODP imposed special conditions on 37 states for failure to submit the required documentation and removed the condition only after the states submitted the documentation. The time required to remove the special conditions ranged from about 1 month to 21 months. For example, in one state we reviewed, ODP awarded the fiscal year 2002 statewide grant funds and notified the state of the special conditions on September 13, 2002; the special conditions were removed about 6 months later on March 18, 2003, after the state had met those conditions.

In fiscal year 2003, however, ODP allowed states to move forward more quickly, by permitting them to transfer grant funds to local jurisdictions before all required grant documents had been submitted. If a state failed to submit the required documentation for the first round of fiscal year 2003 statewide grants, ODP awarded the grant funds and allowed the state to transfer the funds to local jurisdictions. While the state and local jurisdictions could not expend—and the state could not draw down—the grant funds until the required documentation was submitted and approved, they could plan their expenditures and begin state and locally required procedures, such as obtaining approval of the state legislature or city council to use the funds. Later that fiscal year, ODP further relaxed this requirement and allowed the states to transfer, expend, and draw down grant funds immediately after ODP awarded the grant funds. The states only had to submit all documentation along with their biannual progress reports.

Despite congressional and ODP efforts to expedite the award of grant funds to states and the transfer of those funds to localities, some states and local jurisdictions could not expend the grant funds to purchase equipment or services until other, nonfederal requirements were met. Some state and local officials' ability to spend grant funds was complicated by the need to meet various state and local legal and procurement requirements and approval processes, which could add months to the process of purchasing equipment after grant funds had been awarded. For example, in one state we visited, the legislature must approve how the grant funds will be expended. If the state legislature is not in session when the grant funds are awarded, it could take as long as 4 months to obtain state approval to spend the funds.

Some states, in conjunction with DHS, have modified their procurement practices to expedite the procurement of equipment and services. Officials in two of the five states we visited told us they established centralized purchasing systems that allow equipment and services to be purchased by the state on behalf of local jurisdictions, freeing them from some local legal and procurement requirements. In addition, the DHS's Homeland Security Advisory Council Task Force reported that several states

⁸For the second round of fiscal year 2003 statewide grants, states had to certify that they had met the statutory requirement to transfer 80 percent of the awarded funds for first responder preparedness and 50 percent of the awarded funds for critical infrastructure protection to local jurisdictions within the required 45-day period. According to ODP, letters were distributed to states that had not submitted the certification form or were not certified, followed by a series of phone calls to collect the pertinent information.

developed statewide procurement contracts that allow local jurisdictions to buy equipment and services using a prenegotiated state contract. DHS has also offered options for equipment procurement, through agreements with the U.S. Department of Defense's Defense Logistics Agency and the Marine Corps Systems Command, to allow state and local jurisdictions to purchase equipment directly from their prime vendors. These agreements provide an alternative to state and local procurement processes and, according to DHS, often result in a more rapid product delivery at a lower cost.

Congress has also taken steps to address a problem that some states and localities cited concerning a federal law, the Cash Management Improvement Act (CMIA), that provides for reimbursement to states and localities only after they have incurred an obligation, such as a purchase order, to pay for goods and services. Until fiscal year 2005, after submitting the appropriate documentation, states and localities could receive federal funds to pay for these goods and services several days before the payment was due so that they did not have to use their own funds for payment. However, according to DHS's Homeland Security Advisory Council Task Force report, many municipalities and counties had difficulty participating in this process either because they did not receive their federal funds before payment had to be made or their local governments required funds to be on hand before commencing the procurement process.⁹ Officials in one city we visited said that, to solve the latter problem, the city had to set up a new emergency operations account with its own funds. The task force recommended that for fiscal year 2005, ODP homeland security grants be exempt from a provision of CMIA to allow funds to be provided to states and municipalities up to 120 days in advance of expenditures. In response, the fiscal year 2005 DHS appropriations legislation¹⁰ included a provision that exempts formula-based grants (e.g., the State Homeland Security Grant Program grants) and discretionary grants, including the Urban Areas Security Initiative and other ODP grants, from the CMIA's requirement that an agency schedule the transfer of funds to a state so as to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the state's disbursement of the funds for program purposes. ODP's fiscal year 2005 program guidelines informed grantees and sub-grantees that they are allowed to draw down funds up to 120 days prior to expenditure.

In addition, DHS efforts are under way to identify and disseminate best practices, including how states and localities manage legal and procurement issues that affect grant distribution. DHS's Homeland Security Advisory Council Task Force reported that some jurisdictions have been "very innovative" in developing mechanisms to support the procurement and delivery of emergency-responder-related equipment. The task force recommended that, among other things, DHS should, in coordination with state, county, and other governments, identify, compile, and disseminate best practices to help states address grant management issues. ODP has responded by establishing a new Homeland Security Preparedness Technical Assistance Program service to enhance the grant management capabilities of state administrative agencies and by surveying states to identify their technical needs and best practices they have developed related to managing and accounting for ODP grants, including the procurement of equipment and services at the state and local levels. This information is to serve as a foundation for the development of a tailored, on-site assistance program for states to ensure that identified best practices are implemented and critical grant management needs and problems are addressed. According to ODP, the technical assistance service was made operational in December 2004, however, the final compendium of best grants management practices will not be formally released until May 2005.

Despite efforts to streamline local procurement practices, some challenges remain at the state and local levels. An ODP requirement that is based on language in the appropriations act could delay procurements, particularly in states that have a centralized purchasing system. Specifically, beginning with the fiscal year 2004 grant cycle, states were required by law to pass through no less than 80 percent of total grant funding to local jurisdictions within 60 days of the award. In order for states to retain grant funds beyond the 60-day limit, ODP requires states and local jurisdictions to sign a memorandum of understanding (MOU) indicating that states may retain—at the local jurisdiction's request—some or all funds in order to make purchases on a local jurisdiction's behalf. The MOU must specify the amount of funds to be retained by the state. This requirement may pose problems for some states. A state official in one state we visited said that, while the state's centralized pur-

⁹U.S. Department of Homeland Security, *The Homeland Security Advisory Council, A Report from the Task Force on State and Local Homeland Security Funding* (June 2004).

¹⁰Pub. L. No. 108-334, § 521, 118 Stat. 1298, 1319 (2004).

chasing system had worked well in prior years, the state has discontinued using it because of the MOU requirement, since establishing MOUs with every locality might take years. The state transferred the fiscal year 2004 grant funds to local jurisdictions so they can make their own purchases. In another state, officials expressed concern that this requirement would negatively affect their ability to maintain homeland security training provided to local jurisdictions at state colleges that had been previously funded from local jurisdictions' grant funds. In the fiscal year 2005 grant program guidelines, states were encouraged, but not required, to submit their MOUs to ODP for review by DHS's Office of General Counsel to ensure compliance.

Accountability for Effective Use of Grant Funds

In distributing federal funds to states to assist first responders in preventing, preparing for, and responding to terrorist threats, the federal government has required states to develop strategies to address their homeland security needs as a condition for receiving funding. The details of this federal requirement have also evolved over time.

Before the events of September 11, 2001, ODP required states to develop homeland security strategies that would provide a roadmap of where each state should target grant funds. To assist the states in developing these strategies, state agencies and local jurisdictions were directed to conduct needs assessments on the basis of their own threat and vulnerability assessments. The needs assessments were to include related equipment, training, exercise, technical assistance, and research and development needs. In addition, state and local officials were to identify current and required capabilities of first responders to help determine gaps in capabilities.

In fiscal year 2003, ODP directed the states to update their homeland security strategies to better reflect post-September 11 realities and to identify progress on the priorities originally outlined in the initial strategies.¹¹ As required by statute, completion and approval of these updated strategies were a condition for awarding fiscal year 2004 grant funds.

ODP has also revised its approach on how states and localities report on grant spending and use. ODP took steps to shift the emphasis away from reporting on specific items purchased and toward results-based reporting on the impact of states' expenditures on preparedness. ODP maintains an authorized equipment list that includes such diverse items as personal protection suits for dealing with hazardous materials and contamination, bomb response vehicles, and medical supplies. This information is in turn listed on the budget worksheets that localities submitted to states for their review. Until the fiscal year 2004 grant cycle, states were required to submit itemized budget detail worksheets that itemized each item to be purchased under first responder grants. ODP found, however, that, while the worksheets reflected the number and cost of specific items that states and localities planned to purchase, neither states nor ODP had a reporting mechanism to specifically assess how well these purchases would, in the aggregate, meet preparedness planning needs or priorities, or the goals and objectives contained in state or urban area homeland security strategies. Accordingly, ODP revised its approach for fiscal year 2004 and required that states, instead of submitting budget detail worksheets to ODP, submit new "Initial Strategy Implementation Plans" (ISIP). These ISIPs are intended to show how planned grant expenditures for all funds received are linked to one or more larger projects, which in turn support specific goals and objectives in either a state or urban area homeland security strategy. In addition to the ISIPs, ODP now requires the states to submit biannual strategy implementation reports showing how the actual expenditure of grant funds at both the state and local levels was linked by projects to the goals and objectives in the state and urban area strategy.

Reports by GAO and DHS's Office of Inspector General, as well as by the House Homeland Security Committee, have identified the need for clear national guidance in defining the appropriate level of preparedness and setting priorities to achieve it. The lack of such guidance has in the past been identified as hindering state and local efforts to prioritize their needs and plan how best to allocate their homeland security funding. We have reported that national preparedness standards that can be used to assess existing first responder capacities, identify gaps in those capacities, and measure progress in achieving specific performance goals are essential to effectively managing federal first responder grant funds as well as to the ability to measure progress and provide accountability for the use of public funds.

¹¹In fiscal year 2003, the urban area grantees were required to prepare and obtain approval of their urban area strategies.

ODP has responded to the calls for national preparedness standards and specifically to HSPD-8 that required DHS to develop a new national preparedness goal and performance measures, standards for preparedness assessments and strategies, and a system for assessing the nation's overall preparedness. In order to develop performance standards that will allow ODP to measure the nation's success in achieving this goal, ODP is using a capabilities-based planning approach—one that defines the capabilities required by states and local jurisdictions to respond effectively to likely threats. These capability requirements are to establish the minimum levels of capability required to provide a reasonable assurance of success against a standardized set of 15 scenarios for threats and hazards of national significance. The scenarios include such potential emergencies as a biological, nuclear or cyber attack, two natural disasters, and a flu pandemic. The objective is to develop the minimum number of credible, high-consequence scenarios needed to identify a broad range of prevention and response requirements.

As part of the HSPD-8 implementation process, in January 2005, ODP issued a list of capability requirements¹² in keeping with a requirement of the fiscal year 2005 DHS appropriations act.¹³ To help define the capabilities that jurisdictions should set as targets, ODP first defined the essential tasks that need to be performed from the incident scene to the national level for major events illustrated by the 15 scenarios. It then developed a Target Capabilities List that identifies 36 areas in which responding agencies are expected to be proficient in order to perform these critical tasks. ODP further plans to develop performance measures, on the basis of the target capability standards that define the minimal acceptable proficiency required in performing the tasks outlined in the task list. According to ODP's plan, the measures will allow the development of a rating methodology that incorporates preparedness resources and information about overall performance into a summary report that represents a jurisdiction's or agency's ability to perform essential prevention, response, or recovery tasks. The office acknowledges that this schedule may result in a product that requires future incremental refinements but has concluded that this is preferable to spending years attempting to develop a "perfect" process.

On March 31, 2005, DHS issued a document entitled "Interim National Preparedness Goal" that reflects the department's progress in developing readiness targets, priorities, standards for preparedness assessments and strategies, and a system for assessing the nation's overall level of preparedness. The document also states that National Preparedness Guidance will follow within 2 weeks. This guidance is to include, in DHS' words, "detailed instructions on how communities can use the Goal and a description of how the Goal will generally be used in the future to allocate Federal preparedness assistance." DHS expects to issue a Final Goal and an updated target capabilities list on October 1, 2005. Over the next several months, ODP plans to work with its stakeholders to identify the levels of capabilities that various types of jurisdictions should possess in order for the Nation to reach the desired state of national preparedness.

Prior GAO Recommendations with Regard to First Responder Grants

In May 2004, we reported on the use of first responder grant monies in the National Capital Region, which includes the District of Columbia and specified surrounding jurisdictions in the states of Maryland and Virginia.¹⁴ We found that the grant monies were not being spent in accordance with a regional plan for their use. To ensure that emergency preparedness grants and associated funds were managed in a way that maximizes their effectiveness, we recommended that the Secretary of Homeland Security work with NCR jurisdictions to develop a coordinated strategic plan to establish goals and priorities for the use of funds, monitor the plan's implementation to ensure that funds are used in a way that are not unnecessarily duplicative, and evaluate the effectiveness of expenditures in addressing gaps in preparedness. DHS and the Senior Policy Group of the National Capital Region generally agreed with our recommendations and have been working to implement them.

In our report on interoperable communications for first responders, we found that federal assistance programs to state and local government did not fully support regional planning for communications interoperability. We also found that federal

¹²U.S. Department of Homeland Security, Office of State and Local Government Coordination and Preparedness, *Target Capabilities List: Version 1.0* (January 2005).

¹³The act required ODP to provide state and local jurisdictions with nationally accepted first responder preparedness levels no later than January 31, 2005.

¹⁴Included are the District of Columbia, Montgomery and Prince George's Counties in Maryland; Arlington, Fairfax, Loudoun, and Prince William Counties and the City of Alexandria in Virginia; and all cities and other unites of government within the geographic areas of such district, counties, and city. Our work focused on the eight largest jurisdictions.

grants that support interoperability had inconsistent requirements to tie funding to interoperable communications plans. In addition, uncoordinated federal and state level grant reviews limited the government's ability to ensure that federal funds were used to effectively support improved regional and statewide communications systems. We recommended that DHS grant guidance encourage states to establish a single statewide body responsible for interoperable communications that would prepare a single comprehensive statewide interoperability plan for federal, state, and local communications systems in all frequency bands. We also recommended that at the appropriate time, that DHS grant guidance should require that federal grant funding for interoperable communications equipment should be approved only upon certification by the statewide body that such grant applications were in conformance with the statewide interoperability plan. In its comments on our draft report, DHS did not address the second recommendation. However, on November 1, 2004, the SAFECOM office with DHS Office of Interoperability and Compatibility issued its methodology for developing a statewide interoperability communications plan.

Concluding Observations

In summary, Mr. Chairman, since the tragic events of September 11, 2001, the federal government has dramatically increased the resources and attention it has devoted to national preparedness and the capabilities of first responders. The grant programs managed by ODP have expanded rapidly in their scope and funding levels. Over the 3-1/2 years since the terrorist attacks, Congress, ODP, states, and local governments encountered obstacles, some of them frustrating and unexpected, in delivering grant funds to their ultimate recipients in a timely manner and ensuring they are used most effectively. All levels of government have attempted to address these obstacles and succeeded in resolving or ameliorating many of them. Some of the changes made are relatively new; thus, it is still too early to determine if they will have the desired outcome.

ODP's focus has changed over time from examining and approving, for example, specific items of equipment proposed for purchase under first responder grants to defining the capabilities that states and local jurisdictions need to attain—that is, establishing performance standards. Such a results-based orientation could prove to be the most practical and effective grants management approach at the federal level to help ensure accountability and effectiveness of results. DHS must also continue to ensure that an effective system for monitoring and accounting for limited federal funds intended for enhancing the nation's ability to respond to terrorist attacks or natural disasters exists at the state and local level.

DHS's task of defining a national preparedness goal and translating that definition into capabilities that are meaningful and readily transferable to the wide variety of local jurisdictions around the nation is still not complete. As the department has acknowledged, the process will necessarily be iterative. As we have stressed before, during this process DHS must continue to listen and respond constructively to the concerns of states, local jurisdictions, and other interested parties. Such collaboration will be essential to ensuring that the nation's emergency response capabilities are appropriately identified, assessed, and strengthened. At the same time, state, local, and tribal governments, and the private sector must recognize that the process is iterative, will include periodic adjustments and refinements, and that risks are not equally distributed across the nation.

The challenges we noted in developing effective interoperable communications for first responders are applicable to developing effective first responder capabilities for major emergencies, regardless of cause.¹⁵ A fundamental challenge has been limited regional and statewide planning, coordination, and cooperation. No one level of government can successfully address the challenges of developing needed first responder capabilities alone. The federal government can play a leadership role in developing requirements and providing support for state, regional, and local governments to: assess first responder capabilities; identify gaps in meeting those capabilities; develop coordinated plans and priorities for closing those gaps; and assess success in developing and maintaining the needed capabilities.

Mr. Chairman, this concludes my statement. I would be pleased to answer any questions that you or other members of the subcommittee may have.

Contact Information: For further information on this testimony, please contact William O. Jenkins, Jr., at (202) 512-8777. Individuals making key con-

¹⁵See GAO, *Homeland Security: Federal Leadership and Intergovernmental Cooperation Required to Achieve First Responder Interoperable Communications*, GAO-04-740 (Washington, D.C.: July 20, 2004).

tributions to this testimony included Amy Bernstein, David Brown, Frances Cook, James Cook, Christopher Keisling, Katrina Moss, Sandra Tasic, John Vocino, and Robert White.

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Mr. KING. Thank you, Dr. Jenkins.

I want to thank all the members of the panel.

I have some questions for Dr. de Rugy.

I fully agree with your premise that every dollar that is not spent properly for homeland security is one less dollar that we have to protect ourselves. That is wrong. I am really asking you to expand on this, if you will, and take as much time as you want up to the 5 minutes.

How would you define risk? How would you determine it? Theoretically, every municipality is at risk in the country. There is a level of risk anywhere. How would you define risk and where would you draw the line as far as above that line should get the predominance of the money and those below it would not?

Again, what factors and who would make that determination?

Ms. DE RUGY. Thank you, Mr. Chairman. It is a very good question.

I am not sure I am entirely capable of answering it because I am not a risk assessment expert. I am an economist. However, there is an industry that does that very well, and that is the insurance industry. I suspect that we could draw a lot of information based on their research.

However, I have an idea. The definition of "risk" when we talk about homeland security should really be based on how much damage, how likely a target is to be, and how much damage if the attack is successful, are we going to sustain. Basically, we have to remember that our homeland security is only as strong as our weakest link, again defined as the likelihood of being attacked and the damage incurred if we were attacked.

So it means that we absolutely must look so we can rank every possible target, every possible risk, across the board, across the industries, agriculture, chemicals, all those things, and then assess where the most damage would be. And we could do it at the national level or state by state. Actually, we should do it in a phase. I actually think it is, again, the insurance industry has done that. It is their job and they have done that very successfully for years and we should draw from their research.

And then the other question really is, once we have this panel of risk defined, and if we order them by priority, maybe one of the ways to define where the line should be is by trying to think of who should be actually in charge of the risk. So the idea is not necessarily to ignore completely some risks and only take care of others. It could be that the federal government should be taking care of the highest and the most damaging threats if the attack is successful, and leave it up to the states to take care of the other risks. So there is a range of options that we should be studying.

Mr. KING. You mentioned in your testimony, I believe, you would also have the private sector become involved.

Ms. DE RUGY. Yes. For instance, again, I think it is a very, very, very important question that I do not see addressed enough is who should be in charge of what. So we have four essential players, the federal government, the state government, the local government and the private sector. The federal government should be in charge of risks that would affect the entire nation. That should be our priority. In fact, that should be the best use of our dollars.

The state and local governments should be in charge of things that are more local, like for instance if a bridge is destroyed in a given state it does not mean that the entire nation could not be affected one way or another. But the main damage would be sustained by the state. It means then that the state should be in charge.

The private sector, for instance, critical infrastructures are privately owned. It makes a lot of sense to give a lot of the responsibility to the owners of the assets, which does not mean that there could not be a partnership, that the private sector should have a role to play.

If we think that the only player who should be in charge of our security is the federal government, we are never going to be able

to achieve anything. That is one of my concerns with the first responders grants, is it seems that a lot of what we are saying is the result of every player turning to the federal government as if the federal government should be in charge of absolutely everything.

Mr. KING. Thank you, Doctor.

Mr. Pascrell?

Mr. PASCRELL. Thank you. I want to respond to that last answer.

We have decided that the best idea is to make sure that the Fire Act grants which I think you just referred to, are entirely separate from homeland security in that the fire grants were a response to basic needs that companies needed before 9/11. Let's get it straight as to when each of them occurred. I am really flabbergasted at your last answer, that the grants, I think you are talking about those grants, use fire grants, and I expect that is what you are looking at.

Ms. DE RUGY. I said first responder grants.

Mr. PASCRELL. You are not talking about the fire grants, then?

Ms. DE RUGY. No.

Mr. PASCRELL. You are not talking about those separate grants.

Ms. DE RUGY. No.

Mr. PASCRELL. Okay. We need to make that clear, if you will, because we are not discussing the fire grants today. We are talking about the first responder grants.

Ms. DE RUGY. No, we are not. I said first responder grants.

Mr. PASCRELL. Okay, because we do have a system of monitoring with fire grants. Are you saying you do not think we have a system to monitor how money is spent for first responders for homeland security? Is that your point?

Ms. DE RUGY. It is part of my point, yes, but the larger part is really to try to think whether it is the best use of our federal dollars to spend on first responders. Isn't that the role of the state and local governments? That is a question that is not trivial and I think should be addressed.

Again, it does not mean, if we reach the conclusion that first responders is the responsibility of the state and local governments, it does not mean that the federal government does not have a role to play in case of an attack, that help could not be provided, funding could not be provided to the states to help them.

Mr. PASCRELL. I would like to ask, and come back to this point, to Mr. Berman. How does the Department of Homeland Security visit state and local governments to see how the homeland security money is being spent?

Mr. BERMAN. That has been a problem, certainly up through fiscal year 2004. Starting in 2004, they did increase their staff and develop some additional guidelines for doing that, but up until that point, their monitoring at the state and local level was very poor. This is also true within some of the states; the state organizations do not always have the staff to monitor at the local level, but that has been a problem.

Mr. PASCRELL. And Mr. Berman, when a municipality, a locality or state applies for federal money for homeland security, doesn't that entity have to prove need?

Mr. BERMAN. Part of the problem with the way this program has evolved is the guidelines, the federal guidelines were relatively

broad. The initial state vulnerability assessments that were prepared were largely wish lists in some cases, rather than vulnerability studies. So because of the lack of clear federal guidelines, some of these programs really did not amount to a matter of need. It was a matter of want. When the localities finally were awarded the grants, in some cases they simply abandoned the earlier plans they had made and re-looked at how they wanted to spend that money.

So up until now, the question of what was—.

Mr. PASCARELL. Excuse me. Are you saying that when they finally did get reimbursed, it was not for a particular item that they applied for?

Mr. BERMAN. In some cases, when they finally were allocated the funds and before they went to spend them, they actually abandoned their earlier plans and simply substituted new ones.

Mr. PASCARELL. Well, Mr. Chairman, that is not the case, of course, it is something we are not discussing for the Fire Act. The Fire Act, it is a competitive situation. You are only going to get money when you are competing against other departments throughout the country. As you well know, that money has to be spent on the item. Do you understand what I am saying, Mr. Berman?

Mr. BERMAN. Absolutely.

Mr. PASCARELL. Let me ask you a question, Dr. Jenkins, then I will conclude. What steps should we take to speed up the process from when the states receive homeland security funding to when local governments receive it from the states? What would you suggest, from your vantage point, that we do?

Mr. JENKINS. From our vantage point, speed is less important than spending the money well, having a plan to spend the money well. That has been part of the problem, as Mr. Berman has said. Part of the problem is having a clear plan of how you are going to spend the money, what you are going to try to do, what you are going to accomplish with it. As he pointed out also, it is possible, given the way the program has been structured, to spend the money according to grant guidance, because the grant guidance has been very broad, but not necessarily spend it especially well or intelligently.

So I think our view would be very much what this committee is talking about, it is very important to have a plan in place. It is very easy, then, to get that money down and get it down quickly if you have a clear plan in place. Part of what has held up getting the money down is that they have not had a plan in place. In many states, they were not going to let you use this money, and ODP has said we are not going to let you use this money, until we have seen a plan for how you are going to spend it.

The issue has been less getting the money down. The money has been allocated very quickly down in the last couple of years, both from ODP to the states and the states to the localities. The problem has been the localities very often have run into problems in being able to use the money because they have to have a city council that votes or in some cases a state legislature has to vote to accept the money. They have to then go through procurement processes that are fairly extensive and so forth. So that takes a long

time for the pipeline to be able to use the money because of these various requirements and hoops that the localities themselves have to go through. That varies across the states. Some states are much quicker about using that than others.

Mr. PASCRELL. In conclusion, you are suggesting look at the whole process, because, Mr. Chairman, in most of these grants that we are talking about in homeland security, you need to spend the money and then you are reimbursed. Correct, Dr. Jenkins?

Mr. JENKINS. Right. Except for 2005, there is an exception to the Cash Management Act in 2005 in which they can get the money 120 days in advance of their needs.

Mr. PASCRELL. Which do you think is the best?

Mr. JENKINS. I think that the basic thing is how the money is spent, as opposed to this. I think if you get it way far in advance, you give it all far in advance, you can have problems like there have been with other grants where they get it in advance and they bank it and they do not spend it for a long time.

Mr. PASCRELL. Thank you.

Thank you, Mr. Chairman.

Mr. KING. Chairman Cox?

Mr. COX. Thank you.

I would just observe that it may be that we would have a problem with localities not spending the money and banking it if we gave it to them up front. It is hard to imagine that it would be any more serious than the problem that we have right now where two-thirds of the money that Congress has appropriated since fiscal year 2002 is not yet spent. The first responders are not seeing it.

One of the four reasons that we have discovered for why this is happening is that the states are operating on a 100 percent reimbursement system. So if you are a locality, you must find your own money, go out and buy the stuff, and then get reimbursed and go through an application process and so on. That is a lot of menacing bureaucracy and red tape when the point is to try and get things to the front lines when they are needed.

So I think we could surely deal with the problem of people banking the money. But the main thing we want to make sure of is that recipients plan for this money before they get it so that it does not arrive in somebody's lap as if they have won the Publisher's Clearinghouse sweepstakes and think, now how do I spend this money. We have too much of that.

I want to focus on something, while we have this expertise at the table, that has not been mentioned much thus far. That is, although it has been alluded to in several of your comments, the importance of cooperation among jurisdictions. With UASI, the Urban Area Security Initiative, we are plunking money down in individual cities. We are not necessarily promoting regionalism. We are sitting right here in the middle of the national capital region. The Pentagon is not part of the District of Columbia. The Pentagon was attacked in the 9/11 events, yet we all recognize the Capitol or the White House might just as well have been hit by those airplanes. Thinking of the national capital region from a mutual aid standpoint clearly makes more sense than thinking of D.C. and it's, strictly speaking, 500,000 people all by themselves.

We do not really have a system right now in law that permits us to do that. I wonder if you could comment on the importance of regionalism and mutual aid, and ways that we can encourage that behavior so that we are not buying new fire trucks for every municipality, but rather to the extent we are buying equipment or training, we are sharing all of that. I would address that to each of the members of the panel.

Mr. BERMAN. Sure. Mr. Chairman, I think one of the key tenets of DHS' new preparedness plan is regional collaboration. It certainly makes a lot of sense to incorporate that in the way that planning is going to be structured. By starting with 15 threat scenarios, and then developing uniform task lists for not only what needs to be accomplished to respond to those kinds of scenarios, but what needs to happen at the federal, state and local levels, the process should produce a much clearer picture for those that need to plan to spend this money as to what their priorities are and what their roles are.

A lot of the states that we visited in our report did have regionalized planning and centralized procurement, and those are among the best practices. But certainly there is a long way to go to actually work out the details following the preparedness plan. There is additional guidance coming out this month, and as we develop year by year, the states are going to have to, under this plan, redevelop their plans by October 2005 as a basis for the 2006 funding. So we should see a lot more regionalization built into those plans.

Mr. COX. Mr. Jenkins?

Mr. JENKINS. I think a couple of things here. One of the things is this, when we did our work on interoperability, stovepiping has been a traditional problem in that. One of the things that we found is that the grants, for example, for interoperability were inconsistent in encouraging regionalism. Some, they defined "regions" differently so that if you were complying with one grant, the region that you were, you could not comply with the other grant because the regions in the two grants were defined separately.

So one of the things is making sure that the federal government in terms of its grant guidance is encouraging that and giving some flexibility in that, and not saying region A for this grant is this, and region A is a totally different jurisdiction for this grant over here. It creates lots of problems for them being able to match up grant monies and be able to take a look at the totality of what they are doing.

As Mr. Berman said, the scenarios are designed to try to focus looking at regional capacity. It is very important as well that the grants focus on the capabilities that you need and you need to have versus capabilities that you need to have access to. Those are not necessarily the same thing. For example, it is very important not only to consider regional, but for example to look at where are the other kinds of assets that I can draw on, like the National Guard civil assistance teams. What can I draw on them and what can I get from them?

So it is not only just regional. In many instances, as here in the District as you know, the regions cross state lines and so there needs to be encouragement to work across state lines, to find regions across state lines in areas like Kansas City, Philadelphia,

New Jersey, Cincinnati, et cetera. They do not fit neatly into state lines and there needs to be encouragement to do that.

The plans need to show and the accountability needs to show when you are reporting on it how it is that what you are doing is going to enhance regional capacity, as opposed to the capacity of my individual jurisdiction. So it has to be built into the accountability structure and reporting structure as well.

Mr. COX. Dr. de Rugy?

Ms. DE RUGY. I think it is a very important question and it goes to the core of the way we are spending the money right now. It seems that the role of the federal government in helping state and local governments should be to help them create this true national preparedness system. When you look at the way things are done, it really seems that by designing a system where each state has an incentive to buy decontamination units or everything to protect itself against absolutely everything, without regard to whether a neighbor state already has all those things, or a neighboring town or what have you, goes to the core of the ineffectiveness of the system.

What we need the federal government to do instead, and what DHS should have been doing, is for instance it seems that to have this true national system, we need DHS to set standards, for instance, for communications systems. Right now, the way things are done is just exactly the opposite. States have an incentive to buy whatever radios they want, and they end up with radios that are not compatible within a given state or even with other states.

So I think really the best way to use federal dollars to enhance states's preparedness is to put our money in creating this national system. It would be to enhance communication and to have standards that are the same for all, and that then we could use. Because what matters is not so much of everyone having a decontamination unit or is full-blown prepared for everything, but we know where to get the information. I think right now this is not done.

Mr. KING. The gentlelady from California, Ms. Sanchez.

Ms. SANCHEZ. Thank you, Chairman King.

Thank you all for being before us today.

I really in the last few years have been visiting a lot of my law enforcement people and my fire emergency units, and also our hospitals. I think our hospitals are an area where people have not really concentrated on them as being first responders. But for example, I have a nuclear power plant 20 miles away from me, and the port of Long Beach-Los Angeles 20 minutes away from me; Disneyland in my backyard, or maybe I am in their backyard. I am not sure.

I always worry about if there is a major incident to what will happen to our hospitals. So I think there is a whole array of first responders that we really need to deal with. But in speaking to many of them, and I happen to have large law enforcement agencies, for example, you know, 600 sworn officers, 800 sworn officers, pretty large groups. They still say that they are not receiving their monies in a timely way, part of it because they have to spend it up front, and part of it because it is just not coming down from the state.

So I guess, Dr. Jenkins, do you really believe that the money is flowing better right now? What do you think the lag time is? Because, especially for example, two of my major cities got Urban Area Security Initiative monies announced. They actually flew out and had a big press conference, announced \$14 million and \$12 million respectively. We have not see a lot of that money yet and that was done over a year ago.

So what do you see? What do you think the lag time is?

Mr. JENKINS. Well, it depends. The thing to understand is, there are two things. One is simply announcing the money and allocating the money. That is the first step, so that you know how much you are going to have. They have changed to where you do not have to, it used to be that before you could use the money, you could have the money, that you had to have a detailed spending plan, what equipment you were going to buy with it and so forth and so on.

Now, ODP allows you to begin planning on how you are going to spend that money without having all that documentation up front. But I know in many instances in California, I do not know about your particular district, but when we did look in California that a lot of the hold up is not from the state. It is from the localities. That is, the city council has to agree that they are going to take the money.

Ms. SANCHEZ. That I will tell you is not the problem in Anaheim or Santa Ana. We are very sophisticated. We have councils that meet at least once a week, very staffed-up cities. I mean, this is not about we do not know what we are doing or it has taken a month before we meet the next time. These are very sophisticated cities.

Mr. JENKINS. Then the other thing has to do with what your plan is for spending the money and how you are going to spend it, whether or not there is a requirement locally that in order to be able to purchase something that you have to have the money in-hand first. That was one of the reasons for the change in 2005. Some people were saying, well, we have to borrow from Peter to pay Paul in order to do this because of our local requirements; we cannot wait for the reimbursement; we have to have the cash in hand under local regulations before we can actually purchase this. So that is one of the other things that has created a problem.

It depends very much, I think, when you understand specific things, as to how the government structure works within a state and how they are structured to do it. In Massachusetts, for example, it is a much more centralized process than it is in California. It comes down through the counties in California. So you really, in order to know what is going on and why there is a holdup, you have to really understand the particular governance structure in that particular locality, what the requirements are, what it is that they have to do in order to use the money; what strings, if any, states have placed on it, and that is an evolving thing. It is not the same from year to year. States have been changing how they have managed the money, what kind of requirements that they are putting on it as it goes down.

So it is very difficult for me to say specifically what is going on in your area, but I do know that there are three things that we have found that you have to look at. One is what the grant guid-

ance says. One is what is required before you can start using the money, actually starting making purchasing decisions, whatever. And the other is the whole procurement process in terms of whether or not you need competitive bids and so forth and so on, and how that procurement process works.

Ms. SANCHEZ. What do you think about disbursing some of the funds directly to the agencies and not going through the state structures, particularly in a place like California where we are under mutual aid agreements; we do have standards for our operating equipment that goes across. We work with each other if there is a major disaster. Orange County falls under Sheriff Baca, for example, of Los Angeles. We have a very known, and we practice who reports to what and how we do it. What about when you have sophisticated agencies like that, why are we passing the money through the state when we have a plan? We have a plan that is on an annual basis reviewed by the state. We have these mutual aid agreements. Why the holdup in sending it to the state?

Mr. JENKINS. Well, the basic theory behind giving it to the states, rightly or wrongly, the basic theory behind giving it to the states is that the states are the grantees and the localities are not the grantees. It is the states that have to report to ODP. The states are the legal grantees, not the localities. The localities are sub-grantees under this program. The states, then, are the ones that are accountable ultimately for the use of the funds in terms of whether or not they are being spent in accordance with state plans and so forth and so on. So that is the reason that they are sending through the states.

It is certainly a lot easier for ODP to deal with 50 grantees plus the localities, plus the territories and the districts, than it is to deal with thousands, just from an administrative standpoint, from their perspective.

Ms. SANCHEZ. Okay, thank you.

Mr. Berman, do you have anything to say?

Mr. BERMAN. I think one thing to keep in mind, too, in addition to what Dr. Jenkins said, this program started at a point, and I am not speaking specifically about California, but when many states and the homeland security organizations in those states, were simply not prepared to handle this amount of money in this period of time. I guess the good news is some states actually slowed down enough to try to spend it the right way, but over time the individual states, through the best practices of other states, I believe will be improving significantly, even under the current rules, in how fast they are able to use this money.

The second point, and again I cannot speak specifically to California, although we did just recently visit there to look at how the funds are actually being spent at the state and local level, not all of these state plans are what we consider adequate. Based on the early rules under which these plans were developed, it was kind of a bottoms-up approach. The individual plans from the localities that rolled up into the state plans were, as I said before, in many cases wish lists, rather than vulnerability studies. They came in with lists of projects and equipment for hundreds of millions of dollars for small communities, which simply was not realistic.

So again, those plans are all going to have to be re-worked now that the new guidelines will be coming out, and again all of the states are going to have to revamp their plans at the end of fiscal year 2005 for use in 2006. So hopefully a lot of this will change. The states and localities will have a better idea of how they fit in. Obviously not every county and not every locality needs the same equipment. To the extent that better regionalized plans come in, hopefully by that time additional efforts can be made to speed up the flow because you have a better idea of how the money is being spent. You will have a better assurance that it will be spent in accordance with the national guidelines.

But I think until that happens, until you have those clear goals throughout the nation, that it would be risky to simply send the money directly to the localities or directly to the first responders without some better idea of how it is all being spent.

Ms. SANCHEZ. Thank you, Mr. Chairman.

I just wanted to add for the record that at least the major law enforcement agencies in my area, and up in Los Angeles County also, are still saying that even though they have been promised the money, they have not seen the money. So the pipeline problem still exists from our standpoint.

Mr. KING. I thank the gentlelady for questioning and for the comments.

The gentleman from Alabama, Mr. Rogers.

Mr. ROGERS. Thank you, Mr. Chairman.

I represent a rural district in Alabama, a state where agriculture is far and away the number one industry. Each of you advocated pretty enthusiastically moving away from this grant structure to a risk-based distribution formula. When you think about my constituency in my state, what words of reassurance would each of you offer the state and local leaders in Alabama that they will be treated not so much equitably, but in a reasonable and fair way under this new funding formula? I would start with Mr. Berman.

Mr. BERMAN. It is hard to predict exactly how all of the details will work out, but one of the things that the new preparedness goal envisions is that when you get down to specific scenarios or specific vulnerabilities, one of those is agriculture. It may well be that the localities, the local units, will get a higher distribution of funds to protect against various agriculture scenarios, whether it is contamination of crops or livestock or what have you, as opposed to some of the kinds of specific equipment needs that the urban areas have.

Again, until the guidelines have gone all the way through and the new plans are sent in and approved, it is hard to say specifically, but at least that is the concept.

Mr. ROGERS. Dr. Jenkins?

Mr. JENKINS. As Mr. Berman said, I think of the 15 scenarios, 2 are agricultural events, that affect agriculture in one way or another. And so they are, as he said, part of that will then meet much of the capabilities that are required in order to be able to deal with the consequences of such an event.

The other things is in terms of just the risk management, what you are trying to do, I mean it is not a sense of encouragement, I guess, to your constituents, but what you try to do is think what

is the probability that there will be this adverse event and then what are the consequences of that adverse event. You know, how extensive, how bad are they? What is the depth of the consequences, the geographic range, et cetera. One of these scenarios is looking at basically poisoning our food supply while it is still in the fields. Then what do localities need in order to be able to deal with that? In that sense, clearly localities in rural areas are going to need certain capacities because they are going to be the first ones on the scene. You are not going to have somebody coming in from Chicago to try to deal with the wheat down-state.

The other thing they are trying to do is look at, and this would affect different areas based on population and other things, they are trying to tier these capabilities. That is, that not everybody needs the same, depending on what you are dealing with, so that the intensity of, say, for example the capabilities to deal with something in agriculture would be very different than it would be if you are trying to deal with something that is an urban event. So they are trying to look at what is it that those people in that neighborhood and that area actually need? What are the baseline capabilities that they need in order to be able to do that? And then what do they also need to be able to draw on?

So I think one of the things is to really, as they play this out, the guidance that is going to come out on how to do this, supposedly at the end of the month, is to really look at these agricultural scenarios and what are the capabilities that they are saying are needed for that, and how is it that they say that state and local first responders need to be able to start getting ready for that; what are the capabilities that they need.

Ms. DE RUGY. Again, it is not clear that, first, your state would be getting some money because there are still minimum guarantees for each state. And it is not clear at all that your state would not be getting as much money as it is getting right now, depending on how the details work out.

One of the things I would advise everyone to think about is really to start thinking seriously about what actually is the probability of horrible events to happen. It is very hard, and again I could not be the person putting this number on each event for each state for each locality, but I actually have the feeling that there is a terrorist threat, that we are letting terrorist win in a sense if we think that everything is likely to happen with the same probability and is going to create the same amount of damage.

I think we need to think calmly about it, and that is what this management is about, about the likelihood of a given event to happen in a given place. I think once we do that, I think we will all feel much better if we do not have the sense that it is extremely likely that the worst possible thing is going to happen to us at any moment. So I think this is the way to look at things. Again, it is not clear to me that your state would be a big loser, depending on how the details evolve.

Mr. ROGERS. Thank you very much.

Thank you, Mr. Chairman.

Mr. KING. The gentleman from New Mexico.

Mr. PEARCE. Thank you, Mr. Chairman.

Mr. Berman, as we talk about accountability, if the department were to have all the funds expended to date, does the department have a clear understanding of what objectives they would really like to see in place across the nation?

Mr. BERMAN. Unfortunately, that has been the biggest weakness in the program so far. The goals so far are very broad. By the time they get down to the local level, as you see some of these reports in the paper, everybody has their own idea of how different expenditures relate to homeland security.

Mr. PEARCE. Do you find the department doing something to rectify that?

Mr. BERMAN. About the only thing the department can do at this point is look to the future. Each year, the guidelines change. They get a little tighter each year, but a lot of these expenditures that are being reported in the paper now I would guess came out in the 2002 program.

Mr. PEARCE. So you would say that even though the funds are not expended, that it is too late to do anything, that it would be impossible to go back and say, with all due respect, we should have probably quantified this a little bit better. Those funds that have not been taken now need to fall under this criteria. Is the department not proactive at all on that?

Mr. BERMAN. I do not think that. If anything, right now they seem to be sticking to even more than we would like to see, that the rules for each year—

Mr. PEARCE. We are going to spend money. Let's go ahead and spend it faster. Is that—

Mr. BERMAN. It is not so much expenditure. Again, the money at this point has been granted to the states.

Mr. PEARCE. I am sorry, but what I am hearing today is not very reassuring that we are spending it wisely. So there is no attempt to interdict and say, you know, we have wasted a certain number of billions so far, we should probably avoid that. The department does not have that kind of a mindset?

Mr. BERMAN. The department is certainly working with the states as best they can. But to the extent that money has already been committed, though, to the local governments, I have not seen any effort to overturn those.

Mr. PEARCE. Thank you, if I could move on.

Dr. Jenkins, as you went through your study, do you find any mechanism to identify poor performers, the individuals who poorly oversee the spending of taxpayer dollars? In other words, we get report cards in junior high and high school. Those report cards followed some to college. It seems like many times the same people who misallocate or do not oversee properly \$200 million get to not oversee that properly again. Is there a reporting mechanism that you find anywhere in this whole grants procedure?

Mr. JENKINS. Part of the issue, as Mr. Berman said, is that you do not even know what the states have committed. In other words, the only data that ODP has is outlay data, cash out the door, on with the draw-down. They really do not have and do not collect consistent data on what states have actually committed to spend. That is the first thing. In other things, when you are trying to look at how the money is being spent, you really do not have a good idea

of how they plan to spend the money because you do not have a good idea of those obligations that they have entered into, the commitments that they have really made.

The principal mechanism for assuring accountability is two things. One is looking at the state homeland security plans and plans to spend the money in relation to that. The other are these monitoring visits that, as Mr. Berman pointed out, that they did not complete. They need people to complete that were not doing it. Well, and so those monitoring visits are very important, though, in terms of on-site monitoring visits. If you are really going to look at how the money is being spent and how it has been used, it is very important to do that. They have had a difficult time doing that due to personnel turnover, a lack of people and so forth. So I would say, to date, that it has been a very, very mixed bag in terms of their accountability.

Mr. PEARCE. I appreciate that.

If we find that states do not have an emergency preparedness plan or any reaction plan, does that somehow penalize them in the process? Or do they simply still get the same treatment as other states? Because I do not think many states, frankly, have a clear idea of what they are trying to accomplish.

Mr. JENKINS. There is a difference in this grant process between, say, the statewide emergency management plan and a homeland security strategy. They are not really held accountable for having a emergency management plan statewide, just what their state homeland security plan is. As Mr. Berman pointed out, some of these are very broad, very vague, and you can do an awful lot and still say I am in compliance with it.

Mr. PEARCE. Mr. Chairman, I would just close with the request that we consider some sort of accountability on the part of the states to develop these plans. I would also like to see us try to identify poor performing individuals in the oversight of spending dollars and poor-performing regions so that there is a penalty if they misused public funds. The stories yesterday in The Washington Post, this was more border issues, but it comes back to the same thing. Those are distressing when we see hundreds of millions of dollars squandered, and probably without substantive effect.

Thank you, Mr. Chairman.

Mr. KING. Thank you, Mr. Pearce. Obviously, the point you raise is very well taken. I think the legislation attempts to address some of that, but possibly a subsequent hearing could be used for that purpose.

The gentleman from North Carolina?

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Let me thank our panelists for being here. The question I have is somewhat general, and then I will get a little bit more specific if my time does not run out.

When we talk about this, we are talking about security protection of our country. Having come from a state, and we will hear from our Secretary of our Department of Crime in our state who will be here, and who I does I think an excellent job in North Carolina, in a few minutes, but it does not matter if you are a citizen whether you are hit by a natural disaster or a man-made disaster. The results are the same.

Do we agree on that? It makes no difference?

Mr. JENKINS. Right.

Mr. ETHERIDGE. So I think sometimes we get caught up in the accountability of funds going out for a man-made disaster, when it is easy to find fault unless you are the one in that hurricane that comes in at 100 miles an hour or a tornado or flood. And we zero in on a man-made, and as a matter of fact, one of these affects hundreds of thousands, and it is multistate in some cases. Certainly for North Carolina, we get hit about every time one comes out of the Caribbean.

My question is this, though, what role should the federal government play in assisting states in, number one, preparing for natural disasters, which we can guarantee will affect this country for sure and have for many years, in preparation and response to a hurricane or tornadoes that have now been hitting parts of the country, which affect many times not just one state, but multiple states. Is this solely a state responsibility?

Mr. BERMAN. No, sir, not at all.

Mr. ETHERIDGE. Thank you.

Dr. Jenkins?

Mr. JENKINS. No. As a matter of fact in these 15 scenarios, one of those scenarios is a hurricane.

Ms. DE RUGY. It is mainly a state responsibility, but it does not mean that the federal government cannot come through a mechanism like FEMA, like we have done with FEMA, and come and help when such a disaster occurs.

Mr. ETHERIDGE. Then you are saying that the federal government's response to the past to hurricanes like hit in Florida and in North Carolina and in Texas and the Midwest, that it is a state responsibility when it is so overwhelming that it would destroy the economy of those states?

Ms. DE RUGY. You are talking about preparedness.

Mr. ETHERIDGE. That is part of the preparedness.

Ms. DE RUGY. I think each state should prepare for, if North Carolina is hit systematically with hurricanes, which is the case, and it is really sad, the state should prepare for the occurrence of these events as best as possible to protect their constituents. However, it does not mean that there is no role for the federal government to come and help.

Mr. ETHERIDGE. You and I are going to disagree on that, simply because if you have a state in the Midwest that is not hit, I think that is a joint issue between the federal, state and local, in all these states and along the borders. The same thing with tornadoes.

Thank you.

Next question, can you suggest a division or percentage of resources that the federal government might supply for preparation and then for response, which is an entirely different issue. Preparation is getting ready; the other becomes a response issue, whether it be minor or catastrophic like we had in Florida.

Mr. BERMAN. I could not suggest a particular percentage at this point.

Mr. JENKINS. I could not either.

Ms. DE RUGY. I could not either, but I think the majority should be trying to prevent bad things from happening.

Mr. ETHERIDGE. Okay. In your testimony, Ms. de Rugy, you advocate federal investments in what you call intelligence gathering. Since this is a public bill that benefits all citizens, I think we can agree on that, however, you go on to state that the protection of private property such as personal residences, should be left to individuals because it is not a public good.

Ms. DE RUGY. Yes.

Mr. ETHERIDGE. Let me follow that a bit when I ask this question, because I think I want to get this on the record. When the terrorists hit New York and Washington, not all those facilities were public facilities. Are you saying that the federal government should not have invested dollars in helping to get the economy going again, because those were private businesses, in some cases private homes and residences?

Ms. DE RUGY. My point is that while deciding where to spend our federal dollars, we have to look at where it is the most efficient. The best use of our federal dollars is intelligence and not in protecting private homes. It does not mean, besides I mean, I could get back to you on that with literature about the fact that the insurance industry is actually very well equipped to answer these type of events at the private level.

So my point is really when prior to an event, we have to be thinking about where our money will be the best used. When you think about the range of horrible things that could happen, we could always find that it would be nice for the federal government to intervene absolutely everywhere. It would be nice, but it is not the most effective way to do things. That was my point.

Mr. ETHERIDGE. I would appreciate seeing your material.

Ms. DE RUGY. I will definitely.

Mr. ETHERIDGE. I have another question, but I assume my time is out. There are certain situations, I think, that your hypothesis does not work. I do not think when it comes to public schools, as an example, which I have some issues on, but Mr. Chairman, I think the time has expired and I will yield back.

Mr. KING. The gentleman from Texas?

Mr. MCCAUL. Thank you, Mr. Chairman.

I, too, am an original cosponsor of the Cox-Thompson bill. I think it is long overdue, when you get states like Texas, that I am from, and California and New York, ranking almost dead last per capita in terms of dollars spent. In my work in the Justice Department, I actually saw, in my view, a lot of wasteful spending. It supplanted local budgets, and I do not think the money was really making us more prepared from a terrorist attack.

There are a lot of resources for risk assessments out there. I know the FBI in each of their divisions has a risk assessment. The National Infrastructure Protection Center has basically broken down the private industry into sectors for critical infrastructure protection purposes. You mentioned the insurance companies. I think that is a great idea, from the private sectors. The border, in my view, is a tremendous risk, in my state and all of the southwest border states, when you have about three million people estimated crossing per year, and the threat that that poses in terms of a terrorist sneaking into our country.

My question is really very fundamental. That is, how are we going to draw on all these risk assessments out there? How are we going to help the states use these resources out there? What is DHS going to do? How is DHS going to score or rank, if you will, these risk assessments for each state?

Mr. BERMAN. Again, the process is evolving. There are a lot of ways to assess risk. I think the way that the department is going at it with this preparedness goal seems like a very solid beginning and would allow some reasonable decisions to be made. It allows for various scenarios. It allows each area, whether it is the border or elsewhere, to be addressed individually in a partnership between the federal government, state, local and private, in terms of how that region or how that state would actually respond or should respond, what capabilities are needed to respond to various scenarios.

In the port area of Houston, for example, an attack there or a major disruption of that size port would have consequences throughout the United States. The ripple effects for a major port being pulled out of service would back up ships throughout the world in some cases. So those are the kinds of scenarios that have to be looked at, and then plans made.

Again, the devil is in the details in this one. We have a long way to go.

Mr. MCCAUL. So you are still formulating that process?

Mr. BERMAN. Yes.

Mr. MCCAUL. At DHS, will there be like a board to review? How is that going to work in DHS?

Mr. BERMAN. Again, the individual plans by the states have to be resubmitted in October. Those will be going into the Office of State and Local Coordination and Funding submitted with the President's budget in 2006. So that group would be evaluating those plans and then making distribution for 2006 based on those plans.

Mr. MCCAUL. Okay. Well, I think we are moving in the right direction. I wonder if I could ask Dr. de Rugy on the intelligence issue. I believe that is the best prevention we have. If we can act on correct and accurate intelligence, we can stop an attack from happening. What type of investments did you propose or advocate for intelligence?

Ms. DE RUGY. To go back very quickly to your previous question, I think running the risk of being redundant, I think one of the ways to facilitate knowing what we should do is again to try to think which player should be in charge of what, and then let them be in charge of the things that they are the best equipped for. And also then, they could see where they should get the information, where is the best information for them.

I also would like to direct your attention to the Insurance Service Office, which is a private company that serves the insurance industry by maintaining data on risks of all kinds, ran a study in 2003 and they used CIA data and FBI and they made a list of which cities were most at risk, were most likely to be targeted; which terrorist risks were the most likely. I could get back to you and send it to you, because I think the private sector and the insurance com-

panies were really well equipped to do that. That is their job and it could actually really help in this process.

As for where we should invest in intelligence, again I am not a security expert. My assessment about the importance of intelligence is really based on the notion of tradeoff and cost-benefit analysis. It really seems that basically we will get the biggest bang for our buck by preventing bad things from happening to us, instead of spending a lot of money on cleaning up the mess once the attack has been successful.

As such, I drew the conclusion that intelligence was so important. And as such, I drew the conclusion that to the extent that the federal government is helping state and local governments to be prepared for attack, we need to create a system that is not directed at building a maximum capacity in each single state, but more one where there would be collaboration and communication and something that would enhance intelligence and cooperation before things happen, rather than after things happen.

This is the extent of my expertise on the topic, and you could find a lot of your true experts who could I am sure talk more about it. But I think we really, really must think about where our money will get us the best return. This is the most important thing to do, because if we stretch ourselves too thin, we are not going to be able to accomplish anything. It seems like if we do not want to suffer, we have to adopt all the mechanisms that prevent bad things from happening to us.

Mr. MCCAUL. I know that joint terrorism task forces are a good, somewhat effective at intelligence sharing. Perhaps we should invest more in those as well, but I see my time has expired.

Mr. KING. I thank the gentleman.

Speaking of true experts on intelligence, the Chairman of the Subcommittee on Intelligence, the gentleman from Connecticut, Mr. Simmons?

Mr. SIMMONS. I thank the gentleman.

I appreciate very much the conversation that we have had this afternoon. I support the Chairman and the Ranking Member's bill. I think it is a step in the right direction. I think it is important to prioritize our spending based on risk. It seems like the smart thing to do. I am reminded that the goal of this funding is to prevent, to prepare for and respond to and/or mitigate threatened or actual attacks. So two of the four precede the event. One is prevention; one is preparation for it. The other two are responding to and mitigating. They sort of come after the fact.

I am reminded that when we do risk assessment and we try to apply dollars to the risk, that the French after World War I were correct in assessing Germany as a risk and they built the Maginot Line, which is the most complete and expensive and formidable defense system I think every created, with the possible exception of the Great Wall of China. But the Germans were able to defeat it with soldiers on bicycles. They went around. One could ask, well maybe instead of investing all of those dollars in fortifications in depth, maybe they should have spent half as much on the fortifications and then the other half on flexible forces that could move to fill the gaps.

So just because we identify the risk does not mean that we have the key to the funding solution. I guess that is what we are really trying to figure out here today. Do we put the money into guards and gates? Do we put it into things that can be used both for intelligence and early warning purposes and after the fact, such as communications? Communications have multiple uses. Do we hold some of the money in reserve as an emergency fund? Should that be done at the state level or the federal level? The fact that some of the money has not been spent does not bother me as much as if it was spent, but for the wrong things.

You know, I suspect that some of it is not being spent because there is uncertainty about the best way to deal with it. So I think this legislation is terrific. It is a step in the right direction, but I think that we as members of Congress have to continue to work with the Department of Homeland Security to refine and define how these expenditures are made so that we are properly investing the people's dollars.

I would ask if any of the panelists wish to respond to those comments. I would also recognize Mr. Berman as a graduate of the University of Connecticut.

Mr. BERMAN. Yes, sir.

Mr. SIMMONS. Go Huskies.

[Laughter.]

That is a resource we have to preserve and protect.

[Laughter.]

Mr. KING. The gentleman needs to control his enthusiasm and focus on the agenda.

[Laughter.]

Mr. BERMAN. I certainly agree with all of your remarks. Again, one of the things that the new preparedness plan also does is identify some specific priorities for the short term, one of which is the interoperable communications. That is, as we learned in New York, a key element of immediate communications and immediate intelligence about what is going on. It is also an extremely complex problem. It involves more than simply buying all the same radios for people. At some point, in the longer term, the Federal Communications Commission really needs to reallocate some of the band widths so that the interoperable communications can operate on a broader scale, but that is a long-term goal and certainly one that needs to be worked on.

Mr. SIMMONS. I agree.

Mr. JENKINS. I certainly agree about interoperable communications, and there are certainly it concerns us a little bit that there is a rush, or has been in some instances, a rush to buy equipment without a plan for how to actually use it, because the equipment that you buy and the kind of equipment that you need is not the first step, it is the last step. The first step is what am I going to do with it. What is the incident command structure going to be used. What kind of information do I need to share. When do I need to share it, under what circumstances, with whom, et cetera. And is it data-voice pictures? What is it? And that has a lot to do with what kind of equipment that you want and how you want to spend it, but there has sort of been this rush to go out and buy the equip-

ment without necessarily a good clear plan of how you are going to use it.

I think the dilemma that you point out is a very important one. That is, obviously to the extent that one could, it is always better to prevent something than have to deal with it after it occurs. The difficulty that you have, of course, is imperfect information, and sometimes very odd information. For example, if you are trying to figure out what is at risk, where should the risks be just in terms of what the infrastructure is, we do not have a good inventory of infrastructure in this country. We just did a report on chemical and water sectors. There is not a real good figure on how many chemical facilities there are in this country. DHS thinks about 4,000; 1,100 of those belong to two organizations, ACC and SOCMA and they have their own code, but we do not know how many others do or do not do things that they do.

The other thing I think that is difficult in terms of even spending the money on prevention is simply something else that we found in this same work, and that is that the longer you go without something happening, the lesser vigilance is. One of the problems that water companies have, for example, is getting people to take seriously the fact that they ought to lock the doors to the pump houses when they leave them, or use the cards that they have, because nothing has happened, nothing is going to happen, and it is a pain in the neck to do it.

So you have so many different variables that go into what you can do to prevent, and it is very difficult to figure out what proportion of resources you should use for that versus the other. There is a saying that you have heard many times, is that terrorists only have to succeed once. We have to be right every time.

Ms. DE RUGY. I really appreciate your comment, maybe because of my sad heritage. I totally agree with you. I think one of the real difficulties about homeland security is the fact that even if we were to invest our entire budget in security spending, we would never be guaranteed never to be attacked again because we cannot envision every possible attack scenario or every possible move terrorists are going to make.

Your point about the Maginot Line is a good one. One of my concerns about the way we are doing things right now is that it seems like we are trying to turn every single state, every port into a little Maginot Line. This has a horrendous cost, and on top of that, it does not guarantee us full security. So again, it seems that this is not how we are going to get the highest return on our money and we should do something else.

Not doing anything is, of course, not the answer, and how much to do is, again, to be left to experts. But certainly, doing the Maginot Line is not the way to go. Port security, unfortunately, is kind of taking this way. We are trying to use limited resources to try to turn every port into a Maginot Line because there would be real consequences to terrorist attacks on one of our ports. Again, that is why I think a better use of the money would be to try to invest in intelligence, trying to prevent bad things from happening in our ports.

To that effect, I have been kind of thinking about the Coast Guard and try to investigate what their functions are. It seems

that a lot of their missions would be consistent with trying to prevent bad things from happening in our ports. And so I think we should make sure that some of their programs are well funded.

Mr. SIMMONS. Thank you.

Thank you, Mr. Chairman, a very good hearing.

Mr. KING. Mr. Simmons, I do hope that you retract your statement about your parochial interests in Connecticut—

[Laughter.]

I want to thank the panel very much for the testimony. It was a privilege having you here today. You provided tremendous input and the panelists are excused. Thank you very much.

I call up the second panel. I would like to welcome our second panel, and thank them for their patience.

First we have the Honorable Brian Beatty, Secretary for the Department of Crime Control and Public Safety from Mr. Etheridge's State of North Carolina; Mr. Michael Chapman, Director of the Missouri Office of Homeland Security; and Mr. David Miller, the Administrator of the Iowa Homeland Security and Emergency Management Division.

We will begin with Mr. Beatty.

**STATEMENT OF THE HONORABLE BRYAN E. BEATTY,
SECRETARY, NORTH CAROLINA DEPARTMENT OF CRIME
CONTROL AND PUBLIC SAFETY**

Mr. BEATTY. Thank you, Chairman King, Ranking Member Pascrell, distinguished members of the subcommittee. I appreciate the opportunity to testify today.

North Carolina is the nation's 11th largest state, with a population of approximately 8.5 million. But North Carolina is next-to-last in combined per capita homeland security funding for 2005. That does not mean that North Carolina does not have terrorists who have lived there, and it does not mean that North Carolina lacks potential terrorist targets.

According to the 9/11 Commission report, the principal architect of the Al Qaida attacks was Khalid Sheikh Mohammed. He attended Chowan College near the Outer Banks of North Carolina and also North Carolina A&T State University in Greensboro. He learned about American life while living in North Carolina.

Also, 3 years ago a group of Middle Eastern immigrants who entered the country fraudulently, were convicted in federal court in Charlotte, North Carolina in connection with a cigarette smuggling operation that was used to provide money to Hezbollah in Lebanon. And just last summer, an illegal Middle Eastern immigrant taking video footage of the Bank of America headquarters was apprehended by Charlotte police officers.

Globally, terrorists have attacked military barracks in Beirut, embassies in Kenya and Tanzania, a Navy ship in Yemen, hotels and banks in North Africa and the Middle East and a train station in Madrid. I cite these examples because North Carolina is home to Fort Bragg, Camp Lejeune, Pope and Seymour Johnson Air Force Bases and Cherry Point Marine Air Station. The city of Charlotte is the nation's second-largest banking center. We have three nuclear power plants within 20 miles of our largest cities, each of which have over 500,000 people.

Our state has professional sports teams and major college athletics programs, with stadiums and coliseums seating tens of thousands. We have internationally renowned research centers, east coast highways and railways critical to the country's transportation infrastructure, plus two deepwater ports. Our swine and poultry industries are among the nation's largest, and the injection of foot-and-mouth disease or avian influenza would have disastrous economic consequences for the national economy.

I would like to see funds distributed with more regard to the nature of the threat and the nature of the targets. Although our state is next to last in funding, I cannot believe that we are next to last in risk.

After the attacks of 9/11, North Carolina's legislature was quick to act. In November 2001, the General Assembly appropriated approximately \$2 million and authorized our Governor Mike Easley to access the state's rainy-day fund to spend over \$10 million to enhance our state's hazardous materials response, medical assistance, urban search and rescue, and health laboratory capabilities to meet the immediate threats as we understood them.

We also saw immediately that food security is a major issue. Our state has combined the resources of state agencies, academia and private industry to develop a national model for vulnerability assessment, mitigation, response and recovery for all facets of food production, processing and transportation. We have done this thus far without any direct federal assistance.

Our principal natural threats are from hurricanes and floods, which come with fair warning and unfold over hours and days. Terrorism strikes in seconds and minutes. We knew we needed to improve our coordination. We allocated our 2002 and 2003 federal homeland security funds among our 100 counties, using a per capita formula so that a dozen or more agencies within each county had to come together and share information and cooperate to receive funds.

With 2004 money, we allocated only half by the per capita formula and used a statewide competitive grant process for the other half. Our top priority for the competitive grants as determined by our State Emergency Response Commission, was interoperable radio communications. We had already developed a statewide voice interoperability plan for emergency responders, or VIPER for short. This system will allow all first responders to migrate onto a state-maintained digital 800 MHz system. The total cost to build the infrastructure for VIPER is estimated to be \$188 million. That is without buying a single user device or radio.

In 2005, we have become still more focused. This year, we are awarding all of the funds by competitive grant with an emphasis on multi-county regional plans. We believe that this is the next logical step in improving our multi-jurisdictional response. At least half of the 2005 money will go to interoperable communications projects on the VIPER system. In addition, Governor Mike Easley recommended biennium budget includes \$33 million in state money to fund construction of network infrastructure. Even so, this is only a fraction of what will be needed to complete the system.

Mr. Chairman, PLO terrorist George Habash said that terrorists see the world as filled with lions and sheep. Why go after the lions when there are so many sheep?

I look forward to working with the members of this committee and Congress in the years and months to come to make sure that every state is the lion.

Thank you, sir.

[The statement of Mr. Beatty follows:]

PREPARED STATEMENT OF BRYAN E. BEATTY

Chairman King, Ranking Member Pascrell, Distinguished Members of the Subcommittee: thank you for the opportunity to testify today.

Mr. Chairman: I have come to Washington to report to you on North Carolina's experience in administering Homeland Security Funds, and on how we are using those funds to improve our ability to respond to terrorist threats.

Terrorist risks to North Carolina

North Carolina is the nation's eleventh largest state with a population of approximately eight and a half million people. To give you context, Georgia is 9th and New Jersey is 10th. But North Carolina is next to last in combined per capita homeland security funding for 2005 according to the Congressional Research Service. The reason for that primarily is that we don't have a major metropolitan area. We have several smaller cities like Raleigh, Durham, Charlotte, Greensboro and Winston-Salem.

That does not mean that North Carolina does not have terrorists who have lived here, and it does not mean that North Carolina lacks potential terrorist targets.

As former Director of my State Bureau of Investigation I am familiar with many domestic terrorist threats in North Carolina dating back to the Oklahoma City bombing. Just last summer, an illegal Middle Eastern immigrant was apprehended by a Charlotte Police Officer taking video footage of the Bank of America headquarters. That suspect was recently convicted of lying to Federal Agents during their questioning.

According to the 9/11 report, the "principal architect" of the al Qaeda attacks was Khalid Sheikh Mohammed. He came to the United States in 1983 and attended Chowan College near the Outer Banks of North Carolina. Later he transferred to North Carolina A & T University in Greensboro and earned a degree in Mechanical Engineering. He attended there with his nephew, brother to Ramzi Yousef. Al Qaeda operatives learned about American life while living in North Carolina.

Three years ago a group of Middle Eastern immigrants who entered the country fraudulently were convicted in federal court in Charlotte in connection with a cigarette smuggling operation that was used to provide money to Hezbollah in Lebanon.

We know that terrorists choose a variety of targets. Globally, terrorists have attacked military barracks in Beirut, embassies in Kenya and Tanzania, a ship in harbor in Yemen, hotels and banks in North Africa and the Middle East, and a train station in Madrid.

I cite these examples because North Carolina is home to Fort Bragg, Camp Lejeune, Pope and Seymour Johnson Air Force Bases, and Cherry Point Marine Air Station. The City of Charlotte is the nation's second largest banking center. We have three nuclear power plants within 20 miles of our largest cities, each within a population of over a half million people. Our state has three professional sports teams and many major college athletics programs. We have stadiums seating tens of thousands of spectators. We have chemical plants, fuel farms, and internationally renown research centers. East Coast highways and railways that are critical to the country's transportation infrastructure run through the state. We have two deep-water ports. Our swine and poultry industries are among the nation's largest, and the injection of foot-and-mouth disease or avian flu would have disastrous economic consequences for the national economy.

I would like to see future funds distributed with more regard to the nature of the threat and the nature of the targets. Although we are next to last in funding, I cannot believe we are next to last in risk. So we've done the best we can with what we've got.

Uses of Federal First Responder Funds in North Carolina

Preparing to respond to terror threats has been an ongoing education for all of us. North Carolina received Nunn-Lugar-Domenici funds for terrorism planning for Raleigh, Greensboro and Charlotte after 1998 and we have been considering the

threats longer than that. But like everyone else, the urgency became far more real after 9/11 and the anthrax attacks which followed. As a state, Governor Easley and our legislature were quick to act and immediately in 2001 provided over \$10 million to enhance our state hazardous materials response, medical assistance, urban search and rescue and health laboratory capabilities to meet the immediate threats as we understood them.

I want you also to know that in North Carolina we are acutely aware of food and agriculture as part of the nation's critical infrastructure. Our state has combined the resources of state agencies, academia, and industry to develop a national model for vulnerability assessment, mitigation, response and recovery for all facets of food production, processing and transportation. We have been coordinating closely with USDA, FDA and DHS both in developing plans and serving as a national pilot training site as we work to harden the food chain from attack.

When federal money came in for 2002 and 2003, we faced a significant dilemma. North Carolina's population is fairly evenly dispersed into a few medium-sized cities and hundreds of small towns and communities. Like many states, we have a couple of thousand first responder agencies, including local police, sheriffs, firefighters and emergency medical personnel. Each has its own governance structure and funding mechanism. This highly fragmented system works well for daily response needs but is difficult to coordinate in a mass-victim, multi-jurisdictional event. Our principal natural hazards are hurricanes and floods, so we normally can work through these problems because the event comes with fair warning and unfolds over hours and days.

Terrorism strikes in seconds and minutes. We knew we needed to improve our coordination, and federal funds gave us an opportunity to begin. We allocated our 2002 and 2003 funding among our 100 counties as the smallest unit to receive grants. This meant that a dozen or more agencies within each county had to come together and share information and cooperate to receive funds. Some counties had done this for years, some did it for the first time. We allowed them to establish their own priorities for using the funds, so long as all the jurisdictions were included and the spending plans met the federal guidelines.

With 2004 money we changed, and allocated only half by per capita formula, and used a competitive grant process to award the other half. Our scorers included representatives from local emergency response agencies across the various disciplines.

Our top priority for the competitive grants was for interoperable communications. We had already developed a statewide Voice Interoperability Plan for Emergency Responders, or VIPER for short. When the grants were scored, most of the grants went to VIPER projects. This system will allow all local first responders to migrate onto a state-maintained digital 800 MHz system. We made this choice after lengthy consultation with local government and first responders' associations, and the associations agreed this should be the top priority for the first responder community. The total cost to build the infrastructure for VIPER is estimated to be \$188 million.

As you know the GAO, the 9/11 Commission and many other assessments note that lack of interoperable communications is one of our greatest weaknesses. The lack of it constrained the responses in New York, in Washington, and at the crash site in Pennsylvania. In North Carolina, building this system will allow us to coordinate and leverage our dispersed capabilities in a way that will be both effective, and cost-effective.

In 2005 we have become still more focused. This year we are awarding all of the funds by competitive grant with an emphasis on multi-county, regional plans. We believe that this is the next logical step in improving our multi-jurisdictional response.

At least half of the 2005 money will all go to interoperable communications projects on the VIPER system. In addition, Governor Mike Easley's recommended budget includes \$33 million in state money to fund construction of infrastructure for the radio network in the upcoming biennium. Even so, this is still only a fraction of what is needed to complete the system.

PLO Terrorist George Habash said that "terrorists see the world as full of lions and sheep. Why go after the lions when there are so many sheep." I look forward to working with you in the months and years to come to make sure that every state is a lion.

Mr. KING. Thank you, Secretary Beatty.
Mr. Chapman?

**STATEMENT OF MICHAEL CHAPMAN, DIRECTOR, MISSOURI
OFFICE OF HOMELAND SECURITY**

Mr. CHAPMAN. Chairman Cox, Chairman King, Ranking Member Pascrell and distinguished members of the subcommittee, thank you for inviting me here today to talk about the critical issue of homeland security grant spending.

I am honored to be here to relate to you the efforts of my Governor Matt Blunt, those that he has undertaken in Missouri to ensure that every single homeland security dollar the federal government awards Missouri is utilized to protect, prepare for and respond to terrorism-related emergencies in our state, or if need be, in neighboring states.

On February 8, 2005, less than a month after his inauguration, Governor Blunt issued a memorandum to his department directors asking for information regarding homeland security grant spending. Specifically, Governor Blunt asked his department directors for a detailed analysis of what federal homeland security money the department has received and how it was spent. He asked for a list of grant requests that each department has made for federal homeland security money. He asked for a list of private company or any locality the department had partnered with to petition for federal homeland security grant funding. And he asked for a plan that lays out how the particular department might be able to utilize federal homeland security money better to prepare for and protect the public in case of future incidents.

Governor Blunt asked for this information because of two specific incidents in Missouri that caused him to question the wisdom with which homeland security dollars had been spent by the previous administration. The first incident involved my predecessor in negotiating a contract with a company for a Web portal that would have in essence have provided duplicative communications capabilities to emergency responders. After this contract had been shepherded through to near completion, my predecessor departed state employment to work for the company. Governor Blunt has made very clear that even the appearance of impropriety in government contracting will not be tolerated in his administration, and this raised red flags that other homeland security spending ought to be examined to ensure that it was appropriate and that it was contributing in a meaningful way to the preparedness and protection of Missourians.

The second incident was cited in the House Select Committee on Homeland Security's report entitled An Analysis of First Responder Grant Funding. It involved the purchase of approximately 13,000 chemical-biological protective suits, one for nearly every full-time law enforcement in the state. Some of the communities that received these suits needed them and are better prepared to respond to terrorist attacks because they have them. However, one would be hard-pressed to justify this spending for every full-time law enforcement officer in our state. Missouri has many rural areas where it was inappropriate for these suits to have been purchased, and it is clear that other equipment may have been a greater contributor to the safety of residents in those communities. Governor Blunt believes that regional solutions to responding to chemical-biological attacks should be explored.

My office and the state Emergency Management Agency which administers homeland security grant funding for Missouri are in the process of evaluating the reports from these various department directors. These reports were due on March 31 to me, and they are currently under review. We plan to provide an executive summary of our findings to the Governor this week so that he can make informed decisions about how to better protect Missourians. Initial indications are that a comprehensive homeland security plan to protect Missouri needs to be further developed, refined and enhanced so that we can adequately respond in the unfortunate circumstance that a response would indeed be necessary.

In no way should my testimony be construed to suggest that Missouri is vulnerable or that the previous administration jeopardized our citizens's safety. The simple reality, though, is that Governor Blunt is certain that we can do better in terms of efficiency and effectively spending homeland security funds. Governor Blunt is committed to learning from other's past mistakes and taking proactive steps to ensure that my office and other executive departments that are part of his administration are appropriately utilizing these valuable federal resources to protect Missourians. After all, that is why you, the federal government, have provided us with this money.

Governor Blunt has also made structural changes to the Office of Homeland Security in Missouri to ensure that an integrated and coordinated system is in place to meet Missouri's homeland security needs. He merged the Office of Homeland Security into the Department of Public Safety to foster collaboration and synergy between my officer and the various divisions within our Department of Public Safety. That department houses Missouri's Capitol Police, the Division of Alcohol and Tobacco Control, fire safety, water patrol, the Adjutant General of the Missouri National Guard, and the Emergency Management Agency.

By having Homeland Security reside in the same department as these agencies, we are better able to coordinate and plan for the safety and security of Missourians and will be better able to coordinate the administration of homeland security grant funding that the federal government provides.

Homeland security grant funding is a nonpartisan issue and something that we should be constantly reexamining to ensure that we are doing it correctly both at the state and federal levels. Missouri is in the process of doing just that, but it makes a great deal of sense to have hearings such as this to discuss what we are doing right, what we can do better, and where we might make changes, modifications and corrections in the way we partner together to provide safety and security for the nation as a whole and states individually.

As I understand it, Chairman Cox's first responder bill directs the Secretary of Homeland Security to determine essential capabilities for different types of communities based on an analysis of critical infrastructure sectors, types of threat, geography, population, vulnerability, consequences and intelligence information regarding emerging threats, among other things. It is clear that standards defining threats and preparedness goals would assist states in preventing terrorist attacks. As these standards and goals are devel-

oped, though, it would be important to take non-traditional terrorism such as agro-terrorism into account.

We have learned a great deal through the examination of previous homeland security grant spending by states and the federal government has responded based on findings from those studies. Its reexamination and retooling should be an ongoing process no matter what modifications are made to the grant formula, whether it be the adoption of a risk-based approach or some variant thereof.

Constantly evaluating and reevaluating how best to prepare for, prevent, and protect against attacks is the business that we are in. It is not one where an approach that is adopted today necessarily will be the right one beyond the foreseeable future.

Thank you again for inviting me to testify about this important issue and the steps that Governor Blunt has taken to ensure that we are the best stewards of the resources you give us. I would be happy to answer any questions you might have.

[The statement of Mr. Chapman follows:]

PREPARED STATEMENT OF MICHAEL CHAPMAN

Chairman Cox, Chairman King, Ranking Member Pascrell and other members of the subcommittee. Thank you for inviting me here today to talk about the critical issue of Homeland Security Grant spending. I am honored to be here to relate to you the efforts that my governor, Matt Blunt, has undertaken in Missouri to ensure that every single Homeland Security dollar the federal government awards Missouri is utilized to protect, prepare for and respond to terrorism-related emergencies in our state, or if need be, in neighboring states.

On February 8, 2005, less than one month after his inauguration, Governor Blunt issued a memorandum to his department directors asking for information regarding Homeland Security Grant spending. Specifically, Governor Blunt asked his department directors for:

- A detailed analysis of what federal homeland security money that your department has received and how it was spent
- A list of grant requests that your department has made for federal homeland security money
- A list of any private company or any locality your department has partnered with to petition for federal homeland security grant funding; and
- A plan that lays out how your particular department might be able to utilize federal homeland security money to better prepare for and protect the public in case of a future incident

Governor Blunt asked for this information because of two specific incidents in Missouri that caused him to question the wisdom with which Homeland Security dollars had been spent by the previous administration. The first incident involved my predecessor negotiating a contract with a company for a web portal that would have in essence provided duplicative communications capabilities to emergency responders. After this contract had been shepherded through to near completion, my predecessor went to work for the company. Governor Blunt has made very clear that even the appearance of impropriety in government contracting will not be tolerated in his administration and this "raised flags" that other Homeland Security spending ought to be examined to ensure that it was appropriate and that it contributed in a meaningful way to the preparedness and protection of Missourians.

The second incident was cited in the House Select Committee on Homeland Security's report "An Analysis of First Responder Grant Funding" and involved the purchase of approximately 13,000 chem-bio warfare suits, one for nearly every full-time law enforcement officer in the state. Some of the communities that received these suits needed them and are better prepared to respond to terrorist attacks because they have them. However, one would be hard pressed to justify this spending for EVERY full-time law enforcement officer in our state. Missouri has many rural areas where it was inappropriate for these suits to have been purchased and it is clear that other equipment may have been a greater contributor to the safety of residents in those communities. Governor Blunt believes that regional solutions to responding to chemical-biological warfare should be explored.

My office and the State Emergency Management Agency which administers Homeland Security Grant funding for Missouri are in the process of evaluating the

reports from department directors which were due on March 31, 2005. We plan to provide an executive summary of our findings to the governor this week so that he can make informed decisions about how to better protect Missourians. Initial indications are that a comprehensive Homeland Security plan to protect Missouri needs to be further developed, refined and enhanced so that we can adequately respond in the unfortunate circumstance that a response would be necessary.

In no way should my testimony be construed to suggest that Missouri is vulnerable or that the previous administration jeopardized our citizens' safety. The simple reality though is that Governor Blunt is certain we can do better in terms of efficiently and effectively spending Homeland Security funds. Governor Blunt is committed to learning from others' past mistakes and taking proactive steps to ensure that my office and the other executive departments that are part of his administration are appropriately utilizing these valuable federal resources to protect Missourians. After all that is why you, the federal government, provide us with this money.

Governor Blunt has also made structural changes to the Office of Homeland Security in Missouri to ensure that an integrated and coordinated system is in place to meet Missouri's Homeland Security needs. He merged the Office of Homeland Security into the Department of Public Safety to foster collaboration and synergy between my office and the various divisions within the Department. Public Safety houses Missouri's Capitol Police, Division of Alcohol and Tobacco Control, Fire Safety, Highway Patrol, Water Patrol, Adjutant General and Emergency Management Agency. By having Homeland Security reside in the same department as these other agencies, I am better able to coordinate and plan for the safety and security of Missourians and will be better able to coordinate the administration of Homeland Security grant money that the federal government provides.

Homeland Security grant funding is a non-partisan issue and something that we should be constantly reexamining to ensure that we are doing it correctly both at the state and federal level. Missouri is in the process of doing just that but it makes a great deal of sense to have hearings such as this one to discuss what we're doing right, what we can do better and where we might make changes, modifications and corrections in the way that we partner together to provide safety and security for the nation as a whole and states individually.

As I understand it, Chairman Cox's First Responder bill directs the Secretary of Homeland Security to determine essential capabilities for different types of communities based upon an analysis of critical infrastructure sectors, types of threat, geography, population (including commuting and tourist), vulnerability, consequences, and intelligence information regarding emerging threats among other things. It is clear that standards defining threats and preparedness goals would assist states in preventing terrorist attacks. As these standards and goals are developed though, it will be important to take non-traditional terrorism, such as agro-terrorism, into account.

We have learned a great deal through the examination of previous Homeland Security grant spending by states and the federal government has responded based on findings from those studies. This reexamination and retooling should be an ongoing process no matter what modifications are made to the grant formula, whether it be the adoption of the risk-based approach or some variant thereof. Constantly evaluating and reevaluating how best to prepare for, prevent and protect against attacks is the business that we are in, and it is not one where an approach that is adopted today necessarily will be the right one beyond the foreseeable future.

Thank you again for inviting me to testify about this important issue and the steps Governor Blunt has taken to ensure we are the best stewards of the resources you give us that we can possibly be. I would be happy to answer any questions you might have.

Mr. KING. Thank you, Mr. Chapman.
Mr. Miller?

**STATEMENT OF DAVID L. MILLER, ADMINISTRATOR, IOWA
HOMELAND SECURITY AND EMERGENCY MANAGEMENT
DIVISION**

Mr. MILLER. Chairman King, Chairman Cox, members of the committee, my name is David Miller, and I am the Administrator of the Iowa Division of Homeland Security and Emergency Management.

In Iowa, we have been involved in antiterrorism activity since the first bombing of the World Trade Center and the bombing of the Murrah Building in Oklahoma City. Ellen Gordon, my predecessor, served on the Gillmore Commission. It is my privilege to appear before you and provide my perspective on the Department of Homeland Security first responder program.

Since September 11, we have learned a great deal about our capabilities, our deficiencies, our needs and our goals as states, as regions, and as a country. This is an excellent time to pause and take stock of the first responder program, to reassess our goals and to make adjustments to the program where needed. Let me offer a few principles and observations.

First, Congress must establish and fund clear national goals for the security of our homeland based on a comprehensive analysis of all safety and economic risks. The first responder program has served as an important jump-start for communities all across this country to take stock of their readiness and in a relatively short amount of time, make needed and measurable investments in their emergency preparedness.

The original formula for funding was logical given what we knew at the time. Over time, however, the first responder program has changed measurably and our knowledge has improved considerably. Funding is now funneled through numerous silos without an effective analysis of whether that investment is needed or will make the country safer. Funding has become so diffuse that coordinated rational statewide and regional planning is severely hampered.

The growth of the UASI program is a primary example. Without a more robust analysis of the real risk and threat underlying this funding, we are presumably saying that an attack on Indianapolis or Columbus is more likely, would cause more devastation, and is in greater need of additional resources than an intentional introduction of foot-and-mouth disease in our cattle herds or an attack on our cyber infrastructure.

Many want to shift the entire first responder program to one based solely on threat-risk before that analysis has been completed. A threat-risk formula done today, absent a much more comprehensive threat assessment, is just another name for funneling more money to big cities because population density has become our shorthand for threat.

Second, homeland security must be undertaken as a systems approach, with agriculture fully accounted for. In my opinion, the entire first responder program is geared towards preparing us for what happened in the past, and not for what could occur in the future. The program focuses on critical infrastructure, defined largely as things and a list of places to guard. So when we speak of agroterrorism, most federal policymakers think we want to spend money to guard places like food processing plants or animal feed lots. Instead, we need an analysis of the weaknesses in the farm-to-fork continuum and the prevention of and preparation for a rapidly moving infectious disease in our animal population.

With this focus on places so entrenched, there is little ability and little funding to prioritize coordination at the state level of the systems that are the foundation of our economy. For instance, if we

were ever to have a presumptive positive test for foot-and-mouth disease on a hog leaving Iowa for slaughter in North Carolina, states and the USDA would quarantine those animals. Access to infected areas would be restricted. Entire communities would be affected. States would need to work in a seamless and coordinated fashion to close roads, inform the public and take other actions. So while one feedlot or soybean field surely does not and should not fit the definition of "critical infrastructure," the hog or soybean industry surely would.

The consequences of a deliberate and widespread catastrophe within the agriculture sector would be immense for Iowa and the resulting impact would be global in nature. Yet we have virtually ignored the risk for an agro-terrorism event in our first responder program. The Patriot Act makes no mention of agriculture and only passing reference to the need to protect the food supply. Few people are aware that Homeland Security officials were actually prohibited from spending first responder funding on agriculture until fiscal year 2004.

As a result of this haphazard approach to agriculture, we simply do not have a clear analytical assessment of the vulnerabilities in our agriculture sector, nor can it be said that we have a national comprehensive plan in place for preventing or responding to widespread animal or plant emergencies.

Not everything, of course, comes down to money, but watching how the money flows is a good indication of priorities. So it is instructive to note that since 9/11, Congress has appropriated approximately \$10.8 billion to states and local governments for urban-focused critical infrastructure programs, but only \$50 million, or less than 1/2 of 1 percent to help states detect, diagnose and respond to foreign animal disease outbreaks. I am positive that a thorough risk-threat analysis is likely to conclude that the relative risk is higher than 1/2 of 1 percent.

Two years ago in Iowa, we began the Multistate Partnership for Security in Agriculture. The partnership is an 11-state consortium dedicated to addressing these critical issues in a systems approach to agriculture emergency response. The entire effort was funded from our own funds in Iowa. Then-Secretary Ridge understood the importance of this effort and granted the partnership \$2 million in seed money to continue our work. With this funding, the partnership is in the process of coordinating response planning, training and exercises, as well as creating risk communication materials, developing interstate communication protocols, and addressing disease surveillance. We think this is the kind of collaborative interstate systems approach that is extremely useful and provides a model not only for agriculture states, but other economic sectors as well.

Third, homeland security should not be an unfunded mandate. In Iowa, we have a particularly important responsibility to help protect the nation's food supply and farm economy. At the same time, we face increasing mandates from the Department of Homeland Security such as compliance with the national incident management system, the national response plan, addressing issues of communications interoperability that require a base commitment in all states if our goal is truly a national plan.

Some have suggested Congress should cut funding to smaller states altogether so that we can concentrate our finite resources on our landmark cities, which leads us back to the issue of risk and threat, and the urgency we feel to restructure the first responder program so that it rests squarely on comprehensive analysis of our country's vulnerabilities and response capacities.

Thank you.

[The statement of Mr. Miller follows:]

PREPARED STATEMENT OF DAVID MILLER

My name is David Miller and I am the Administrator of the Iowa Division of Homeland Security and Emergency Management. In Iowa, we have been involved in anti-terrorism activities since the first bombing of the World Trade Center and the bombing of the Murrah building in Oklahoma City. Ellen Gordon, my predecessor, served on the Gilmore Commission. After September 11th, our homeland security and emergency management responsibilities were joined together and—like my colleagues here today—I am now responsible for coordinating the statewide preparedness and response plans for any type of emergency within Iowa's borders, whether it be a flood, infectious animal disease, hazardous materials spill, or terrorist attack on the Iowa State Fair or our cyber infrastructure.

It is my great privilege to appear before you today to provide my perspective on the Department of Homeland Security's First Responder program and to share with you a few observations about how the program might be improved.

I would like to say from the outset that I think the Congress and the Department of Homeland Security (DHS) have done an exceptionally good job of responding to the events of September 11th by recognizing the deficiencies in our emergency preparedness capabilities and by organizing a nationwide effort to make sure that we are as prepared as we can possibly be to prevent an attack in the future and, were an emergency to occur, to move quickly to protect lives and our economic stability. Since September 11th, we have learned a great deal about our capabilities, our deficiencies, our needs, and our goals—as states, as regions, and as a country. This is an excellent time to pause and take stock of the First Responder program, to reassess our goals, and to make adjustments to the program where needed.

Let me offer a few principles and observations:

□ Congress must establish and fund clear, national goals for the security of our homeland based on a comprehensive analysis of all safety and economic risks.

The First Responder program has served as an important jumpstart for communities all across this country to take stock of their readiness and, in a relatively short amount of time, make needed and measurable investments in their emergency preparedness. Communities are better prepared for any emergency because of the investments that have been made, making this country safer for our citizens.

The original formula was logical given what we knew at the time: the primary grant program, the State Homeland Security Grant Program (SHSGP) was distributed in two segments, one to all states equally and the rest based on population. Over time, however, the First Responder program has changed measurably and our knowledge has improved considerably. Funding has become so diffuse that coordinated, rational, statewide and regional planning is severely hampered. As is natural in any political process, funding is often distributed to those that cry the loudest, rather than those in greatest need. As a result, funding has been funneled through numerous silos directed at specific stakeholders—firefighters, police, ports, cities—without an effective analysis of whether that investment is needed or will make the country safer.

As an example, the American Enterprise Institute in their report, "What Does Homeland Security Spending Buy?" documented the growth of the Urban Areas Security Initiative (UASI) program. What began as a \$100 million grant to the seven highest profile, landmark cities grew in a matter of months to 30—and later, 80—cities at a cost of, now, \$1.2 billion.¹ By this funding, we are presumably saying that an attack on Indianapolis or Columbus is more likely, would cause more devastation—and is in greater need of additional resources to prepare for—than an inten-

¹ *What Does Homeland Security Spending Buy?*, by Veronique de Rugy, American Enterprise Institute for Public Policy Research, Updated April 1, 2005, p. 26.

tional introduction of foot-and-mouth disease in our cattle herd or an attack on our cyber infrastructure. But is it true?

Similarly, in FY05, Congress devoted \$715 million to upgrading firefighter equipment and training, \$30 million to Urban Search and Rescue, and \$10 million for Intercity Bus Security Grants.² Is this funding mix based on a complete assessment of our threats and risks? No.

A careful and comprehensive analysis of threat and risks to all sectors, with meaningful input from industry and state and local responders, must be the guide for the resources we commit as a nation to homeland security.

Let me just say that the level of input now allowed state and local responders is not adequate. Let me give you just one example. Last year's Intelligence Reform bill required DHS to develop a national strategy for transportation, including setting risk-based priorities, cost-effective means for addressing them and realistic deadlines for action. State and local transportation officials have had no input into—or even knowledge of—this process even though all states are responsible for the highways within their borders and many own and operate transit systems and airports.

Many want to shift the entire First Responder program to one based solely on threat/risk—*before* that analysis has been completed. A threat/risk formula done today, absent a much more comprehensive threat assessment, is just another name for funneling more money to the big cities because population density has become our short-hand for threat.

Homeland Security must be undertaken as a systems approach.

Because the attack on September 11th was on two of our largest and most symbolic urban areas, it is natural for us to feel we must plan for a similar attack to occur again. However, in my opinion, the entire First Responder grant program is geared toward preparing us for what happened in the past, and not for what could occur in the future—and could be far more devastating to our nation.

Currently program emphasis is structured around the protection of “critical infrastructure”. But critical infrastructure is consistently and persistently defined as things, a list of places to guard. (And, frankly, many of them don't seem that critical. In Iowa, the early list included a shopping mall that was yet to open and a water park that had closed.) So when we speak of agroterrorism, most federal policymakers think in terms of guarding places like food processing plants or animal feedlots. Instead we mean an analysis of the weaknesses in the ?farm to fork continuum? and the prevention of, and preparation for, a rapidly moving infectious disease in our animal population, for example, or an intentionally-introduced pathogen that devastates our crops.

With this focus on places so entrenched, there is little ability—and little funding—to prioritize the systems that are the foundation of our economy—cyber, energy, agriculture, transportation and others. And while there is growing, but relatively recent emphasis, on the regional or interstate cooperation needed to prevent or respond to an interruption or attack on these sectors, nearly no funding or guidance exists for those cooperative efforts.

A large scale agricultural disease outbreak, for instance, would have far reaching emotional and economic effects on all aspects of our society, both emotional and economic. If we were ever to have a presumptive positive test for foot-and-mouth disease on a hog leaving Iowa for slaughter in North Carolina, for instance, state agriculture secretaries, together with the USDA and Governors of the transit and neighboring states, would quarantine those animals and any with which they may have come in contact. Access to infected areas would be restricted to control the spread of disease. Entire communities would be affected. So while one feedlot or soybean field surely does not—and should not—fit the definition of “critical infrastructure”, the hog or soybean industry surely should.

After all, it can be argued that if economic disruption and panic is what the foreign terrorists are after, an attack on our food supply, our power grid, or our computer or banking networks would be a far greater calamity. The attacks on the buildings in New York and Washington, D.C. affected us all. Think how much more we would be affected if one of the key systems under-girding our society were to fail.

Agriculture must be fully integrated into our homeland security plans.

The agriculture sector is an important focus of our homeland security efforts in Iowa. This industry is crucial to the economy of our state and the welfare of its citizenry. Additionally, Iowa provides food to nations throughout the world. The con-

²Department of Homeland Security Appropriations Act, 2005 (Public Law 108-334)

sequences of a deliberate and widespread catastrophe within the agriculture sector would be immense for Iowa and the resulting impact would be global in nature. The GAO has reported that the direct costs of an outbreak of foot-and-mouth disease similar to what occurred in the United Kingdom could be as high as \$24 billion with the destruction of 13 million animals. They also reported a USDA calculation that a foot-and-mouth disease outbreak could spread to 25 states in as little as five days.³

Yet we have virtually ignored the risk of an agroterrorism event in our First Responder program. The Patriot Act makes no mention of agriculture and only passing reference to the need to protect the food supply.⁴ Few people are aware that homeland security officials were actually *prohibited* from spending First Responder funding on agriculture's First Responders (state and private veterinarians and state agriculture departments) until Secretary Ridge stepped in to change that for the FY04 grant guidance.

Even with the availability of new funds, inclusion of agriculture initiatives in state emergency response plans is voluntary and the small sum of funding state agriculture departments were given after 9/11 is now gone. In addition, DHS' national plans include only an appendix on agriculture—and, as an aside, only occurred because Iowa officials were present at a meeting in Washington, D.C where the state assessments were being discussed. Absent these state officials' input, no assessment would have been undertaken of agriculture preparedness at the state level at all.

As a result of this haphazard approach to agriculture, we simply do not have a clear, analytical assessment of the vulnerabilities in our agriculture sector nor can it be said that we have a national comprehensive plan in place for preventing or responding to a widespread animal or plant emergency. It is completely understandable to me that Secretary Thompson's parting words were, "I, for the life of me, cannot understand why the terrorists have not. . . attacked our food supply because it is so easy to do."⁵

Not everything, of course, comes down to money. But watching how the money flows is a good indication of priorities. So it is instructive to note that since 9/11, Congress has appropriated approximately \$10.8 billion to states and local governments for the urban-focused critical infrastructure programs,⁶ but only \$50 million—or less than one-half of one percent—to help states detect, diagnose and respond to a foreign animal disease outbreak.⁷ I am positive that a thorough risk/threat analysis is likely to conclude the relative risk is higher than one-half of one percent.

Two years ago, the Secretary of Agriculture in Iowa, Patty Judge, and my predecessor, Ellen Gordon, began the Multi-State Partnership for Security in Agriculture. The Partnership is an eleven-state consortium dedicated to addressing these critical issues in a systems approach to agriculture emergency response. The entire effort was funded from our own funds in Iowa. Then-Secretary Ridge understood the importance of this effort and granted the Partnership \$2 million in seed money to continue our work. With this funding the Partnership is in the process of coordinating response planning, training and exercises, as well as, creating risk communications materials, developing interstate communication protocols, and addressing disease surveillance. We think this kind of collaborative interstate, systems approach is extremely useful and provides a model not only for other agricultural states but other economic sectors as well.

Homeland security should not be an unfunded mandate.

In Iowa, we have a particularly important responsibility to help protect the nation's food supply and farm economy. But we also have a responsibility to the other critical systems of the national economy that are under our control or within our borders. One could argue, for instance, that it would be just as easy to mount an attack on our financial services sector from Iowa as it would be from Atlanta; just as easy to disrupt the power grid by attacking in the Midwest; and certainly just as easy to disrupt the food distribution system by introducing a foreign animal disease into a feedlot in Iowa rather than somewhere else. Yet our only source of fed-

³ GAO-04-259T Bioterrorism: A Threat to Agriculture and the Food Supply

⁴ The USA Patriot Act of 2001. (Public Law 107-56)

⁵ The Washington Post. Friday, December 3, 2004. (<http://www.washingtonpost.com/wp-dyn/articles/A31377-2004Dec3.html>)

⁶ Federal Funds Information for States.

⁷ USDA awarded \$43 million in grants to States from the FY2002 supplemental emergency bill, included in the Department of Defense Appropriations Act, 2002 (Public Law 107-117). An additional \$7 million in USDA discretionary grants were awarded in FY2003.

eral funding to address these threats and risks, the State Homeland Security Grant Program, has been cut to fund the increasing UASI program.⁸

Yet, at the same time, we face increasing mandates from DHS—such as compliance with National Incident Management System (NIMS), the National Response Plan (NRP) and communications interoperability protocols—that require a base commitment in all states if our goal is a truly national plan.

Some have suggested Congress should cut funding to the smaller states altogether so we can concentrate our finite resources on our landmark cities.

Which leads us back to the issue of risk and threat—and the urgency we feel to restructure the First Responder program so that it rests squarely on a *comprehensive* analysis of our country's vulnerabilities and response capacities.

Mr. KING. Thank you, Mr. Miller.

Mr. Chapman, you indicated in your testimony that you have at least some questions or concerns about some actions that were taken by your predecessor. Without even getting into the merits of that or whatever, do you feel there was any oversight from the Department of Homeland Security then or now as to how the money is being spent? For instance, if you feel that the money was spent improperly, I am not even suggesting illegality, I am just saying if it was spent improperly or not for a valid purpose, do you see any oversight at all coming from Washington?

Mr. CHAPMAN. Let me qualify this by saying I have been in this position for 4 weeks. In my research prior to arriving and in the 4 weeks, it is not clear to me that there is a lot of oversight. That is not to say there is not any. I am just not aware of a whole lot of oversight.

Mr. KING. Mr. Beatty, you made a strong argument for making us all lions rather than sheep. Have you had a chance to look at Chairman Cox's bill, the Cox-Thompson bill? Do you feel it does move us in that direction?

Mr. BEATTY. I believe it can. When you reduce the guaranteed amount that goes to each state and then look at increasing the amount based on the threat formula, it can certainly be used to address the threats as they are seen. The question is, who is doing the analysis; what information are they using; and are they working together between federal, state and local governments to make sure we are accurately assessing what those threats and capabilities are.

Mr. KING. You also discussed in your testimony about how North Carolina, the different localities within the state were cooperating with each other, in fact, regional cooperation within the state. Do you have any thoughts on regional cooperation outside the state, for instance with North Carolina and states surrounding it, and the appropriateness of submitting requests from that region, rather than just from the individual states, or in addition to the individual states?

Mr. BEATTY. Our experience in North Carolina has been primarily with natural disasters, and we certainly have mutual aid agreements or the EMAC, Emergency Management Assistance

⁸In FY04, the State Homeland Security Grant Program (SHSGP) was funded at \$1.7 billion. In FY05, that dropped to \$1.1 billion. The President's FY06 budget requested \$1.02 billion, with 20 percent set-aside for the activities of the Law Enforcement Terrorism Prevention Grants which is proposed for elimination. In contrast, the Urban Areas Security Initiative did not exist as a separate stream of funding in FY04. In FY05, it was funded at \$1.2 billion, although only \$885 million of that went directly to cities; the rest was for other related programs, such as Port Security. The FY06 budget request includes \$1.02 billion for UASI. It also drops the base state grant from .75 percent to .25 percent, further disadvantaging lower population states.

Compact, where states cooperate and help each other through that compact. In the instance of homeland security in the Charlotte area, Charlotte–Mecklenberg, it is now a UASI city, and it has included two of the contiguous counties in South Carolina. Charlotte is on the border in North Carolina with South Carolina. It has included some counties within South Carolina. So where there are mutual interests, certainly regional cooperation without regard to state lines would be beneficial for all.

Mr. KING. Mr. Miller, as a member of Congress who has absolutely no agriculture in my district at all, I must say that you made a very strong and convincing case today. Have you had an opportunity to look at the bill as proposed by Chairman Cox and the extent to which you feel it addresses the issue of agro-terrorism and the questions that it raises regarding the threat from agro-terrorism?

Mr. MILLER. Mr. Chairman, I have had the opportunity to review the bill and I think it does have the full capability of addressing the threat and takes care of the threat vulnerability analysis. I think the question, as Mr. Beatty said, is a question of who conducts the threat, what tool is used to examine and do the assessment on agriculture. It clearly needs to involve a partnership between a variety of agriculture interests and the experts in agriculture. I think too often when we look at those assessments, they come down from folks who have little or no experience in the areas that they are trying to assess. It needs that full partnership. I believe the bill as I read it affords us that opportunity.

Mr. KING. Who do you recommend make the assessment?

Mr. MILLER. When I look at it, we look at of course the USDA. We look at the Secretaries of Agriculture. We look at producers. We look at food processors and the entire agricultural spectrum. When we look at the criteria that came out initially for critical infrastructure assessment, that came out from the Office of Domestic Preparedness, my question to my agriculture counterparts in the state was, is this the right criteria. You have to tell me, as agriculture experts, is this the right thing to look at. One of the things that we are concerned with is they tend to look at fixed assets, rather than looking at the system of agriculture and what the vulnerabilities were within that system.

Mr. KING. In looking at the bill, the Cox–Thompson bill in section 1803 where it talks about critical infrastructure sectors, it says the Secretary specifically shall consider threats of terrorism against the following critical infrastructure sectors in all areas of the nation, urban and rural. Number one is agriculture. Then further on down, number seven is food. So you have both agriculture and food now listed in the criteria, with agriculture being number one. So I would just say that that seems at least to begin to address some of the significant issues that you have raised today.

Mr. MILLER. Yes, sir. I would agree. Agriculture would be nice if it were number one. I thought maybe it was in alphabetical order, but we appreciate its placement in the list.

Mr. KING. You are right. There is no order of priority, but it is there. The Secretary cannot miss it when he looks at it. Maybe later on you can suggest to the Secretary that it was put there intentionally for you.

[Laughter.]

But in any event, I want to thank you for your testimony.

The Ranking Member, who also I believe has very little agriculture in his district.

Mr. PASCRELL. Very little.

You were all here for the first panel, correct?

Mr. MILLER. Yes, sir.

Mr. PASCRELL. Briefly, anything you would like to respond to with what was said by any of the three panelists, Mr. Berman, Dr. Jenkins or Dr. de Rugy? Anything struck you as not in your interests or you could agree with?

Mr. MILLER. I guess I have a comment, sir, if I could.

Mr. PASCRELL. Sure.

Mr. MILLER. As I listened to the discussion, a couple of things struck me. I have been with our agency for the last 16 years so I have followed this through its infancy. Our relationship with the Office of Domestic Preparedness in the Department of Homeland Security has certainly improved over the last few years. They are doing a better job in their analysis. They are doing a better job in oversight. We are getting more guidance. The problem sometimes is how quickly that gets turned around and the speed of the process does not give time for careful analysis, often, of how we move through the program.

The other thing that caught my interest was the testimony talking about the partnership between the federal, states and locals, and who should pay what proportionate share. It truly does need to be a partnership, and there needs to be investment there. I think locals and the states have investment, always maybe not so apparently, but there is investment there and it is how we use and leverage federal dollars that is of concern to me.

I was chatting with the gentleman next to me, with Mr. Chapman before when there was discussion on communications interoperability. We know that that is a high priority in our state. Mr. Beatty has stated that it is high priority in his state. I also know that I chaired a communications task force in our state this last summer and we looked at communications interoperability as a huge issue, with Mr. Beatty's price tag of \$180-some million.

Then we looked at a Nebraska study, a price of \$220 million to do communications interoperability, just communications interoperability across the state. That is a huge investment by the federal government and requires an investment by states and locals. That is only one issue in the war on terrorism. It is only one small piece, and yet that is such a significant investment. It leaves me wondering, do we have the fortitude to invest that kind of money in that kind of infrastructure to make us all safer and better prepared.

Mr. PASCRELL. Thank you.

Would either of you gentlemen like to respond as well?

Mr. BEATTY. I would like to respond to one concern I had with a statement that was made by Ms. de Rugy, I believe her name is. When she talked about the biggest bang for the buck, and saying that prevention obviously gives you the biggest bang for the buck. I certainly agree that prevention is the best way to address terrorism, but it is sort of like saying that if we had enough policemen

we could stop all crime and on Friday and Saturday nights we could close the emergency rooms and send the doctors home. We know that no matter how many police officers you have out there, there still will be those who get themselves into trouble.

We know that no matter what we do from the prevention standpoint, we will still have the potential for an attack and will still need the capability to respond. So certainly while we want to make sure we have funding there for prevention, and that is one of our priorities, we do not want to retrench from providing that funding for the first responders in case we were not successful in preventing. That was one of the things that stood out to me.

Mr. PASCRELL. Thank you.

I know that you have only been there a few weeks, but have had probably some impressions.

Mr. CHAPMAN. I do. I would like to echo Mr. Miller's comments about the balance of speed with the importance of having the time to do a review over how the money will actually be spent. I would much rather have more time to get spending plans in or strategies in and ensure that we were actually putting the money where it really belongs to get the greatest value for the federal investment.

Mr. PASCRELL. Mr. Beatty, what level of involvement in your state, what is the level of involvement with our first responders in order to build the mechanism, build the defense, a response team? In your state of North Carolina, is this a top-down situation, in your estimation, or is there really a serious attempt to build a bottom-up defense in terms of homeland security?

Mr. BEATTY. We would like to think it is a collaboration between state and local officials. We have a State Emergency Response Commission which is comprised of members of state agencies that are responsible for public health and safety, as well as representatives from local agencies, the sheriff's association, police chiefs, fire chiefs, emergency medical, emergency management. We look at all the issues related to our preparedness and we worked together and we put together a state strategy and a state plan on homeland security. We try to work together.

Again, our experience is primarily in the area of preparing for natural disasters. We have had plenty of experience with that, and we realize that the first response to any event is a local response. So we try to make sure that there is the capability at the local level so that they can respond initially, and then we come in from a regional standpoint as well as from the state, and then of course federal, particularly when we have major hurricanes. So it is building upon the local capacity is our philosophy.

Mr. PASCRELL. Thank you, Mr. Chairman.

Mr. KING. The gentleman from North Carolina.

Mr. ETHERIDGE. Thank you, Mr. Chairman.

Secretary BEATTY AND MR. Miller, both your states have substantial livestock investments. My question is, can you quantify the current risk to that industry? If so, how do you do it and what plans do you have that are currently in place to respond to that risk? And if not a plan, then what do we need to be doing to make sure? I know North Carolina did a trial run that, Mr. Secretary, you were involved in, as I was, a couple of years ago. Would you two care to comment on that?

Mr. BEATTY. Representative Etheridge, you are very familiar with what we are doing in our state, but for those from other states, we did have a foot-and-mouth disease scare just before 9/11. We realized at that time that we did not have the capabilities and response capabilities, lab capabilities that we need to be able to monitor, detect, certainly prevent if we could, but respond to contain an outbreak in North Carolina. That is the reason our Department of Agriculture has worked together with other state agencies, the private industry as well as federal agencies, to try to put together a model plan for being able to assess the vulnerabilities, mitigate against those, and respond and recover from all facets of our food production, right on from, as we say, from farm to fork. We have a plan to do that. We simply need a little funding to help carry that out, and we can serve as a national model.

Mr. ETHERIDGE. Mr. Miller?

Mr. MILLER. In Iowa, we have addressed things the same way. On the assessment side, I think one of the most difficult sides is to assess the clear threat. We have worked to assess the threat to agriculture overall, not just looking at the threat of terrorism, but understanding that a threat to agriculture, whether foot-and-mouth disease or a foreign animal disease was naturally introduced or was introduced by a terrorist. In many cases in how we respond, as you said earlier, Congressman Etheridge, is irrelevant, that it is the same response.

We have been working with our Secretary of Agriculture and with the partner states around us to develop a plan about how we do agriculture and how we would address those issues. We, too, had a foreign animal disease exercise a couple of years ago. We found we were sorely equipped to address the issues and were quickly overwhelmed if we would have had a positive case of foot-and-mouth disease in the state. Since that time, we have been looking at those issues, how we would build our team. We are looking at establishing veterinary and rapid response teams in a partnership between state vets and private veterinarians. We are looking to improve the communication coordination with the county extension services. We have an active involvement between the agriculture folks and frankly the law enforcement and other emergency responders so each knows the role that they would play in an agriculture disaster.

I am also very cognizant of the fact that while we were doing those things about an outbreak in the state and were looking at that agriculture plan and enhancing that, I am as concerned with an outbreak that should occur in another state and the impact it could have on our state and how we would appropriately respond to those issues. As far as I am concerned, we have not adequately addressed those yet, but it is the area that we are working on.

Mr. ETHERIDGE. Mr. Chairman, while Secretary Beatty is still here, in the exercise we did in North Carolina, it was really put on by the federal government. It was a joint exercise of all the first responders in North Carolina. All of them were available. I think the frightening thing of that from agro-terrorism, whether it was an accident or it was intentional, it would have shut down the food chain in this country in less than 30 days, all across America, be-

cause of the movement of animals from one state, whether it be Missouri, Iowa or otherwise. That is a frightening thing.

I think the fact that we have in this piece of legislation, that I happen to be an original cosponsor as well, it allows us the tools to respond to that. Hopefully, it will never happen, but the days of animal confinements on one small farm plot, even like we have in Europe, are gone. Animals move several times before they move to market. I think a lot of our friends in the city do not realize that. You think of piglets and operations for hogs or cows or whatever—

Mr. KING. Is there a particular reason why you are looking at me and Mr. Pascrell?

[Laughter.]

Mr. ETHERIDGE. I was really looking at Mr. Pascrell.

[Laughter.]

Seriously, Mr. Chairman, the truth is I think folks do not realize that our food and animals move so many times before they get to market, and the potential for contamination is much higher today than it was 10 or 15 years ago. I think it requires from us a joint effort, federal, state and local, of being able to address these issues in a way we have never had to address them before.

I thank our panelists for being here and for their comments.

Thank you, Mr. Chairman. I yield back.

Mr. KING. Thank you, Mr. Etheridge.

I just really have one final question, I guess about as philosophical as I can get, but an overview question. We are now 3 1/2 years since September 11, with states considerably distant from New York and the Pentagon. Do you feel that the people living in your states still feel the threat or the importance of the war against terrorism? Do you feel that you will continue to get support within your states for this effort? Homeland Security can only do so much. Do you feel that you continue to get the cooperative effort from your local municipalities, for instance? Do they continue to appreciate it?

Because even in New York, where I am from, people are starting to lose sight of how bad it was. I am just wondering in your states if that feeling was still there, and the willingness to cooperate with the federal government and also to work within your own states.

Mr. BEATTY. Mr. Chairman, it is a delicate balance, obviously, we have to strike between making sure that people are properly prepared and aware and causing them to be overly anxious or panic. We try to strike that balance. I know certainly those who are responsible for public safety take this very seriously, and I know you are aware of that, and keeping citizens informed of the kinds of things they need to know to be prepared is the greatest challenge. We continue to try to work toward that. But as was said earlier, even though we are far away from New York City, we are only as strong as a nation as our weakest link, and right now we know from past experience that there are Al- Qa'ida operatives looking for our weakest link.

Mr. KING. Mr. Chapman?

Mr. CHAPMAN. I would say in Missouri that the state agencies, local governments, take seriously the threat. I am confident that many of our citizens look at the issue as, well, we are not on one

of the coasts, so what is the threat for us. In fact, I had a journalist use those words the other day with me. My point is very much along the lines of Mr. Beatty's, which is that if you provide a soft target, that is where you will be attacked. I would like to create a hostile environment toward potential terrorist attacks in Missouri. If I was a terrorist and I was looking for a place to do some major destruction, I would look for a very soft target.

Mr. KING. Mr. Miller?

Mr. MILLER. I agree. It is a delicate balance. I go out often and speak to a lot of small groups in our state, local service clubs, citizens groups, and try to put terrorism in a perspective that they can understand. Clearly, the threat of an Al-Qa'ida-type event in our state, I do not know if that threat is there. Everything I have seen and the data that has been shared with us is that we should not suspect a high incidence of occurrence of an Al-Qa'ida attack. But at the same time, when I look at the attack on the Murrah Building and other things that have happened in the Midwest, it tends to put it in perspective for local folks and they understand that there is a threat there.

When we also explain the kind of infrastructure that we have in the state that could be the subject of a foreign terrorism threat, the nuclear power plants that sit on each of our borders and one near Cedar Rapids, the interstate transportation of goods and services throughout the state, the transportation of goods and services on the Mississippi and the Missouri River, it begins to take another focus for them. Part of it is an education of what is within the state, what can happen within the state, what transpires and goes through the state, and also an examination of the local threat that we can get domestically.

Mr. KING. Thank you.

Bill, do you have anything further?

Mr. PASCRELL. Mr. Chairman, thank you, a great job. I think that the last question that the Chairman asked is a very critical question. If you asked me the question, I would say what I have concluded in the past year is that we do not believe we are at war, and this has a lot to do with preparedness. This has a lot to do with how much ingenuity we are willing to spend and use in getting the job done to protect our citizenry.

Yesterday, I was on a panel with former FBI Agent Paul Williams. I was kind of struck by what he said, and he knows what he is talking about, on the number of nuclear weapons that he thinks are already in this country in the hands of our enemy, in this country.

So we are not talking about something farfetched. We are not talking about a sci-fi movie. We are not talking about reality TV. We are talking some serious business. And those folks on the frontlines, our first responders, need to know that we are supportive not only in terms of the money we can get down to the local level, but they must know that we sense the danger. We will not panic. We will be level-headed and we will make the right decisions to protect our kids and our grandchildren.

This is serious business, and I thank you for being here today.

Mr. KING. Let me join with Bill and thank all of you for your testimony. It was really very enlightening. I do believe it goes right

to the heart of the bill, that the money should be spent on a risk basis. Obviously, you have shown me the definite risk that certainly exists in your states. So I thank you. And not just in your states, but in the nation. You made that point very well.

So I want to thank you for your testimony today. Thank you for your time, and also thank you for your patience. Thank you very much.

[Whereupon, at 4:28 p.m., the subcommittee was adjourned.]

