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HURRICANES KATRINA AND RITA: WHAT WILL BE THE LONG TERM EFFECT ON THE FEDERAL BUDGET?

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, AUGUST 2, 2007

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HURRICANES KATRINA AND RITA: WHAT WILL BE THE LONG TERM EFFECT ON THE FEDERAL BUDGET?

THURSDAY, AUGUST 2, 2007

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:06 a.m. In Room 210, Cannon House Office Building, Hon. John Spratt [chairman of the committee] Presiding.

Present: Representatives Spratt, Edwards, Blumenauer, Boyd, Etheridge, Hooley, Moore, Ryan, Bonner, Garrett, Hensarling, Conaway, Campbell, Porter, Alexander, and Smith.

Chairman SPRATT. I call the hearing to order. Good morning. Welcome to our hearing on the long-term impact of Hurricane Katrina and Hurricane Rita. We have this morning an excellent panel of witnesses to help us examine this issue from several different perspectives. The Gulf Coast hurricanes, horrendous as they are, is not a new topic for Congress. A number of committees have already held hearings on this topic. Those hearings led to legislation to improve our efforts along the Gulf Coast and in this case, the case of this committee, to fund the 2008 budget resolution and to address critical needs. But this is the first hearing on this topic at the Budget Committee. And we scheduled it because we want to examine budget-related issues from a longer term perspective.

Among the questions we will examine today, what have expenditures been to date—that's a fair basic question—but in this case, expenditures are substantial, unprecedented. What additional expenditures are likely to be required to finish the job and rebuild the Gulf Coast and over what period of time? We need to know that as we prepare budgets that extend into the outyears.

And finally, what is the appropriate Federal share? We can't pick up the entire amount, but neither can local and State government. This August will be 2 years since Hurricane Katrina made landfall and overwhelmed the levies in New Orleans. The devastation has been well chronicled and so have the costly mistakes made in the initial response. In many cases those mistakes will have long-term as well as short-term costs both in financial and human terms.

At the same time, as resources were being misspent on trailers and other supplies that would never be used, there was a significant bottleneck in supplying funds to rebuild infrastructure needed immediately and help homeowners rebuild and come home. Those delays often led to lower and slower private investment and higher

building costs. In addition to hearing from our witnesses today, the Congressional Budget Office has compiled at our request information on hurricane-related spending. CBO's analysis is very useful but CBO was forced to rely on flawed accounting and tracking data on the part of the executive branch.

That gap has seriously limited our ability to make up some of the comparisons that would help us institutionalize disaster management successes in the 1990s or learn from more recent mistakes. As we move forward, it will be important to address these issues, and I hope our witnesses will offer suggestions.

The communities devastated by Hurricane Katrina and Hurricane Rita still face costly challenges in rebuilding their homes, their schools, their hospitals, their entire infrastructure, rebuilding costs for careful or long-term planning and for targeted investments. We hope that our discussion this morning and the more detailed information we've obtained will help this committee and the Congress and CBO capture the probable costs of the long-term rebuilding effort and reform the processes that failed in 2005. We have three excellent witnesses. But before turning to them, let me recognize our ranking member, Mr. Ryan, for any opening statement he wishes to make.

Mr. RYAN. Thank you, Chairman and welcome to our esteemed panel. With a few notable exceptions, such as the Coast Guard, the response to Hurricane Katrina from all levels of government was clumsy and inadequate. And we all regret that. Nevertheless, some facts of the episode cannot be ignored, including the following. The sheer magnitude of Katrina's impact posed unprecedented challenges to which all levels of government fell far short from what we would want. This alone tragically magnified the shortcomings of the response. Second the episode demonstrates that Congress's response, pouring huge sums of money into the region for recovery ends up creating its own problems.

In particular, it becomes impossible to manage and oversee such large infusions of cash disbursed in such short time frame. This can easily lead to waste, fraud and abuse as we have seen in time and again in other government financed efforts and unfortunately here as well.

Third, we should not ignore one very large but not surprising success, the outpouring of support to voluntary organizations to assist victims and to help with the recovery. There were over $4 billion in charitable donations provided to the relief effort with about ⅔ of it going to the Red Cross and the Salvation Army. Something we learned from both 9/11 and Katrina, Americans come through and help their neighbors in distress, even if those neighbors live 1,000 miles away.

Now it is worthwhile to reflect on what went well and what didn't, but only if it illuminates lessons that can be helpful now and into the future. With that in mind, one of the lessons we can learn is that the coordination of local, State and Federal responses is absolutely essential. Each level of government as well as voluntary aid organizations needs to understand its own particular role in such catastrophes and how best to work in conjunction with other organizations. I hope this is an issue we can discuss today. We should also look at the progress that State and local authorities

have had in developing a proper strategy for further recovery efforts so that such activities and funds can be used effectively.

We can learn from the mistakes of the past. A recent report by the Bureau of Government research in New Orleans indicates that such planning still needs a lot of attention. We should also be aware that without such a plan, future efforts and funding for recovery will be much less effective.

I look forward to the discussion of today's hearings and welcome the observations of our esteemed witnesses and particularly Chairman Powell, nice to have you here too. Thank you, Chairman.

Chairman SPRATT. Thank you, Mr. Ryan. We have three witnesses this morning. Mr. Donald E. Powell is the Federal Coordinator for Gulf Coast Rebuilding. President Bush nominated Chairman Powell, the former head of the FDIC, to coordinate the Gulf Coast rebuilding in November of 2005, three months after the hurricanes. Chairman Powell will describe what has been done so far, the current status of recovery effort and the Bush administration's expectations about additional costs and future initiatives.

In addition, we have Stanley Czerwinski of the GAO. GAO has conducted extensive oversight of the disaster response and rebuilding, publishing some 40 reports since Hurricane Katrina. Mr. Czerwinski will discuss their work with a particular focus on exploring future and ongoing costs for the recovery.

And finally, we have Reverend Donald Boutte, pastor and presiding minister at St. John Baptist church in New Orleans. Reverend Boutte will describe his own personal experiences during Hurricane Katrina, which destroyed his house and killed 13 of his parishioners, including his work on churches supporting churches. He also describes the rebuilding effort on the ground, including his plans to rebuild his church. I will say to each of you, all three of you, your written testimony, your written statement will be made part of the record if there is no objection.

STATEMENTS OF DONALD POWELL, FEDERAL COORDINATOR FOR GULF COAST REBUILDING; STANLEY CZERWINSKI, DIRECTOR, STRATEGIC ISSUES, GOVERNMENT ACCOUNTABILITY OFFICE; AND REVEREND DONALD BOUTTE, PASTOR, ST. JOHN BAPTIST CHURCH

Chairman SPRATT. And you may summarize your statement in any manner you please. Mr. Powell, let's begin with you. We very much appreciate your coming. And we will look to your statement before you begin. I would ask unanimous consent that all members be allowed to submit an opening statement for the record at this point. With no objections, so ordered.

Mr. Powell.

STATEMENT OF DONALD POWELL

Mr. POWELL. Thank you. Chairman Spratt, Ranking Member Ryan, distinguished members of the House Committee on the Budget. My name is Don Powell and I am pleased to appear before you today as the Federal Coordinator for the Gulf Coast Rebuilding.

The efforts of the local, State and Federal governments, working with the public spirited nongovernmental organizations and the

people of the Gulf Coast have improved conditions dramatically since the dark days just after Hurricane Katrina and Rita struck. Every trip I make to the Gulf Coast, I am heartened by the progress I see. Of course, money is an important part of the recovery process, and the President and Congress have allocated more than $116 billion to the rebuilding effort to date. More than ¾ of those funds have been obligated to the States.

In addition to the cost for immediate relief and recovery, the emergency supplemental appropriations have funded major long-term rebuilding efforts, such as $17.1 billion for long-term housing and community development, more than $10 billion so far for local public infrastructure, $8.4 billion for levies, wetlands restoration and other flood control items; and more than $10 billion in Small Business Administration loans, approximately $3.5 billion for Federal highways, bridges and other infrastructure, $3 billion for health care, counseling and other human services, and approximately $2 billion for education.

In addition, approximately $13 billion in tax incentives and relief have been made available to spur private sector rebuilding. FEMA public assistance. I understand the concerns about the speed and efficiency of the FEMA public assistance program, which provides funds to repair public infrastructure such as roads, sewer, water systems, schools and public safety infrastructure. This project worksheet process often takes time and I understand the sense of urgency on the part of those on the local level to need to rebuild. Our office has worked hard to improve the process. But rebuilding is a partnership. Once the Federal Government has provided funds to the State governments, State and local government officials become primarily responsible for the managing of the rebuilding. A very significant portion of the funds, $4.89 billion in Louisiana or more than ¾ of the projected total is now available to the local leaders for rebuilding.

The State of Louisiana has transferred only about $2.6 billion of that money into the hands of the local applicants. Delays can result if State or local applicants do not know what to do, a limited capacity of the local level. That is why FEMA has worked to assist local stakeholders by providing millions of additional funds for administrative costs and additional hands-on support. State and local leaders must hold up their end of the partnership by meeting basic responsibilities or projects become stalled. The Federal Government has not been blameless, but we have worked to streamline the public assistance process, actually reducing the amount of time for processing grants from months to weeks. Specifically, our office worked with FEMA to improve FEMA's internal management by reducing personnel turnover and empowering key leaders to make decisions, improve cost estimates for local applicants, cut unnecessary layers of bureaucracy in FEMA's approval process while still ensuring appropriate and required due diligence.

Help local communities set the building requirements and implement and approve A to Z tracking system that tracks applicants from initial application through award of funds. For an example of FEMA's improved performance, State superintendent Paul Pastorek recently praised FEMA for its prompt action to initiate the rebuilding of five schools in order to have them open in time

for the beginning of classes next fall. Finally FEMA and our office are working to improve the transparency of the project worksheet process. Together we are preparing a Web site that would allow government officials, local leaders and the general public to track the progress of each project. For example, it would allow people to check the status of the rebuilding of their local public school, firehouse or police station. By providing this information to the public, we hope to make public interest a tool to drive progress. Looking ahead, additional needs could arise on the Gulf Coast beyond the $116 billion already appropriated.

Let me outline two areas where additional funds may be requested. First, the Army Corps of Engineers started work immediately after the storms. As of today over $8.4 billion have been secured for hurricane protection and the Corps has upgraded the levy and hurricane protection system significantly. The Corps has repaired and restored more than 220 miles of levies and flood walls in the New Orleans area. While vulnerability still exists hurricane protection in southeast Louisiana is better than it has ever been. The Corps is now in the process of preparing its cost estimates to complete its efforts to provide 100-year protection to the New Orleans area and is expected to announce those estimates very shortly.

Governor Blanco's Road Home Program, which is intended to provide homeowner assistance, has been federally funded through the Community Development Block Grant Program. The State now projects a shortfall in the current Road Home Program that is estimated at between $2.9 billion and $5 billion based on the eligibility determinations and program scope. The exact size of the shortfall is still being determined since the Road Home Program's application period closed just two days ago. The administration, through our office, reached a consensus with the State of Louisiana on funding for the Road Home Program. During the discussions, we maintained that Federal funds would only be allocated for homeowners who had experienced flood damage.

We took that position for two reasons. Wind damage is an otherwise insurable event. There is a robust private market in homeowner insurance that covers wind damage and people need to carry adequate insurance rather than rely on government aid. It is what Nobel prize winning economist Kenneth Arrow calls avoiding a moral hazard by government. The Federal Government has a special responsibility to assist those homeowners who experience flooding from an unanticipated storm surge or breaches of Federal levies. These citizens still struggle the most to recover, and we always believed their needs should be prioritized. This position was communicated to the State of Louisiana and the other four States hit by the 2005 hurricanes in discussion about compensation for wind damage. The administration requested additional CDBG funds for the Road Home Program and the second supplemental was based exclusively on assistance for homeowners who experienced flood damage. After Congress appropriated the mutually agreed upon levels of Federal funding, the State of Louisiana made a unilateral decision to expand the Road Home Program to assist homeowners who experienced only wind damage.

Under the very flexible CDBG program rules, there was no authority to prevent the State from funding wind-only applications.

Based on current information, our office calculates that there would be no shortfall in the Road Home Program if it had remained limited to assistance for homeowners who experienced flooding and storm surge. The Road Home shortfall is a significant problem with broad implications on the rebuilding and for the public policy nationwide for years to come. Thousands of Louisiana citizens are relying on State-promised grants to support their efforts to rebuild homes. If they can't rebuild, their recovery will be slowed considerably.

According to recent data by the United States Postal Service, the vacancy rate in flood damaged areas is still 53 percent as compared to 4 percent vacancy rate in wind-only damaged areas. I have been in discussions with Louisiana officials concerning the projected shortfall, and I met with Louisiana Governor Blanco on June 6. The day after the meeting I submitted a number of questions to the State related to the financing of the Road Home Program. We are awaiting the State's response to those questions and we will analyze the data when it is received. Further discussion will focus on the analysis of the facts. The Federal Government is following through on its commitment to rebuild the Gulf Coast. Obviously a great deal of work remains, and it will take a long time to complete. It is going to take the leadership and cooperation by the Federal, State and local leaders. That is why it is important that we keep our eyes on the long-term vision. We are talking about rebuilding an entire region of the country, a region, I might add, that was facing significant challenges before Katrina. The people who know me know that I love a challenge and that is why I remain optimistic and believe that we are on our way to a more hopeful future for all citizens along the Gulf Coast. Thank you.

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

[The prepared statement of Donald Powell follows:]

PREPARED STATEMENT OF DONALD E. POWELL, FEDERAL COORDINATOR FOR GULF COAST REBUILDING, U.S. DEPARTMENT OF HOMELAND SECURITY

Chairman Spratt, Ranking Member Ryan and distinguished members of the House Committee on the Budget: my name is Donald E. Powell and I'm pleased to appear before you today as the Federal Coordinator for Gulf Coast Rebuilding. I'm here today to discuss the federal budget implications—both long-term and short-term—of the rebuilding effort in the wake of Hurricanes Katrina and Rita.

I remain confident that Gulf Coast can and will achieve a full recovery from the devastating hurricanes of 2005. Advancing that recovery must be a priority to strengthen our nation's economy and serve the Americans who bore the brunt of these disasters. The efforts of local, state and federal governments working with public-spirited organizations and the people of the Gulf Coast have improved conditions dramatically since the dark days just after Hurricane Katrina struck. I continue to see improvement in my frequent travels along the Gulf Coast. But, as you know, full recovery will take time and require a strong and continuing commitment from all levels of government.

Money is an important part of the recovery process, and Congress appropriated more than $116 billion to support the rebuilding effort. However, we should remember that recovery is not simply a matter of money. It is about the people of the Gulf Coast region, leadership from all levels of government and the private sector, charitable organizations, and the thousands and thousands of Americans who have generously volunteered to help their fellow citizens in one way or another. These citizens have contributed and continue to contribute enormously to the recovery, and have a huge impact on how effectively money is spent in the recovery process.

The federal government has pushed to get appropriated funds to projects on the Gulf Coast to jumpstart the recovery and invest in the long-term rebuilding of the region. Of the funds made available for Gulf Coast recovery, nearly 80% has been

obligated to date. Update figures will be available by the end of August. In addition to costs for immediate relief and recovery, the major investments funded by emergency supplemental appropriations for the Gulf Coast include:

- $17.1 billion for housing and community development, including homeowner assistance, rental housing and public housing
- $8.3 billion for levees, wetlands restoration, and other flood control items
- More than $10 billion in Small Business Administration loans
- Approximately $3.5 billion for the Department of Transportation- for federal highways, bridges, etc.
- Approximately $3 billion for health and human services, including federal payments to States for health care assistance, Social Services Block Grants, Head Start, Temporary Assistance to Needy Families and other health care and anti-poverty programs.
- Approximately $2 billion for education

In addition, approximately $13 billion in tax incentives and relief have been made available.

When we take a look at the perceived and sometimes actual delays and bottlenecks slowing funding to the Gulf Coast, the problems vary depending on the type of program. Basically the programs—excluding direct aid to individuals—break down into three categories:

1. Federal/State partnerships (FEMA Public Assistance)—The Federal Emergency Management Administration (FEMA) reviews the request for funding (so-called project worksheets or PWs) and then obligates the funds to the State for each individual project. The State, in turn, grants the money to eligible applicants—generally local governments and non-profit organizations—as work is completed. These partnership projects require a significant degree of cooperation on the federal, state and local level to operate efficiently;
2. Federal construction projects (ex. levees and hurricane protection)—In these projects, the federal government secures the funding and then implements the work over a number of years. The flow of money is limited primarily by the pace of work, although delays can sometimes arise related to a state's cost-share on a project; and
3. State-run programs (ex. LA and MS homeowners assistance programs funded by the Department of Housing and Urban Development's (HUD) Community Development Block Grant.—In these cases, the federal government provides significant[k1] flexibility to the state and local governments to determine funding priorities, and administer the funds. Here the federal role is limited to preventing the gross misuse of funds, allowing states very broad latitude to design relief programs as they see fit.

FEMA PUBLIC ASSISTANCE

FEMA now estimates that the State of Louisiana will ultimately receive $6.3 billion to repair State and local public infrastructure (roads, sewer and water system, schools, public safety infrastructure such as firehouses, jails, etc) and to fund debris removal and emergency protective measures through the Public Assistance program. As of July 20th, Louisiana has access to $4.89 billion (or 78% of the total). The State of Louisiana has transferred about $2.6 billion (or 52% of the funds available to the state) into the hands of local applicants. Across the Gulf Coast, FEMA has obligated over $10 billion in public assistance funding to the States (Alabama, Mississippi, Louisiana, Florida, and Texas).

As I stated, the rebuilding of public infrastructure is a partnership. Once the federal government has provided funds to the state government, state and local government officials become primarily responsible for managing the rebuilding. (It is worth noting, however, that there can be cases where money is obligated to a project while additional monies are in dispute. These disputes can slow progress despite the availability of money for substantial portions of the project.) The bottom line is that a very significant portion of the funds, more than three-quarters of the projected total, has been made available to the state for rebuilding. Without minimizing the many difficulties and delays that bedevil the rebuilding process, the federal government has made and continues to make progress in the effort to put federal funds to work in the recovery.

There are many legitimate reasons for rebuilding to be delayed after federal funds have been obligated for a project. In New Orleans Office of Recovery Management Executive Director Dr. Blakely's words "We have to put the plans in place before we can spend the money * * * we have to work with the recreation department, we have to make sure the fire station and police station is in the right place and so on. As we're going through that, we really can't spend any money because we can't spend the money until we get agreement on the plans." These can often be

difficult and contentious decisions because they can affect the character of the communities being rebuilt.

There are other times, frankly, when delays result from inaction by state or local applicants. Some of these challenges are caused by limited capacity at the local level. FEMA has worked to assist local stakeholders by providing additional funds for administrative costs and providing an unprecedented degree of hands-on support. At the end of the day, however, state and local leaders must hold up their end of the partnership by meeting certain basic responsibilities, or projects become stalled.

I do not want to suggest that the federal government has been blameless in this process. FEMA and other federal agencies have faced challenges, and there have been some legitimate concerns. Nevertheless, there have been significant improvements in the way that FEMA does business.

We have worked to streamline FEMA's public assistance process, actually reducing time for processing grants from months to weeks. Specifically, we worked with FEMA to:

• Improve FEMA's internal management by reducing personnel turnover, empowering key leaders to make decisions, and improving cost estimates for local applicants;

• Cut unnecessary layers of bureaucracy in FEMA's approval process, while still ensuring appropriate and required due diligence;

• Help local communities set their PA priorities by working more closely with local applicants to determine their priority PWs/projects and address their concerns with the PA program; and

• Implement an improved "A to Z" Tracking System that tracks applications from initial application through awarding of funds.

In addition, we remain committed to ensuring that payments reach their intended recipients and are used for their intended purpose.

HURRICANE PROTECTION

The Army Corps of Engineers started work almost immediately after the hurricanes to repair and strengthen the hurricane protection system to achieve a 100-year level of storm protection for the City of New Orleans. As of today, over $7.1 billion has been secured for repairing and upgrading the greater New Orleans hurricane protection system, and the Corps has upgraded the levee and hurricane protection system to make them stronger and more resilient than before the storms. While vulnerabilities still exist, hurricane protection in southeast Louisiana is better than it has ever been. The Corps has repaired and restored more than 220 miles of levees and floodwalls in the New Orleans area. The President also advocated and signed legislation allowing Louisiana to share in revenues from drilling along the Outer Continental Shelf, which will provide billions of dollars to help Louisiana restore its coastal wetlands as directed by the State Constitution.

LOUISIANA'S ROAD HOME PROGRAM

Louisiana's homeowner assistance program, a main part of the Blanco Road Home Program, has received federal funds through the CDBG program. It provides grants to eligible homeowners who suffered major or severe damage to their homes due to the storms and the failure of the federal levee system.

The Road Home Homeowners Assistance Program was budgeted by the State at $7.5 billion—with approximately $6.3 billion coming from CDBG funds (out of the total of $10.4 billion in CDBG funds allocated to the State of Louisiana) and $1.2 billion coming from FEMA's Hazard Mitigation Grant Program (HMGP).

The State now projects a shortfall in the current Road Home program that is estimated at between $2.9 billion and $5 billion, based on current eligibility determinations and program scope. The exact size of the shortfall is still being determined because the program only closed to new applications on July 31. Additional time will be needed to determine exactly how many of the applicants will be found eligible for the program, and determine what level of benefits they will be eligible to receive. As of July 24, the program was reported to have received 165,500 applications.

Because my staff and I participated in the negotiations that resulted in the initial funding of the Blanco Road Home program, I want to take this opportunity to explain how the program came about. Our office worked extensively with state officials during January and February 2006 to develop a budget for the Road Home program, which led to the President's request for additional CDBG funds which Congress approved in June 2006.

During the discussions with Louisiana and separate discussions with other affected states, the Administration, through our office, took the position that federal

funds would only be allocated for homeowners who had experienced flood damage. We decided on that policy for two reasons:

1. Wind damage is an otherwise insurable event. There is a robust private market in homeowners insurance that covers wind damage, and people need to carry adequate insurance rather than rely on government aid.

2. The federal government has a special responsibility to assist those homeowners who experienced flooding from unanticipated storm surge or breaches of federal levees. These citizens still struggle the most to recover and we have always believed their needs should be prioritized.[k2]

This position was communicated to the State of Louisiana and to other states on the Gulf Coast—most notably Texas—when they requested funding for homeowner assistance programs that would cover those who experienced only wind damage in Hurricanes Katrina and Rita. The Administration's request for CDBG funds for the Road Home program was based on assistance for homeowners who experienced flood damage.

Subsequently, the State of Louisiana made a unilateral decision to expand the Road Home program to assist homeowners who experienced wind damage. This decision was within their authority under the very flexible CDBG program rules. The federal government had no legal authority to overturn the state's decision to re-allocate these federal funds. Our office, however, calculates that the program cost would be within original estimates, if the State had remained limited to assistance for homeowners who experienced flooding.

I have been in discussions with Louisiana officials, and I met with Louisiana Governor Kathleen Blanco on June 6. The day after that meeting, I submitted a number of questions to the State related to the finances of the Road Home program. We are awaiting the State's response to those questions and will analyze the data when it is received. Future discussion will focus on an analysis of the facts.

CONCLUSION

The Federal government is following through on its commitment to rebuild the Gulf Coast. I've spent countless days with the citizens of the Gulf Coast, and every week, I see more progress. Critical infrastructure is being restored and rebuilt. The vast majority of damaged schools have reopened. More and more citizens are coming back to once-devastated neighborhoods that are coming back to life. And for the New Orleans area, the levees are better than they've ever been, and we're working toward achieving 100-year level of protection.

Obviously, a great deal of work remains, and it'll take a long time to complete. We're talking about transforming an entire region of the country—a region, I might add, that was facing significant challenges before Katrina. Some of the work of rebuilding is entirely in the hands of federal officials, some of it is entirely in the hands of state and local officials, and other parts are conducted in partnership. But a successful and efficient rebuilding requires cooperation on all levels. That's why it's important that we keep our eyes on the long-term vision.

So this isn't going to happen overnight, and we're not there yet. But with continued Federal commitment, and increased leadership from the local officials that must drive this rebuilding, we are on our way to a more hopeful future for all citizens along the Gulf Coast.

Chairman SPRATT. Now let's go to Mr. Czerwinski of the Government Accountability Office.

STATEMENT OF STANLEY CZERWINSKI

Mr. CZERWINSKI. Thank you, Mr. Chairman and members of the subcommittee. I would like to echo some of the opening comments made today. This is an unprecedented challenge. It requires a long-term perspective, and coordination of delivery benefits is going to be the key. To assist the subcommittee's deliberations today, I would like to cover three things.

First of all, I would like to talk about the Federal funding and put it into the context of the overall damage to the region as well as breaking down that funding between response that came in the initial aftermath of the storm and the longer term building.

The second part I would like to talk about is some key areas where rebuilding has occurred and third, some issues that are nec-

essary to look at going forward. The Congressional Budget Office estimates the damage for the Gulf Coast at between $70 and $130 billion. Researchers at the University of West Virginia put that number at about $150 billion. As Chairman Powell noted, the Congress, in five supplemental appropriations so far has appropriated about $116 billion.

What is important to note, however, is that the vast majority of the money already appropriated went to the initial response and recovery. The Brookings Institution has estimated about $35 billion has been appropriated for long-term rebuilding. In my written statement, I cover a number of the key areas where long-term rebuilding is going on. Today I would like to focus on two of them: Public Assistance and Community Development Block Grants. But if you would want to cover those in questions and answers, I would be glad to go into those also. As you know when the Congress was faced with a need to get funds down to the Gulf Coast it relied on some off-the-shelf delivery mechanisms that have been used in prior disasters. The first of these is Public Assistance.

As Chairman Powell noted, Public Assistance is for rebuilding public infrastructure such as roads, bridges hospitals. It is project-based assistance has very specific rules that have to be followed to get the benefits. So far, FEMA through Public Assistance has made available to Gulf Coast States about $8 billion. The split in these funds mirrors a split in the overall Federal funds. That is less than half of the Public Assistance funds have gone into rebuilding. The other part has gone into the emergency assistance, such as clearing the roads before you can rebuild them, sandbagging low lying areas so they can go in there and do the work.

The amount of Public Assistance that you are going to be seeing in the future is likely to grow, and there are several reasons for it. First of all, FEMA notes that there are projects that are just entering the pipeline. They estimate this will cost about an additional $2 billion. In addition to that, if you look back to the history of prior disasters such as Hurricane Andrew, Northridge, we are just closing the door on Hurricane Andrew Public Assistance. The Northridge projects are just finishing up also. Those disasters occurred 13 to 14 years ago.

So you are going to be seeing this going on on the Gulf Coast, which far outstrips the size of those disasters, for some time. In addition to that there is one additional piece and that is the actual cost of the rebuilding for the Public Assistance projects that are already in the pipeline will probably exceed the estimated costs.

This is not surprising. This typically happens in disasters. What happens is that people look at something right then, but they can't project exactly the circumstances that will occur. State of Louisiana officials tell us that they are facing much higher material costs, much higher labor costs. It makes sense. I will give you an example. I was on a trip to New Orleans for this job back in the summertime. I happen to notice a McDonald's was hiring counter workers and they were offering $11 an hour. Those positions were going unfilled.

You can imagine what a skilled carpenter is making. You couldn't have guessed that 2 years ago. So that is going to be driving up costs also. The second area I would like to talk about is

Community Development Block Grants. As Chairman Powell noted, over $16 billion have gone down to the Gulf Coast States in Community Development Block Grants. Over $10 billion of that to Louisiana, just under $6 of that to Mississippi. These moneys go out there with very few strings attached. The program is designed that way. What is important to look at is how the States with the discretion have decided to spend their money. In both Louisiana and Mississippi have chosen similar paths. The lion's share of the money to both the States has gone into homeowner assistance. And as Chairman Powell noted, the concern about the adequacy of funding occurs in Louisiana's homeowner assistance program called the Road Home. And there are several reasons for this. First of all, more people applied than we could have guessed. The grants going to them were higher than anticipated. As Chairman Powell notes, a point of contention in this is the handling of the wind damage.

And I know the Chairman spent a lot of time on this one. I won't belabor that one. You can go into all the details you want, and I can chime in, but really, this is an area that he is on top of. The area that I would like to, though, emphasize is an additional one. And that is the Hazard Mitigation Grant program. This is a program FEMA runs and it is designed to help people rebuilding rebuild to standards that if there is a future storm, they won't be so vulnerable. The idea was to combine the money from Community Development Block Grants which help people rebuild their houses with the money from Hazard Mitigation Grants which then says build them at a higher elevation so that when there is a storm, the water washes under the house instead of through it and knocks it away. There has been a problem integrating that stream of funding from Hazard Mitigation Grants with Community Development Block Grants.

FEMA had promised Louisiana about $1.2 billion which was going to go into the Road Home Program. They have not delivered that money because FEMA says that the State has not met the requirements of Hazard Mitigation Grants.

When you roll all these things together, as Chairman Powell notes and as the State of Louisiana auditor said, it brings you a shortfall for the Road Home Program to about $3 to $5 billion. The bottom line is if you look at Public Assistance, look at Community Development Block Grants, and you can look at the other programs, levies, wetlands, go down the list, what we would be facing is requests for additional Federal funding for quite some time. The key here is, as Chairman Spratt knows, to determine how much, for what, who is going to contribute? Important piece is leveraging. With every additional Federal investment we should be expecting leveraging of State and local funds as well as from the private sector, both for profit and nonprofit. In this environment, partnerships become critical.

If you are going to have this type of partnered environment, it has to start from a shared vision, requires a strategic plan, and you have to have measurable accomplishments that everybody agrees to. The challenge to doing this is tremendous. We are talking about crossing intergovernmental lines involving multiple Federal agencies, and of course there is a lot of congressional committees involved too. If you go back to the example that I use, which is a fair-

ly simple one, just bringing together two streams of funds, Hazard Mitigation and CDBG, we are struggling there. If we are talking about a plan that involves multiple lines of funding, multiple players the challenge becomes even greater to fit these pieces together.

This committee with its cross-cutting jurisdiction is uniquely placed to bring a broader view, and frankly, so is the Chairman from the executive branch perspective. I view this hearing as an important first step to doing that. The GAO as, Chairman Spratt noted, we have done a lot of work at Gulf Coast rebuilding, we are looking forward to doing a lot more for you and we stand ready to help you in any way we can. That concludes my statement Mr. Chairman. I would be glad to answer any questions you may have.

[The prepared statement of Mr. Czerwinski follows:]

PREPARED STATEMENT OF STANLEY J. CZERWINSKI, DIRECTOR, STRATEGIC ISSUES, U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Mr. Chairman and Members of the Committee: I appreciate the opportunity to participate in today's hearing to discuss our preliminary observations on the federal financial implications of Gulf Coast rebuilding issues.[1] The Gulf Coast and the nation continue to face daunting rebuilding costs, uncertainty surrounding numerous decisions linked to the availability of federal funds, and the complexity of integrating multiple public and private decisions that will influence the future of the region. The size and scope of the devastation caused by the Gulf Coast hurricanes[2] presents the nation with unprecedented rebuilding challenges as well as opportunities to reexamine shared responsibility among all levels of government. Wide swaths of housing, infrastructure, and businesses were destroyed, leaving more than 1,500 people dead and hundreds of thousands of others displaced without shelter and employment. Our ongoing work in Mississippi, southern Louisiana, and New Orleans confirms that some communities still lack fulfillment of basic needs, such as schools, hospitals, and other infrastructure, while the doors of many businesses remain closed. Almost 2 years since the hurricanes made landfall, many Gulf Coast neighborhoods and communities still need to be rebuilt—some from the ground up.

Major decisions still need to be made regarding infrastructure, housing, levee protection, coastal restoration, and economic recovery, among other issues. All levels of government, together with the private and nonprofit sectors, will need to play a critical role in the process of choosing what, where, and how to rebuild. Agreeing on what the costs are, what rebuilding should be done and by whom, and who will bear the costs will be key to the overall rebuilding effort.

My testimony today will offer some preliminary observations on the federal financial implications of rebuilding efforts in the Gulf Coast. These observations may assist you in your oversight of these activities—now and over the longer term. I would like to: (1) place the federal assistance provided to date in the context of varied damage estimates for the Gulf Coast; and (2) discuss the key federal programs that provide rebuilding assistance, with an emphasis on Public Assistance (PA) and Community Development Block Grants (CDBG). In doing so, we will highlight aspects of Gulf Coast rebuilding likely to place continued demands on federal resources.

My statement is based largely on our completed and ongoing work in Washington, D.C., as well as Louisiana and Mississippi—the two states most directly affected by the Gulf Coast hurricanes. Specifically, we analyzed state and local documentation related to funding for rebuilding and interviewed state and local officials as well as representatives from nongovernmental organizations in these two states. We also interviewed various federal officials from the Federal Emergency Management Agency (FEMA), the Department of Housing and Urban Development (HUD), and the Coordinator of Federal Support for the Recovery and Rebuilding of the Gulf Coast Region[3] within the Department of Homeland Security (DHS) and analyzed federal regulations and state policies regarding funding for the Gulf Coast. We performed our work in accordance with generally accepted government auditing standards.

ESTIMATES RAISE QUESTIONS REGARDING LONG-TERM FUNDING

The total long-term funding for helping the Gulf Coast recover from the 2005 hurricanes hinges on numerous factors including policy choices made at all levels of government, knowledge of spending across the federal government, and the multiple decisions required to transform the region. To understand the long-term federal fi-

nancial implications of Gulf Coast rebuilding it is helpful to view potential federal assistance within the context of overall estimates of the damages incurred by the region. Although there are no definitive or authoritative estimates of the amount of federal funds that could be invested to rebuild the Gulf Coast, various estimates of aspects of rebuilding offer a sense of the long-term financial implications. For example, early damage estimates from the Congressional Budget Office (CBO) put capital losses from Hurricanes Katrina and Rita at a range of $70 billion to $130 billion[4] while another estimate put losses solely from Hurricane Katrina—including capital losses—at more than $150 billion.[5] Further, the state of Louisiana has estimated that the economic effect on its state alone could reach $200 billion. The exact costs of damages from the Gulf Coast hurricanes may never be known, but will likely far surpass those from the three other costliest disasters in recent history—Hurricane Andrew in 1992, the 1994 Northridge earthquake, and the September 2001 terrorist attacks.[6] These estimates raise important questions regarding how much additional assistance may be needed to continue to help the Gulf Coast rebuild, and who should be responsible for providing the related resources.

To respond to the Gulf Coast devastation, the federal government has already committed a historically high level of resources—more than $116 billion—through an array of grants, loan subsidies, and tax relief and incentives. The bulk of this assistance was provided between September 2005 and May 2007 through five emergency supplemental appropriations.[7] A substantial portion of this assistance was directed to emergency assistance and meeting short-term needs arising from the hurricanes, such as relocation assistance, emergency housing, immediate levee repair, and debris removal efforts. The Brookings Institution has estimated that approximately $35 billion of the federal resources provided supports longer-term rebuilding efforts.[8]

The federal funding I have mentioned presents an informative, but likely incomplete picture of the federal government's total financial investments to date. Tracking total funds provided for federal Gulf Coast rebuilding efforts requires knowledge of a host of programs administered by multiple federal agencies. We previously reported that the federal government does not have a governmentwide framework or mechanism in place to collect and consolidate information from the individual federal agencies that received appropriations in emergency supplementals for hurricane relief and recovery efforts or to report on this information.[9] It is important to provide transparency by collecting and publishing this information so that hurricane victims, affected states, and American taxpayers know how these funds are being spent. Until such a system is in place across the federal government, a complete picture of federal funding streams and their integration across agencies will remain lacking.

DEMAND FOR FEDERAL REBUILDING RESOURCES LIKELY TO CONTINUE

Demands for additional federal resources to rebuild the Gulf Coast are likely to continue, despite the substantial federal funding provided to date. The bulk of federal rebuilding assistance provided to the Gulf Coast states funds two key programs—FEMA's Public Assistance (PA) program and HUD's Community Development Block Grant (CDBG) program. These two programs follow different funding models. PA provides funding for restoration of the region's infrastructure on a project-by-project basis involving an assessment of specific proposals to determine eligibility. In contrast, CDBG affords broad discretion and flexibility to states and localities for restoration of the region's livable housing. In addition to funding PA and CDBG, the federal government's recovery and rebuilding assistance also includes payouts from the National Flood Insurance Program (NFIP) as well as funds for levee restoration and repair, coastal wetlands and barrier islands restoration, and benefits provided through Gulf Opportunity Zone (GO Zone) tax expenditures.

PUBLIC ASSISTANCE PROGRAM FACES INCREASED COSTS

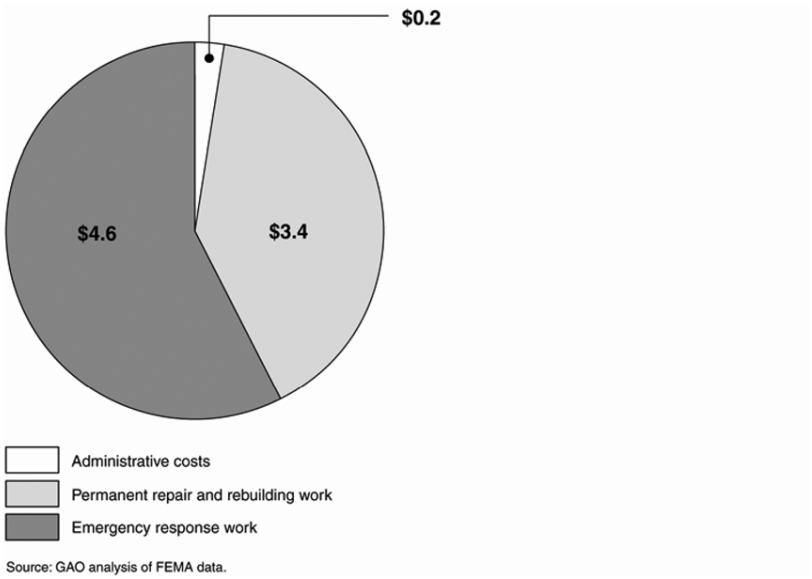
The PA Grant program provides assistance to state and local governments and eligible nonprofit organizations on a project-by-project basis for emergency work (e.g., removal of debris and emergency protective measures) and permanent work (e.g., repairing roads, reconstructing buildings, and reestablishing utilities).[10] After the President declares a disaster, a state becomes eligible for federal PA funds through FEMA's Disaster Relief Fund. Officials at the local, state, and federal level are involved in the PA process in a variety of ways. The grant

applicant, such as a local government or nonprofit organization, works with state and FEMA officials to develop a scope of work and cost estimate for each project that is documented in individual project worksheets. In addition to documenting scope of work and cost considerations, each project worksheet is reviewed by FEMA

and the state to determine whether the applicant and type of facility are eligible for funding. Once approved, funds are obligated, that is, made available, to the state. PA generally operates on a reimbursement basis. Reimbursement for small projects (less than $59,700) are made based on the project's estimated costs, while large projects (more than $59,700) are reimbursed based upon actual eligible costs when they are incurred.[11]

As of the middle of July 2007, FEMA had approved a total of 67,253 project worksheets for emergency and permanent work, making available about $8.2 billion in PA grants to the states of Louisiana, Mississippi, Texas, and Alabama. A smaller portion of PA program funds are going toward longer-term rebuilding activities than emergency work. Of the approximately $8.2 billion made available to the Gulf Coast states overall, about $3.4 billion (41 percent) is for permanent work such as repairing and rebuilding schools and hospitals and reestablishing sewer and water systems, while about $4.6 billion (56 percent) is for emergency response work such as clearing roads for access and sandbagging low-lying areas. The remaining amount of PA funds, about $0.2 billion (3 percent) is for administrative costs. (See fig. 1.) Of the funds made available by FEMA to the states for permanent rebuilding, localities have only received a portion of these funds since many projects have not yet been completed. Specifically, in Louisiana and Mississippi, 26 and 22 percent of obligated funds, respectively, have been paid by the state to applicants for these projects.

Figure 1: Breakdown of Public Assistance Grants Made Available to the Gulf Coast States as of the middle of July 2007 (billions of dollars)



Source: GAO analysis of FEMA data.

Note: Dates vary for the most recent data available from the states. Data included are as of the following dates: Alabama, July 19, 2007; Louisiana, July 19, 2007; Mississippi, July 19, 2007; and Texas, July 19, 2007.

The total cost of PA funding for the Gulf Coast hurricanes will likely exceed the approximately $8.2 billion already made available to the states for two reasons:

(1) the funds do not reflect all current and future projects, and (2) the cost of some of these projects will likely be higher than FEMA's original estimates. According to FEMA, as of the middle of July 2007, an additional 1,916 project worksheets were in process (these projects are in addition to the 67,253 approved project worksheets mentioned above). FEMA expects that another 2,730 project worksheets will be written. FEMA expects these worksheets to increase the total cost by about $2.1 billion, resulting in a total expected PA cost of about $10.3 billion.

Some state and local officials have also expressed concerns about unrealistically low cost estimates contained in project worksheets, which could lead to even higher than anticipated costs to the federal government. A senior official within the Lou-

isiana Governor's Office of Homeland Security and Emergency Preparedness recently testified that some of the projects were underestimated by a factor of 4 or 5 times compared to the actual cost.[12] For example, the lowest bids on 11 project worksheets for repairing or rebuilding state-owned facilities, such as universities and hospitals, totaled $5.5 million while FEMA approved $1.9 million for these projects.

The extent to which the number of new project worksheets and actual costs that exceed estimated costs will result in demands for additional federal funds remains unknown. In addition PA costs may increase until a disaster is closed, which can take many years in the case of a catastrophic disaster.[13] For instance, PA costs from the Northridge earthquake that hit California in January 1994 have not been closed out more than 13 years after the event. Our ongoing work on the PA program will provide insights into efforts to complete infrastructure projects, the actual costs of completed projects, and the use of federal funds to complete PA projects.

ADDITIONAL RESOURCE DEMANDS ANTICIPATED FOR CDBG PROGRAM

HUD's CDBG program provides funding for neighborhood revitalization and housing rehabilitation activities, affording states broad discretion and flexibility in deciding how to allocate these funds and for what purposes. Congress has provided even greater flexibility when allocating additional CDBG funds to affected communities and states to help them recover from presidentially-declared disasters, such as the Gulf Coast hurricanes.[14] To date, the affected Gulf Coast states have received $16.7 billion in CDBG funding from supplemental appropriations—so far, the largest federal provider of long-term Gulf Coast rebuilding funding.[15] As shown in figure 2, Louisiana and Mississippi were allocated the largest shares of the CDBG appropriations, with $10.4 billion allocated to Louisiana, and another $5.5 billion allocated to Mississippi. Florida, Alabama, and Texas received the remaining share of CDBG funds.[16]

Figure 2: Breakdown of Total CDBG Allocations to Gulf Coast States

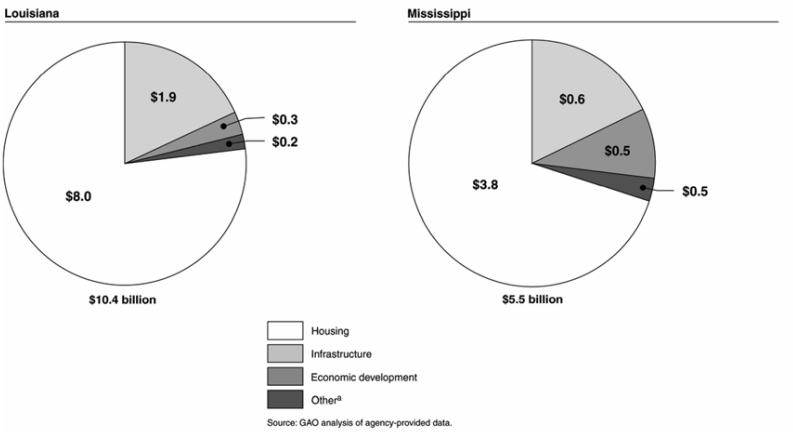


Source: GAO analysis of Louisiana Recovery Authority and Mississippi Development Authority.

To receive CDBG funds for Gulf Coast rebuilding, HUD required that each state submit an action plan describing how the funds would be used, including how the funds would address long-term "recovery and restoration of infrastructure." Accordingly, the states had substantial flexibility in establishing funding levels and designing programs to achieve their goals. As shown in figure 3, Mississippi set aside $3.8 billion to address housing priorities within the state while Louisiana dedicated $8 billion for its housing needs.

Each state also directed the majority of its housing allocations to owner-occupied homes and designed a homeowner assistance program to address the particular conditions in their state. As discussed below, each state used different assumptions in designing its programs, which in turn affects the financial implications for each state.

Figure 3: Most CDBG Funding Allocated to Housing Needs in Louisiana and Mississippi



Source: GAO analysis of agency-provided data.

Note: Totals may not add due to rounding.

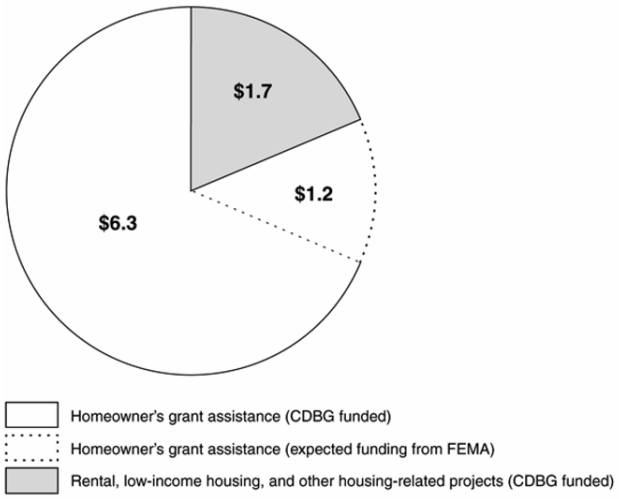
[a]In Mississippi, "other" refers to wind insurance mitigation and funds not yet programmed by the state. In Louisiana, "other" refers to funding for planning and administrative activities.

Louisiana's Homeowner Using $8.0 billion in CDBG funding, the Louisiana Recovery Authority (LRA) Assistance Program Anticipates developed a housing assistance program called the Road Home to restore the Shortfall housing infrastructure in the state.[17] As shown in figure 4, Louisiana set aside about $6.3 billion of these funds to develop the homeowner assistance component of the program and nearly $1.7 billion for rental, low-income housing, and other housing-related projects. Louisiana anticipated that FEMA would provide the homeowner assistance component with another $1.2 billion in grant assistance. Louisiana based these funding amounts on estimates of need within the state. Accordingly, Louisiana estimated that $7.5 billion would be needed to assist 114,532 homeowners with major or severe damage. Louisiana also estimated these funds would provide an average grant award of $60,109 per homeowner.

The LRA launched the Road Home homeowner assistance program in August 2006. Under the program, homeowners who decide to stay in Louisiana and rebuild are eligible for the full amount of grant assistance—up to $150,000. Aside from the elderly, residents who choose to sell their homes and leave the state will have their grant awards reduced by 40 percent, while residents who did not have insurance at the time of the hurricanes will have their grant awards reduced by 30 percent. To receive compensation, homeowners must comply with applicable code and zoning requirements and FEMA advisory base flood elevations when rebuilding and agree to use their home as a primary residence at some point during a 3-year period following closing. Further, the amount of compensation that homeowners can receive depends on the value of their homes before the storms and the amount of flood or wind damage that was not covered by insurance or other forms of assistance.

As of July 16, 2007, the Road Home program had received 158,489 applications and had held 36,655 closings with an average award amount of $74,216. With the number of applications exceeding initial estimates and average award amounts higher than expected, recent concerns have been raised about a potential funding shortfall and the Road Home program's ability to achieve its objective of compensating all eligible homeowners. Concerns over the potential shortfall have led to questions about the Road Home program's policy to pay for uninsured wind damage instead of limiting compensation to flood damage. In recent congressional hearings, the Executive Director of the LRA testified that the Road Home program will require additional funds to compensate all eligible homeowners, citing a higher than projected number of homeowners applying to the program, higher costs for homeowner repairs, and a smaller percentage of private insurance payouts than expected.

Figure 4: Louisiana's Estimated Funding Distribution for Homeowner Assistance (billions of dollars)



Source: Louisiana Recovery Authority data.

According to the Federal Coordinator for Gulf Coast Rebuilding, CDBG funds were allocated to Louisiana on the basis of a negotiation with the state conducted between January and February 2006. That negotiation considered the provision of federal funding for the state's need to conduct a homeowner assistance program covering homes that experienced major or severe damage from flooding. The state requested the allocation of federal funding at that time to expand the program to assist homeowners who experienced only wind damage. That request to provide federal funds to establish a homeowner program for homes which only experienced wind damage was denied, as were similar requests from Gulf Coast states such as Texas. The Administration requested the negotiated amount from Congress on February 15, 2006, Congress approved that amount, and it was signed into law by the President on June 15, 2006. Subsequently, Louisiana announced the expansion of the Road Home program to cover damage exclusively from wind regardless of the stated intention of the federal allocation, but fully within their statutory authority.

In addition, the Executive Director of the LRA testified that Louisiana had not received $1.2 billion in funds from FEMA—assistance that had been part of the Road Home program's original funding design. Specifically, the state expected FEMA to provide grant assistance through its Hazard Mitigation Grant Program (HMGP)—a program that generally provides assistance to address long-term community safety needs.[18] Louisiana had planned to use this funding to assist homeowners with meeting elevation standards and other storm protection measures, as they rebuilt their homes.[19] However, FEMA has asserted that it cannot release the money because the Road Home program discriminates against younger residents. Specifically, the program exempts elderly recipients from the 40 percent grant reduction if they choose to leave the state or do not agree to reside in their home as a primary residence at some point during a 3-year period.

Although we have not assessed their assumptions, recent estimates from the Road Home program[20] and Louisiana's state legislative auditor's office have estimated a potential shortfall in the range of $2.9 billion to $5 billion.

While these issues will not be immediately resolved, they raise a number of questions about the potential demands for additional federal funding for the states' rebuilding efforts. Our ongoing work on various aspects of the CDBG program—including a review of how the affected states developed their funding levels and priorities—will provide insights into these issues.

MISSISSIPPI'S HOMEOWNER ASSISTANCE PROGRAM PROCEEDING IN TWO PHASES

In Mississippi, Katrina's storm surge destroyed tens of thousands of homes, many of which were located outside FEMA's designated flood plain and not covered by flood insurance. Using about $3 billion in CDBG funds, Mississippi developed a two-phase program to target homeowners who suffered losses due to the storm surge. Accordingly, Phase I of the program was designed to compensate homeowners whose properties were located outside the floodplain and had maintained hazard insurance at a minimum.[21] Eligible for up to $150,000 in compensation, these homeowners were not subject to a requirement to rebuild. Phase II of the program is designed to award grants to those who received flood surge damage, regardless of whether they lived inside or outside the flood zone or had maintained insurance on their homes. Eligible applicants must have an income at or below 120 percent of the Area Median Income (AMI). Eligible for up to $100,000 in grant awards, these homeowners are not subject to a requirement to rebuild.[22] In addition, homeowners who do not have insurance will have their grant reduced by 30 percent, although this penalty does not apply to the "special needs" populations as defined by the state (i.e., elderly, disabled, and low-income).[23]

As of July 18, 2007, Mississippi had received 19,277 applications for Phase I of its program and awarded payments to 13,419 eligible homeowners with an average award amount of $72,062. In addition, Mississippi had received 7,424 applications for Phase II of its program and had moved an additional 4,130 applications that did not qualify for Phase I assistance to Phase II. The State had awarded 234 grants to eligible homeowners in Phase II with an average award amount of $69,448.

SUBSTANTIAL LOSSES AFFECT NATIONAL FLOOD INSURANCE PROGRAM ABILITY TO REPAY

The National Flood Insurance Program (NFIP) incurred unprecedented storm losses from the 2005 hurricane season. NFIP estimated that it had paid approximately $15.7 billion in flood insurance claims as of January 31, 2007, encompassing approximately 99 percent of all flood claims received.[24] The intent of the NFIP is to pool risk, minimize costs and distribute burdens equitably among those who will be protected and the general public.[25] The NFIP, by design, is not actuarially sound because Congress authorized subsidized insurance rates for some policyholders. Until recent years, the program was largely successful in paying its expenses with premium revenues—the funds paid by policyholders for their annual flood insurance coverage. In most years—since its inception in 1968—the NFIP paid for flood losses and operating expenses with policy premium revenues, rather than tax dollars. However, because the program's premium rates have been set to cover losses in an average year based on program experience that did not include any catastrophic losses, the program has been unable to build sufficient reserves to meet future expected flood losses.[26] Historically, the NFIP has been able to repay funds borrowed from the Treasury to meet its claims obligations. However, the magnitude and severity of losses from Hurricane Katrina and other 2005 hurricanes required the NFIP to obtain borrowing authority of $20.8 billion from the Treasury, an amount NFIP will unlikely be able to repay while paying future claims with its current premium income of about $2 billion annually.

In addition to the federal funding challenge created by the payment of claims, key concerns raised from the response to the 2005 hurricane season include whether or not some property-casualty insurance claims for wind-related damages were improperly shifted to NFIP at the expense of taxpayers. For properties subjected to both high winds and flooding, determinations must be made to assess the damages caused by wind, which may be covered through a property-casualty homeowners policy, and the damages caused by flooding, which may be covered by NFIP.[27] Disputes over coverage between policyholders and property-casualty insurers from the 2005 hurricane season highlight the challenges of determining the appropriateness of claims for multiple-peril events. NFIP may continue to face challenges in the future when servicing and validating flood claims from disasters such as hurricanes that may involve both flood and wind damages. Our ongoing work addresses insurance issues related to wind versus flood damages, including a review of how such determinations are made, who is making these determinations and how they are regulated, and the ability of FEMA to verify the accuracy of flood insurance claims payments based on the wind and flood damage determinations.

PROTECTION PROJECTS

Billions Appropriated for Congress has appropriated more than $8 billion to the U.S. Army Corps of Gulf Coast Hurricane Engineers (Corps) for hurricane protection projects in the Gulf Coast. These funds cover repair, restoration and construction

of levees and floodwalls as well as other hurricane protection and flood control projects. These projects are expected to take years and require billions of dollars to complete.[28] Estimated total costs for hurricane protection projects are unknown because the Corps is also conducting a study of flood control, coastal restoration, and hurricane protection measures for the southeastern Louisiana coastal region as required by the 2006 Energy and Water Development Appropriations Act[29] and Department of Defense Appropriations Act.[30] The Corps must propose design and technical requirements to protect the region from a Category 5 hurricane.[31] According to the Corps, alternatives being considered include a structural design consisting of a contiguous line of earthen or concrete walls along southern coastal Louisiana, a nonstructural alternative involving only environmental or coastal restoration measures, or a combination of those alternatives. The Corps' final proposal is due in December 2007. Although the cost to provide a Category 5 level of protection for the southeastern Louisiana coastal region has not yet been determined, these costs would be in addition to the more than $8 billion already provided to the Corps.

RESTORING LOUISIANA'S WETLANDS AND BARRIER ISLANDS WILL LIKELY COST BILLIONS

The Corps' December 2007 proposal will also influence future federal funding for coastal wetlands and barrier islands restoration. Since the 1930s, coastal Louisiana lost more than 1.2 million acres of wetlands, at a rate of 25-35 square miles per year, leaving the Gulf Coast exposed to destructive storm surge. Various preliminary estimates ranging from $15 billion to $45 billion have been made about the ultimate cost to complete these restoration efforts. However, until the Corps develops its plans and the state and local jurisdictions agree on what needs to be done, no reliable estimate is available. We are conducting work to understand what coastal restoration alternatives have been identified and how these alternatives would integrate with other flood control and hurricane protection measures, the challenges and estimated costs to restore Louisiana's coastal wetlands, and the opinions of scientists and engineers on the practicality and achievability of large-scale, comprehensive plans and strategies to restore coastal wetlands to the scale necessary to protect coastal Louisiana.

GO ZONE TAX INCENTIVES PROVIDE ASSISTANCE FOR RECOVERY

The Gulf Opportunity Zone Act of 2005 provides tax benefits to assist in the recovery from the Gulf Coast hurricanes.[32] From a budgetary perspective, most tax expenditure programs, such as the GO Zones, are comparable to mandatory spending for entitlement programs, in that federal funds flow based on eligibility and formulas specified in authorizing legislation.[33] The 5-year cost of the GO Zones is estimated at $8 billion and the 10-year cost is estimated to be $9 billion. Since Congress and the President must change substantive law to change the cost of these programs, they are relatively uncontrollable on an annual basis. The GO Zone tax benefits chiefly extend, with some modifications, existing tax provisions such as expensing capital expenditures, the Low Income Housing Tax Credit (LIHTC), tax exempt bonds, and the New Markets Tax Credit (NMTC). The 2005 Act increases limitations in expensing provisions for qualified GO Zone properties. The Act also increased the state limitations in Alabama, Louisiana, and Mississippi on the amount of LIHTC that can be allocated for low-income housing properties in GO Zones. Further, the act allows these states to issue tax-exempt GO Zone bonds for qualifying residential and nonresidential properties. Finally, the NMTC limitations on the total amount of credits allocated yearly were also increased for qualifying low-income community investments in GO Zones.

We have a congressional mandate to review the practices employed by the states and local governments in allocating and utilizing the tax incentives provided in the Gulf Opportunity Zone Act of 2005. We have also issued reports on the tax provisions, such as LIHTC and NMTC, now extended to the GO Zones by the 2005 Act.[34]

OBSERVATIONS

Rebuilding efforts in the Gulf Coast continue amidst questions regarding the total cost of federal assistance, the extent to which federal funds will address the rebuilding demands of the region, and the many decisions left to be made by multiple levels of government. As residents, local and state leaders and federal officials struggle to respond to these questions, their responses lay a foundation for the future of the Gulf Coast. As states and localities continue to rebuild, there are difficult policy decisions that will confront Congress about the federal government's continued contribution to the rebuilding effort and the role it might play over the long-term in an era of competing priorities. Congress will be faced with many questions as it continues to carry out its critical oversight function in reviewing funding for Gulf Coast

rebuilding efforts. Our ongoing and preliminary work on Gulf Coast rebuilding suggests the following questions:

How much could it ultimately cost to rebuild the Gulf Coast and how much of this cost should the federal government bear?

How effective are current funding delivery mechanisms—such as PA and CDBG—and should they be modified or supplemented by other mechanisms?

What options exist to effectively build in federal oversight to accompany the receipt of federal funds, particularly as federal funding has shifted from emergency response to rebuilding?

How can the federal government further partner with state and local governments and the nonprofit and private sectors to leverage public investment in rebuilding?

What are the "lessons learned" from the Gulf Coast hurricanes, and what changes need to be made to help ensure a more timely and effective rebuilding effort in the future?

Mr. Chairman and Members of the committee, this concludes my statement. I would be happy to respond to any questions you may have at this time.

ENDNOTES

[1] This testimony updates and expands on GAO, Gulf Coast Rebuilding: Preliminary Observations on Progress to Date and Challenges for the Future, GAO-07-574T (Washington, D.C.: Apr. 12, 2007); and GAO, Preliminary Information on Rebuilding Efforts in the Gulf Coast, GAO-07-809R (Washington, D.C.: June 29, 2007).

[2] In this testimony, unless otherwise noted, we refer to Hurricanes Katrina, Rita, and Wilma collectively as the Gulf Coast hurricanes.

[3] Throughout this report and unless otherwise noted, we refer to this official as the Federal Coordinator for Gulf Coast Rebuilding.

[4] According to CBO, capital losses include housing, consumer durable goods, and energy, other private-sector, and government losses.

[5] This estimate includes damages only to commercial structures and equipment, residential structures and contents, electrical utilities, highways, sewer systems, and commercial revenue losses. For more information see, Mark L. Burton and Michael J. Hicks, Hurricane Katrina: Preliminary Estimates of Commercial and Public Sector Damages (Huntington, W.Va.: Marshall University, September 2005).

[6] According to CBO, losses from Hurricane Andrew—a Category 5 hurricane that struck the coast of Florida in 1992—totaled about $38.5 billion in 2005 dollars. The earthquake that struck Northridge, California in 1994, which measured 6.7 on the Richter scale—resulted in $48.7 billion in losses, as measured in 2005 dollars. Further, losses from the terrorist attacks on September 11, 2001, were estimated at $87 billion in 2005 dollars, of which $35.2 billion were privately insured losses.

[7] Pub. L. No. 109-61, 119 Stat. 1988 (Sept. 2, 2005); Pub. L. No. 109-62, 119 Stat, 1990 (Sept. 8, 2005); Pub. L. No. 109-148, 119 Stat. 2680 (Dec. 30, 2005); Pub. L. No. 109-234, 120 Stat. 418 (June 15, 2006); and Pub. L. No. 110-28, 121 Stat. 169 (May 25, 2007). In addition to these five supplemental appropriations acts, a number of authorizations and programs in multiple federal agencies provided assistance. Congress also increased the borrowing authority of the National Flood Insurance Program to cover the large number of hurricane-related claims. Pub. L. No. 10965, 119 Stat. 1998 (Sept. 20, 2005); Pub. L. No. 109-106, 119 Stat. 2288 (Nov. 21, 2005); and Pub. L. No. 109-208, 120 Stat. 317 (Mar. 23, 2006). In addition, Congress passed the Gulf Opportunity Zone Act to provide tax relief benefits and incentives to affected individuals and businesses. Pub. L. No. 109-135, 119 Stat. 2577 (Dec. 21, 2005).

[8] Amy Liu, "Building a Better New Orleans: A Review of and Plan for Progress One Year after Hurricane Katrina." Special Analysis in Metropolitan Policy (Washington, D.C.: The Brookings Institution, August 2006).

[9] GAO, Disaster Relief: Governmentwide Framework Needed to Collect and Consolidate Information to Report on Billions in Federal Funding for the 2005 Gulf Coast Hurricanes, GAO-06-834 (Washington, D.C.: Sept. 6, 2006).

[10] A is typically a cost-share program between the federal and state and local governments. However, for Hurricanes Katrina and Rita, the state and local match requirements were waived for eligible emergency work in the immediate aftermath of the storms and the federal government provided 100 percent funding. In addition, Congress recently passed, and the President signed into law, legislation to adjust the federal cost-share of certain eligible rebuilding projects to 100 percent. U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007, Pub. L. No. 110-28 § 4501, 121 Stat. 112, 156 (May 25, 2007).

[11] Under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act), project funds cover the restoration or rebuilding of damaged facilities to their predisaster design and capacity. 42 U.S.C. § 5172(e)(1)(A)(i).

[12] Testimony before the Ad Hoc Subcommittee on Disaster Recovery of the U.S. Senate Committee on Homeland Security and Government Affairs, July 10, 2007.

[13] A disaster is considered to be closed when all projects are approved, all appeals are resolved, and all funds are obligated.

[14] CDBG funds supported recovery efforts in New York City following the terrorist attacks of September 11, 2001; in Oklahoma City following the bombing of the Alfred Murrah Building in 1995; and in the city and county of Los Angeles following the riots of 1992.

[15] Pub. L. No. 109-148, 119 Stat. 2680, 2779-80 (Dec. 30, 2005); Pub. L. No. 109-234, 120 Stat. 418, 472-73 (June 15, 2006).

[16] Texas received more than $503 million, Florida received about $183 million, and Alabama received nearly $96 million. HUD Notice of Allocations and Waivers 71 Fed. Reg. 7666 (Feb. 13, 2006); 71 Fed. Reg. 63,337 (Oct. 30, 2006).

[17] The LRA was created at the direction of Governor Blanco by executive order in October of 2005 and subsequently authorized by the state legislature in early 2006.

[18] Authorized under section 404 of the Stafford Act, the HMGP provides grants to states, which in turn provide funds to eligible applicants to implement measures that substantially reduce the risk of future damages, hardship, loss, or suffering in an area affected by a major disaster. 42 U.S.C. § 5172c.

[19] Specifically, the Road Home program would use HMGP funds to provide homeowners with elevation grants of up to $30,000 and up to $7,500 for individual storm protection measures such as storm shutters.

[20] These estimates were developed by ICF International, Incorporated, a company under contract with the state of Louisiana to administer the Road Home program.

[21] To receive an award, eligible applicants must place a covenant on their property, providing that flood insurance and hazard insurance will be maintained in perpetuity, the home will be rebuilt or repaired to local building codes, and if rebuilt, the home will be elevated to FEMA elevation standards.

[22] To receive an award, eligible applicants—similar to those in Phase I—must place a covenant on their property, stipulating that (1) flood insurance will be maintained in perpetuity, (2) the home will be rebuilt or repaired to local building codes, and (3) if rebuilt, the home will be elevated to FEMA elevation standards.

[23] "Low-income" homeowners are those with incomes at or below 60 percent of the AMI—which ranges by county.

[24] See GAO, National Flood Insurance Program: Preliminary Views on FEMA's Ability to Ensure Accurate Payments on Hurricane-Damaged Properties, GAO-07-991T (Washington, D.C.: June 12, 2007); and GAO, National Flood Insurance Program: New Processes Aided Hurricane Katrina Claims Handling, but FEMA's Oversight Should Be Improved, GAO-07-169 (Washington, D.C.: Dec. 15, 2006).

[25] 42 U.S.C. § 4001(d); 42 U.S.C. § 4016.

[26] See GAO, Flood Insurance: Information on the Financial Condition of the National Flood Insurance Program, GAO-01-992T (Washington, D.C.: July 19, 2001).

[27] Property owners in certain coastal regions subject to hurricanes and flooding may have to purchase at least two, and sometimes more, different types of insurance policies. Flood insurance is offered by NFIP, while insurance for wind-related damages is generally offered by private insurance companies or state-sponsored insurers. NFIP was established in 1968 in part to provide some insurance protection for flood victims because the private insurers were and still are largely unwilling to insure for flood risks.

[28] See GAO, Hurricane Katrina: Strategic Planning Needed to Guide Future Enhancements Beyond Interim Levee Repairs, GAO-06-934 (Washington, D.C.: Sept. 6, 2006); and GAO, U.S. Army Corps of Engineers' Procurement of Pumping Systems for the New Orleans Drainage Canals, GAO-07-908R (Washington, D.C.: May 23, 2007).

[29] Pub. L. No. 109-103, 119 Stat. 2247, 2247 (Nov. 19, 2005).

[30] Pub. L. No. 109-148, 119 Stat. 2680, 2761 (Dec. 30, 2005).

[31] Pub. L. No. 109-103, 119 Stat. 2247, 2248.

[32] Pub. L. No. 109-135.

[33] Tax expenditures may substitute for a federal spending program in that the federal government "spends" some of its revenue on subsidies by forgoing taxation on some income. See GAO, Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to Be Reexamined, GAO-05-690 (Washington, D.C.: Sept. 23, 2005).

[34] See GAO, Tax Credits: Opportunities to Improve Oversight of the Low-income Housing Program, GAO/T-GGD/RCED-97-149 (Washington, D.C., Apr. 23, 1997); and GAO, Tax Policy: New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance, GAO-07-296 (Washington, D.C.: Jan. 31, 2007).

Chairman SPRATT. Thank you very much. Now let's go to Reverend Donald Boutte. I might add that he is not only a minister, he is a former employer, employee of the Louisiana Health and Human Resources where he worked for 23 years. So his experience in the subject matter about which he is testifying is extremely extensive. We very much appreciate your coming. We look forward to putting a human face on this testimony this morning.

STATEMENT OF REVEREND DONALD BOUTTE

Rev. BOUTTE. Let me say, first, thank you to Congressman Spratt and the distinguished committee and fellow panel members for the opportunity to participate in this hearing this morning. I want to also thank the National Council of Churches for asking me to speak on behalf of my city today. The National Council of Churches has been actively involved in advocating for the Gulf

Coast recovery, and, in fact, established a Special Commission for Justice Rebuilding in September 2005 shortly after Hurricane Katrina. My name is Donald Boutte, and I am the pastor of St. John Baptist Church, located in the Carrollton-River Bend area of New Orleans.

I pastored the church for about 5 years. And prior to the storm, we had a congregation of about 325 people. Today I still minister to these people, but they are spread across dozens of States because there is not adequate housing and sufficient community infrastructure for them to return. I have been working with an important initiative called Churches Supporting Churches. This group, which with the National Council of Churches, helped organize its initial stages and gathered 36 hurricane damaged churches to partner with over 360 churches nationally, a 10 to 1 ratio to assist in both restoring the churches and helping them to participate in the redevelopment of their communities.

There is obviously a lot that can be said about the impact of Hurricanes Katrina and Rita and its lasting effects on the Gulf Coast region. Almost 2 years later, people are still struggling to rebuild their lives. Homes and communities and more than 200,000 residents have yet to return to the region. And while there has been progress, some road blocks still exist, housing, health care, insurance and environmental concerns. I would like to focus my discussion today on two aspects of the Gulf Coast recovery that I think will have long-term effects on the Federal budget: The tremendous housing needs of my city and the absolute necessity to have the levies and the flood protection systems rebuilt and restored so that the citizens of New Orleans are safe.

There are also two policy options that I would like for you to consider: To take up the Gulf Coast Housing Recovery Act of 2007 and Senate bill 1668, currently before the Senate Banking Committee, passed by the House of Representatives in House Bill 1227 in March 2007. It will help close a portion of the gaps in helping restore people to housing. Also, structure future resources to work in deeper partnership with the Gulf Coast nonprofit and faith-based organizations. These are entities driving the resident-focused recovery and few Federal resources have been directed to their efforts.

Lastly, charge the Army Corps of Engineers to rebuild the levies and flood protection systems to protect the investments that private citizens and the Federal Government are now making to rebuild New Orleans. The uncertainty around flood protections continue to undermine the recovery in our city. Housing is at the top of the list for local churches because many of our congregants are still in the diaspora. And getting them home revolves around addressing the housing need. I was born and raised in New Orleans. Like many of my colleagues, both my home and church were destroyed.

Although it has been 2 years, my church has just recently been restored, yet half my congregation are still displaced throughout the country. What has precluded their return is the availability of the quality of affordable housing. Those returning have faced barriers that hinder securing a decent place to live. Renters are now facing new income criteria for rental applications, a rigid credit history requirement, homeowners are confronting escalating insurance

costs and increased property taxes and utility bills. Subsequent to the storm, because my church was destroyed, it was necessary for me to go back to work again, and I have been working with PolicyLink as a consultant. PolicyLink is a national research and action institute involved in equitable redevelopment in Louisiana. So I am familiar with the dire housing needs from both a personal and professional perspective.

We have helped to form a statewide housing coalition in Louisiana with over 100 member organizations that work to help families meet their housing needs. My recommendations to this committee are best described by sharing what I know of New Orleans's housing market prior to Katrina. For the past two decades, tourism has been the basic economic engine for New Orleans. While tourism has created a low-wage economy, housing in the city was inexpensive. A family could rent a house for between $300 and $700 monthly. Approximately 57 percent of New Orleanians were renters prior to the storm. The pre-Katrina supply of low-cost housing was critical to the economy and the labor market. Many programs had efforts to create homeownership but they failed and were unsuccessful because the low-wage economy precluded potential home buyers from meeting the mortgage income criteria. Therefore, affordable housing was critical to the health and labor market and essential to the workforce.

Hurricane Katrina radically changed the already fragile housing market in New Orleans. There were over 150,000 rental units lost. This represents half of the occupied rental units. And of this amount, 89 percent were rental units affordable to families of four earning less than 80 percent of the area median income, which at that time was $42,000 a year. The depletion of the inventory increased rental costs exponentially. Between 2005 and 2006, rents increased between 70 to 200 percent. Today, a two-bedroom market rate apartment is $978.

To afford this, a minimum wage earner must work at least 146 hours per week, representing four full-time jobs. This abrupt increase in rent caused a paradigm shift in those seeking affordable housing pre-Katrina. Prior to that, those seeking affordable housing were generally seniors on fixed incomes, persons with disabilities who received SSI, and, of course, the very low wage earner. Today entry-level schoolteachers, new police officers, construction workers and even some clergy are in serious need of affordable housing. These groups are pursuing affordable housing because they are now paying more than 30 percent of their household income for housing. The increased demand for affordable housing and the depletion of the housing stock has adversely impacted the vulnerable citizens of New Orleans and marginalized blue and white collar workers.

Although only half the population is back in the city, the homeless population has increased from 6,000 to over 12,000. The supplemental Community Development Block Grant funds have been tremendous assets to the recovery. Notwithstanding the multitude of devastation it makes these funds insufficient to serve the number of households affected and additional resources needed. Of the $9.2 million in funding, $7.5 million was dedicated to homeowners. The small landlord program received $829 million, and $837 mil-

lion was dedicated to multifamily development. Projections from the tax credits from the multifamily projects estimate that only 18 percent of the rental units damaged or destroyed will be replaced by the projects.

So even after the current funds are exhausted, there will continue to be insufficient housing necessary for people to return. Again, this is only with half the population back. Moreover, beside insufficient housing inventory, there are other barriers that citizens face seeking affordable housing. For instance, in order to qualify for an apartment of $900 a month, some apartment managers now are requiring income at four times the monthly rate. Many citizens do not earn $3,600 a month, and so sometimes even available property is not accessible to a large segment of the workforce. Managers are also enforcing more rigid credit history. Louisiana lost 18,000 businesses during the storm. Much of the workforce was affected. And as a result, many working people have weak FICO scores.

For some, a rental order has revealed that even discrimination has spiked in the housing industry. Other barriers to securing affordable housing are the costs of insurance that is passed on to renters, and most recently, the reassessment of property values that increased property taxes. Unless additional resources are provided, the recovery in New Orleans will come to a standstill. Consequently the challenge to replace the depleted housing stock will worsen. The result will be slow economic recovery, increased homelessness, dilapidated and blighted property, creating safety and health risks for those citizens who have chosen to return. The Special Commission also released a report card in February that identified and evaluated the governing agencies that are responsible for rebuilding the Gulf Coast region. Unless additional costs are provided, the recovery of New Orleans will come to a standstill.

We are asking that this committee look at Senate bill 1668, which can help address some of the unmet housing needs facing citizens of the Gulf Coast and to help them get home. Please direct future funding to work in partnership with local faith-based and nonprofit service providers who have been the effective drivers of the recovery to date. And please do not fail to address the repairs of our levies, which will allow private investment to follow with confidence that it will not flood, and that people can live in safety, even those that are making investments in the city. I thank you for your time.

[The prepared statement of Rev. Boutte follows:]

PREPARED STATEMENT OF REV. DONALD BOUTTE, PASTOR, ST. JOHN BAPTIST CHURCH

INTRODUCTION

Let me first say thank you to this distinguished committee for the opportunity to participate in the hearing this morning. I want to also thank the National Council of Churches for asking me to speak on their behalf at this hearing today.

My name is Rev. Don Boutte and I'm pastor of the St. John Baptist Church located in the Carrollton-River Bend area of New Orleans. I have also been working with an important initiative called Churches Supporting Churches. This group, which the National Council of Churches helped organize in its initial stages, has partnered 36 local churches with 360 churches nationally—a ten to one ratio—to assist in the restarting, restoring and rebuilding of the churches to participate in the redevelopment of their community. I'm here representing the National Council of Churches' Special Commission for the Just Rebuilding of the Gulf Coast, which was

established in September 2005 shortly after Hurricanes Katrina and Rita ravaged the Gulf Coast of the United States.

There is obviously a lot that can be said about the impact of Hurricanes Katrina and Rita and its lasting effects on the Gulf Coast region. Almost two years later, people are still struggling to rebuild their lives, homes and communities and more than 200,000 residents have yet to return to the region.

I would like to focus my discussion today on one aspect of the Gulf Coast recovery that will have a long-term effect on the Federal budget—the tremendous housing needs for my city. Housing is the top issue to local churches because many of their congregants are still in the diaspora and everything else revolves around the housing need.

I was born and raised in New Orleans. Like many of my colleagues, my home and my church were destroyed. Although it's been two years and my church has been rebuilt thanks in part to a grant from the National Council of Churches' Eco-Justice program, half of my congregants are still displaced throughout the country. What has precluded their return is the availability of quality affordable housing and some of the recent barriers that hinder securing a decent place to live—new income criteria for rental applications, rigid credit history requirements, escalating insurance costs, and increased property taxes.

As a consultant to PolicyLink, a national research and action institute advancing economic and social equity, I'm familiar with the dire housing needs from both a personal and professional perspective. Initially invited by Governor Blanco, I've been working with PolicyLink over the past two years to advance equitable development in Louisiana, particularly in the area of housing policy advocacy. We've helped to form a statewide housing coalition in Louisiana, with over 40 member organizations.

HOUSING MARKET

My recommendations to this committee are best described by sharing what I know of the New Orleans housing market pre-Katrina. For at least the past two decades, tourism has been the basic economic engine for the city of New Orleans. Although largely a low-skilled, low-wage economy, the city was able to provide affordable housing in a fragile housing market. This situation created a disproportionate number of renters, where approximately 57% of New Orleanians were renters prior to the storm. In order to afford a two-bedroom market rate apartment without any housing assistance, someone had to earn $10/hour. Many residents earned much less than $8/hour.

Many program efforts to create homeownership and to change the owner/renter ratios were unsuccessful because the low-wage economy precluded potential homebuyers from meeting the mortgage income criteria. Therefore, maintaining affordable housing was critical to the health of the labor market and essential for the workforce.

Hurricane Katrina radically changed this fragile housing market in New Orleans. There were over 51,000 rental units lost. This represents half of the occupied rental units and of this amount 89% were rental units affordable to a family of four earning less than 80% of the area median income ($42,000/year). The depletion of the housing inventory increased rents exponentially. Between 2005 and 2006 rents increased 70%.[1] Today, a two-bedroom market-rate apartment is $978/month. To afford this, a minimum wage earner must work at least 146 hours/week, representing about 4 full-time jobs. This abrupt increase in rents caused a paradigm shift in those seeking affordable housing. Pre-Katrina, those in affordable housing were generally:

- seniors on fixed income,
- persons with disabilities who received SSI, and
- the very low-wage earner.

Today, entry level school teachers, new police officers, construction workers, and even some clergy are in serious need of affordable housing. These new groups are looking affordable rentals because they are paying more than 30% of their household income for housing. The increased demand for affordable housing and the depletion of the housing stock has adversely impacted the most vulnerable citizens and marginalized our blue collar workers. Although only half of the population is back in the city, the homeless population has increased from 6,000 to more than 12,000.

The supplemental Community Development Block Grant funds have been a tremendous asset in the recovery. Notwithstanding, the magnitude of the devastation necessitates additional resources. Of the $9.2 billion in funding, $7.5 billion was

[1] Reported by the Times-Picayune on October 2006.

dedicated to homeowners and it is projected that this amount will not be sufficient to meet the demand to replace the owner occupied stock. The Small Landlord Program received $829 million and $837 million was dedicated to multi-family development. Projections from tax credits from the multi-family projects estimate that only 18% of the rental units damage or destroyed will be replaced by the projects. Thus, even after the current funds are exhausted, there will continue to be insufficient housing stock necessary to meet the current housing demand. Again, only half of the pre-Katrina population is back in New Orleans.

Moreover, beside an insufficient housing inventory, there are other barriers that citizens seeking affordable housing face. For instance, in order to qualify for an apartment at $900/month some apartment managers now require income at four times the monthly rent amount. Many citizens do not earn $3,600/month and sometime even available property is not accessible to a large segment of the workforce. Managers are also enforcing more rigid credit history requirements.

Louisiana lost 18,000 businesses during the storm. Much of the workforce was affected and, as a result, many working people have weak FICO scores. For some, a recent rental audit revealed that discrimination has spiked during this recovery. Other barriers to securing affordable housing are the cost of insurance that is passed on to renters and, most recently, the reassessment of property values that increased property taxes.

Unless additional resources are provided, the recovery of New Orleans will come to a standstill. Consequently, the challenge to replace the depleted housing stock will worsen. The result will be slow economic recovery, increased homelessness, dilapidated and blighted property creating safety and health risk to the citizens of New Orleans who have chosen to return. The Special Commission also released a report card in February that identified and evaluated the governing agencies that are responsible for the rebuilding of the Gulf Coast in the following areas: timely response, administering and distributing funds; practicing environmental justice, addressing the healthcare shortage, improving schools, responding to housing demands, and insurance. Grades were assigned to the Federal Government, the states of Louisiana and Mississippi, and the City of New Orleans. There is still a great need for improvement in all areas.

Another report will be released later this month about the resources invested by the faith community in the efforts to rebuild the Gulf Coast. We understand the long-term impacts these disasters have had on our communities and we hope that the Federal Government will be steadfast in finding ways to allocate resources to the region so that the Gulf Coast will be rebuilt with justice.

Thank you for your time.

Chairman SPRATT. We thank you for your excellent presentation. That was extremely useful and informative. Do we have members here from the affected areas? Mr. Alexander. Oh, yeah, Jo Bonner. Well I was going to yield to them first. Mr. Alexander, would you like to lead though?

Mr. ALEXANDER. Thank you, Mr. Chairman, members of the panel. Thank you for being here this morning. Thank you for your presentation.

Mr. Powell, I would like to say thank you for what you have done. You have been in Louisiana and the Gulf Coast region a lot. You have been here a lot, been to our offices. We have had several meetings with you. You know, the job that you have taken has been extremely difficult. You have probably wondered why you were given that assignment, and I am sure more than that, you have wondered why you took that assignment. But I want to say that although we have been somewhat puzzled by some of the events that have taken place, we appreciate what you have done.

The question is, in your opinion, has the money paralleled the damages in the Gulf Coast region on a per-State basis as far as recovery has gone? Do you feel like that it has been fairly doled out?

Mr. POWELL. Obviously, each area along the Gulf Coast that was damaged from Texas to Alabama, there are unique challenges. As you recall, Congressman, Congress first—obviously in addition to the direct emergency moneys for immediate relief, there was some

moneys that were approved by the Congress for Community Development Block Grants. And part of that restriction, Congress said that no State would receive more than 55 percent. That is an important note I think because at that time, as in the testimony, Louisiana received something like $6.2 billion, and Mississippi about $5.5 billion. Texas and Alabama, something less than that. And again, there were devastating damages in Mississippi and Louisiana. Louisiana approached our office and approached this administration and Members of Congress saying they needed more money, specifically to assist those citizens whose homes were destroyed by the storm surge and the breach of the levies.

We worked very closely with the State of Louisiana and came to a consensus about those needs. I might add that our folks—I am an old banker, as you know, and I kind of looked at it like a loan application, give me the facts and things of that nature.

So they looked at Red Cross data, they looked at FEMA data, they looked at SBA data, they did the satellite imaging, and there was lots of discussion between the folks in Louisiana and our office and came to the conclusion and the consensus that there was an initial $4.2 billion of money needed to assist those people whose homes were damaged by the storm surge and by breach of the levy, water. Part of that discussion was obviously about wind also. And at the end of the day, the consensus was that the $4.2 billion would need meet the needs of those people whose homes were destroyed by water. This President through his leadership and Congress granted an additional $4.2 billion for Louisiana. So we believe that the CDBG money was sufficient with the numbers that we had and we continue to believe were based upon the numbers we have that that is sufficient.

As my testimony has said, that I have reflected there is a shortfall now, and that shortfall, we believe, is as a result of Louisiana expanding the eligibility of their program to include wind. We still believe that had Louisiana stayed with just the water-damaged homes based upon the current data that we have that there would be sufficient funds. And as per my testimony, once we determined through the press that, in fact, there was a shortfall, we approached the governor on June 6 and asked her seven or eight different questions. And to date, we have not received an answer to those questions. Once we receive an answer to those questions, we will analyze that data to go with other data and make a decision about, should there be additional moneys necessary and from the Federal Government.

Mr. ALEXANDER. Well, the reason I ask the question is Mr. Czerwinski said that out of the $16 billion that had been allocated for home rebuilding, Louisiana got $10, Mississippi $6. Louisiana had a little over 200,000 homes lost. Mississippi Texas and Alabama had about 75,000. So I am not a mathematician but that doesn't seem like it is equally proportioned. But you made a statement to the panel that you had asked questions on June 6 and it is August 2 and you have not gotten an answer.

Mr. POWELL. No, sir.

Mr. ALEXANDER. Does that bother you?

Mr. POWELL. Obviously the faster we can get those answers, the quicker we can respond to any potential needs and analyze the

numbers that those answers will—or give some light to some things that we don't know the answer to.

Mr. ALEXANDER. You and I both have been in the New Orleans area a lot.

Mr. POWELL. Yes.

Mr. ALEXANDER. Have you ever made the statement that some of these homes shouldn't be built back in the same location?

Mr. POWELL. That is a decision, Congressman, for the local people.

Mr. ALEXANDER. In your opinion.

Mr. POWELL. You know, there are two guiding principles that we follow in our office. One is to be good stewards of the taxpayers' money, the other is that the locals should plan their own destiny. And this is not an exercise in centralized planning. And I am confident that the locals will make those decisions, and we encourage those locals to make decisions based upon the facts that they know and facts that the Federal Government has and we encourage them to make responsible rebuilding decisions, such as rebuilding, changing the code, the building code and looking at the evidence that we have that shows what could happen in certain areas.

Mr. ALEXANDER. Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Alexander. Now I would like to recognize Mr. Scott who has a markup, and I wanted to give him an opportunity, since he showed up early with questions to ask. Mr. Scott.

Mr. SCOTT. Thank you. And I thank the gentleman from Texas for deferring. I would like to just mention to all of the witnesses, I think we have gotten the sense that we have appropriated enough money, just a little frustrated that we haven't seen more progress. The gentleman from Louisiana said a couple hundred thousand people had lost their homes. Just with arithmetic, if you had a million people given each $2,000 a piece, family of four almost $100,000 a year support, that would be $2 billion a month, $24 billion a year that you could have families—a million, and you only mentioned a couple hundred thousand—would cost $24 billion a year. And we have appropriated almost $100 billion.

So the fact that a lot more hadn't been done is a little frustrating. And the longer it takes, obviously, the longer people have to be supported. Reverend Boutte, you mentioned the people who have rented. What happened to the people who lost their homes and had a mortgage? What happened to them?

Rev. BOUTTE. Many of those people who had mortgages had also foreclosures. Because what happened eventually after the storm is, you had to find lodging for your family. So if you were in Houston, for instance, you were paying rent. And even though the house had been inundated in New Orleans, you still had to try to maintain that. At the same time, many of them lost their jobs. And so you had a high level of foreclosures. And the other thing that happened after the storm is, many of the mortgage companies agreed to work with the homeowners for 90 days.

For instance, I will give you a personal example. The storm occurred in August. I called Countrywide the 23rd and 25th of September, made arrangements and they said they were going to defer the mortgage payment until January. They did. Effective January,

I got a notice stating that I owed interest for three months on that house. Now my salvation came because my insurance company settled later on in January, which allowed me to deal with my mortgage. But many folks were not as fortunate.

Mr. SCOTT. I don't mean to cut you off. But I only have 5 minutes and I have a bunch of questions to ask. Mr. Czerwinski is there any reason why we should allow policies to be written that are not all hazard policies rather than, your home was destroyed, you might get paid you might not?

Mr. CZERWINSKI. Are you talking about flood and——

Mr. SCOTT. Flood, fire, whatever. Is there any reason why we shouldn't insist on all hazards insurance?

Mr. CZERWINSKI. No. When people are facing hazards from different sources, that should be a requirement they are covered for all those.

Mr. SCOTT. Now is 100 years enough? I always thought if you had 100-year plan in Virginia, it means every year an entire House of Delegates district could be wiped out every year. And that is what is in the hundred years would happen around the country. Is 100 years enough?

Mr. CZERWINSKI. You are getting at the heart now of the underwriting of the National Flood Insurance Program. We know what type of actuarial strength they have right now.

Mr. SCOTT. Okay. Mr. Powell, Chairman Powell we talked a little earlier about the fact that it appears now that in the fall of 2006, I understand that of 128 public schools in New Orleans, 53 were slated to open by the fall of 2006. I understand that right now the schools are ready to open and accommodate virtually all that are returning. I would like you to provide me with what the government could have been ready to do and can do for the next tragedy so that we could have been ready by 1 year afterwards in terms of money, get rid of red tape and everything else. And if you could also—particularly since we were told that 100,000 people in New Orleans either go to college or are employed by a college. If you could get them back up and running, obviously you have got 100,000 people paying paychecks. And if you could also let us know what we could do in the criminal justice system, there is a lot of dysfunction in the criminal justice system, records, people in jail, I mean just totally dysfunctional. What can we do for the next tragedy in the education system and in the criminal justice system so we don't suffer the same kind of dysfunction that we have suffered for the last 2 years?

Mr. POWELL. Happy to do so. But I would say—and as you know from our previous discussion in front of the entire committee that there will be adequate space for the students that will be returning in 2007. There is something like 36,000 students that they are anticipating in the fall. That is 6,000 more than last year. But they have provided 11,000 more classrooms. So I am convinced——

Mr. SCOTT. It is 2007. And we should have been able to be at that point about a year later, 2006. And what do we need to do as a government to make that possible?

Mr. POWELL. I will get that to you.

Mr. SCOTT. Again, thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Scott. Mr. Bonner.

Mr. BONNER. Thank you, Mr. Chairman. I want to thank my colleagues not only in this committee, but in the entire House for their support. We don't always say thank you enough for the overwhelming support of the American people when the worst natural disaster in the history of America came to our shores on August 29. A lot of people forget that Alabama was one of those participating States, although it is hard to tell the people in Mobile who had 14 feet of water in our streets or communities by the bayou that were wiped off the map that they didn't suffer because they did. But we were fortunate compared to our friends and brothers and sisters in Mississippi and Louisiana. And we know how blessed we were. But thank you for the support that you have given as well as the prayers that have come. I would like to try to get a few quick questions in.

Mr. Powell, I want to go back to something that Congressman Alexander started on with regard to the Road Home Program in Louisiana. In your response to that, you had asked for additional questions from the State of Louisiana, and have yet not get gotten that information. I am assuming it is hard to go forward with the game plan unless the State, the local communities are giving you the information that you need to know what role we can play at the Federal level?

Mr. POWELL. That is correct. And as I said in my testimony, that program closed at the end of the month. So hopefully we will know more in the days ahead. But you are correct, it would be very helpful if we had the answer to those questions.

Mr. BONNER. Given that the State of Louisiana has run into a shortfall because of their decision to cover wind-only damage, what can the Bush administration, what can Congress, what can the American taxpayer be expected to do? Did you allocate funds to either Texas or Mississippi or Alabama to cover wind-only damage?

Mr. POWELL. We had discussions, I can recall, being from Texas with my friend, Governor Perry, about wind damage and also other members of the congressional delegation. We discussed wind in Texas, Mississippi, Alabama, and Mississippi, and we did not cover wind damage for those States.

Mr. BONNER. And you didn't because——

Mr. POWELL. Because wind is a peril that is insurable. And again, specifically with Louisiana and Mississippi, the storm surge and the breach of the levies system, we believe that those were the—that we have responsibility there to assist those people to rebuild their homes. And I think the facts—and I want to emphasize one more thing in my testimony, current data shows that in the neighborhoods whose homes were destroyed by water, they have a 54 percent vacancy rate. Those neighborhoods that were destroyed by wind have a 4 percent vacancy rate. And again, that is an insurable peril that people can buy insurance for.

Mr. BONNER. And for the record, Congressman Gene Taylor, our colleague who is from Mississippi, has introduced legislation to expand the program to wind and that is being considered—actually, I think has been considered by the appropriate committees, and appropriate action is being taken by the full House. Let me quickly shift. I know there has been a lot of focus on New Orleans. And Reverend, thank you so much because I personally know from ex-

perience that had the faith-based communities not stepped up and the private partners that none of the recovery we have seen thus far would have occurred. But, Mr. Chairman, could you give us a perspective in terms of your impressions about the recovery efforts in Mississippi and in Alabama and the other communities that were affected?

Mr. POWELL. Both of those, from Alabama to Texas, offered unique challenges. I think we focused on primarily Louisiana, and we sometimes forget that southwest Louisiana was devastated also. I mean, it was like my native State, Texas. They were virtually wiped out. And Mississippi, you that have been to Mississippi, it is hard to describe the devastation in Mississippi. And then I think we need to recall that New Orleans, the City of New Orleans was underwater for 90 days. That is hard for me to imagine. It is hard for me it imagine. So there are unique challenges in New Orleans/Louisiana, and there are unique challenges in Mississippi. I think part of the component of recovery obviously includes the nature of the devastation, but it also includes leadership. It includes the citizens' participation. It includes faith-based. It includes all those areas.

I think Mississippi, because of the nature of their devastation, in some areas they are further behind than in other areas. But I think there has been a tremendous amount of progress in Mississippi. I attended the opening of a bridge that connects Bay St. Louis and Pass Christian. A remarkable feat, a remarkable feat that those people were able to build that bridge in the time that they were able to do it. And it is a very important economic indicator. Debris itself, debris in three counties in Mississippi alone, there was more debris in those three counties than all of Hurricane Andrew and the World Trade Center combined. That took 2 years. I can't tell you about the debris in New Orleans. The last 90 days that I have been in the area in Mississippi and in New Orleans, not one person has mentioned debris to me.

So while there is lots of work to be done, there has also been some progress. In New Orleans, schools are open. Help wanted signs are out. The port is 100 percent. The oil and gas infrastructure is 100 percent. Hotels are back. Restaurants are open. Neighborhoods, we got a long way to go. We got a long way to go on this housing issue that my friend mentioned a moment ago. It is a critical issue. Health care is a critical issue. Criminal justice is an issue. But housing and affordable housing is very important. That is the reason the Road Home Program is important that it function the way it was designed.

Mr. BONNER. Thank you very much.

Chairman SPRATT. Mr. Etheridge.

Mr. ETHERIDGE. Thank you, Mr. Chairman. Let me thank you for holding this important hearing, you and the ranking member, because I think it is important. We folks in North Carolina and South Carolina aren't immune to hurricanes. We have had our fair share over the years. We have had hurricanes like Bonnie, Dennis, Fran, Flloyd, and of course, in 1989, we had what was called the 500-year flood. I don't know how they measure a 500-year flood, we haven't figured that one out, but we know how much damage it did. I mention that only because, at that time, we got a great response from

the Federal Government. I mean, we had a lot of people lose their homes. We had places where water stood with dikes for months before we pumped it out, and yet the Federal Government responded. We had a full professional staff in FEMA that responded quickly.

And I have been to New Orleans now three or four times, flew over it when it was underwater, went back on a couple other occasions with Homeland Security. I was amazed at what I thought was just utter incompetence and mismanagement by a whole host of agencies, and the lack of coordination and oversight. And I hope we are making progress. I know we've got a group going down in a couple weeks. As you already heard this morning, 23 different agencies have received somewhere near a $100 billion that were appropriated by Congress in one way or another. In a lot of cases, a lot of that money has not been spent, as you have indicated. FEMA can't say to a large degree where a lot of their $45 billion has been spent. The Bush administration has identified $500 million in contractor overpayments, but has recovered less than 2 percent of that. $8.7 billion in contracts have been identified as wasteful, fraudulent or mismanaged. Mr. Czerwinski, let me ask you, how did the cost of the additional response compare to previous responses, say Andrew, which was pretty devastating in Florida, as an example, in 1992?

Mr. CZERWINSKI. This is far off that scale. It dwarfs anything we have seen before.

Mr. ETHERIDGE. Okay. Why? Size?

Mr. CZERWINSKI. Oh, yes. Absolutely. Any dimension you want to look at, the damage that you have seen from Katrina far outstrips anything we have had before.

Mr. ETHERIDGE. Water?

Mr. CZERWINSKI. Because it was a multiple event, it was a significant hurricane event and a tremendous flooding event put together. So those two things just combined to, in terms of property destroyed, lives lost, on and on and on.

Mr. ETHERIDGE. Coordination, response time?

Mr. CZERWINSKI. That is always a challenge.

Mr. ETHERIDGE. I know you weren't there, but——

Mr. CZERWINSKI. That is a challenge.

Mr. ETHERIDGE. Level of incompetence was significant? I mean, when people didn't get food, didn't get water, we didn't move.

Mr. Powell, last September, the GAO recommended OMB create a government-wide framework to report on hurricane-related expenditures. Can you share with us what progress we have made in producing government-wide estimates of cost?

Mr. POWELL. Yeah, our office works very closely with OMB and all agencies within the government. I think we know where the money has been spent. We know where the money has not been spent, and what it has been dedicated for.

Mr. ETHERIDGE. Will there be a report issued or can we get an update?

Mr. POWELL. I would be happy to give you——

Mr. ETHERIDGE. Would you?

Mr. POWELL. Yes. Yes.

Mr. ETHERIDGE. Okay. Let me ask you one other question. I won't go back and replow that ground anymore other than to say

I think we all can agree, I think we can, that the initial response of FEMA, it occurred before your watch so we won't go there, but it was abysmal. And I am concerned that we don't have that again, because a significant portion of the money that was appropriated to rebuild has not yet been spent, much of which was meant for Louisiana and Mississippi homeowner assistance programs. What is your assessment of these programs at this point? And why has the spending been as slow as it has been? And do you anticipate that now that we have gotten some handle of it increasing and will it be spent—will we be spending a lot of it as it needs to be to get people back? You know, we talk about schools and others, but you can't fill the schools until people come home with children. And I think that is a critical piece. Can you give us some insight into that?

Mr. POWELL. Yeah, I think it is important for us to reflect that there are three components of the spending other than the immediate relief and the emergency relief. And one is the Federal-State partnership. The other one really is the responsibility of the State and the locals. And the other one is the responsibility of just the Federal Government. Let me give you some examples. A State-Federal partnership would be the Public Assistance programs, where those applications are made by the locals to FEMA. They analyze those applications, submit those, after they approve them, to the State. The State then does another check and balance. They have audit procedures. The work has to be completed. And then they reimburse the locals. So there is a responsibility there of the Federal, there is a responsibility of the State, and there is a responsibility of the locals. That is a Federal-State and local partnership.

Then there are Federal, just Federal expenditures that we are responsible for, such as the levees. It is a project that the Federal Government manages, is responsible for completing from the first day to the end. So that is a sole responsibility of the Federal Government. Then there are certain components of the expenditure that is the sole responsibility of the State, such as the Road Home Program. The CDBG money is directed to the Governor. The Governor designs, modifies those programs. They are responsible for executing those programs to the beneficiaries of the people of the State of Louisiana, Mississippi or Alabama. So there are three components of that spending other than immediate relief. So the Federal Government has a role in two of those. We are in a Federal and State partnership, and then we have sole responsibility for certain of those things.

Mr. ETHERIDGE. Thank you. I would just encourage, on lessons learned——

Mr. POWELL. Yes, sir.

Mr. ETHERIDGE [continuing]. Since it is so big, we should have learned something thus far——

Mr. POWELL. I agree.

Mr. ETHERIDGE [continuing]. To start shrinking some of that timeline and doing away with some of the bureaucratic things we can do to help people. Because it is really about people in the end. And I yield back.

Chairman SPRATT. Mr. Ryan.

Mr. RYAN. Thank you. And I want to make sure I don't take up all our time. And I wanted to make sure our gulf State legislators had a chance first. I want to ask you again about the Road Home Program, which we are exploring in detail here, and then the levees. Chairman Powell, the Road Home Program is CDBG-expended funds; correct?

Mr. POWELL. Correct.

Mr. RYAN. So the State gets the CDBG and then they decide the eligibility?

Mr. POWELL. Yes, sir.

Mr. RYAN. So Alabama, Mississippi, Texas, chose to apply their CDBG moneys to the Road Home Program to flood damage, and that is it; correct?

Mr. POWELL. Correct.

Mr. RYAN. And so wind damage, the decision to cover wind was a decision exactly by who in Louisiana?

Mr. POWELL. That was the Governor and her administrative staff and the people of Louisiana.

Mr. BONNER. If the gentleman would yield.

Mr. RYAN. I would be happy to yield.

Mr. BONNER. Mr. Chairman, correct me if I am wrong, the Road Home Program is uniquely Louisiana. That was designed by the Governor of Louisiana. And we don't have a similar named program in Alabama or Mississippi.

Mr. POWELL. Mississippi has one also, but he is correct, Louisiana's program was crafted, designed by the Governor. And I might add, too, part of our deliberation, we asked Congress to—if we could have some oversight on that, and Congress chose not to allow that. So it is an exclusive authority of the State.

Mr. RYAN. Here is your Federal money, you decide.

Mr. POWELL. Yes, sir.

Mr. RYAN. So the moral hazard issue obviously is the big, you know, white elephant in the room here. If they didn't apply it to wind—this is Louisiana—they would have had enough money to cover all of the flood damaged program, the Road Home Program?

Mr. POWELL. Based upon the current data that we have today, yes, sir.

Mr. RYAN. Right. And it is a 53 percent vacancy rate on flood-damaged houses and only a 4 percent vacancy on wind-damaged homes in Louisiana?

Mr. POWELL. Correct. Based upon U.S. Postal data.

Mr. RYAN. That seems like a fairly obvious issue and a huge moral hazard which could affect all of the taxpayers that we represent. A final question, because I know we have a vote and I want to get to other folks. I think, Mr. Edwards, did you—the levees, what is the cost estimate of the current levy construction project around New Orleans, number one? Number two, what is the matching rate between Federal and State share of the levees if there is? And number three, are the levees protecting areas of New Orleans that are still under sea level?

Mr. POWELL. First of all, I think we spent about $8.4 billion on hurricane protection to date. The Corps is determining the cost that will be required to complete the levees to the 100-year flood protection. We anticipate that cost to be announced very soon. And

as I have shared with some of the members here, that cost is going to be a large dollar amount, could be $5 to $10 billion. So it is going to be a large amount. With reference to your third point about the cost share, traditionally there is a 65-35 percent——

Mr. RYAN. Sixty-five Federal, 35 State?

Mr. POWELL. Yes, sir.

Mr. RYAN. And it is protecting areas that are under the sea level?

Mr. POWELL. Yes, sir.

Mr. RYAN. Thank you. I will yield.

Chairman SPRATT. Thank you, Mr. Ryan.

Mr. Edwards of Texas.

Mr. EDWARDS. Thank you, Mr. Chairman. Thank you all for being here and the important work you are doing. Mr. Powell, I especially want to thank you for the personal sacrifices you and your family have made to allow you to take on this responsibility. And it is a huge one. I think we all agree that the Federal Government didn't respond quickly and effectively enough in the immediate aftermath of Katrina and Rita, but I know, in the wake of that response, when you got your responsibility, you worked hard to try to bring people together. I would like to clarify, for the record, you don't have—while you are given the title coordinator, you don't have the line authority to direct HUD, FEMA or Homeland Security to take certain steps. Is that correct?

Mr. POWELL. That is correct. However, I would say, Congressman, we work very closely with our friends at HUD and DHS and all of the other agencies. And we work very close with health care issues, criminal justice issues, all of those things, and we receive a spirit of cooperation. But to answer your question directly, we do not have authority to.

Mr. EDWARDS. Thank you. I had several other questions, but I would like to just focus on one. I guess one of the most important decisions the Federal Government and the administration will have to make in particular will be how much additional funding to ask from Congress and what the local and State share should be in that effort. I don't know what the status of the Louisiana economy is, the New Orleans economy, their tax revenues.

Reverend, you mentioned there was a loss of 18,000 businesses. Can you tell me, compared to pre-Katrina and Rita, what are the revenues of the State government and the New Orleans government? Because certainly while we would expect local and State participation and infrastructure investments from year to year, this is a unique situation where those entities may not have the resources to contribute the normal cost share that we might expect.

Mr. POWELL. Immediately after the storm, obviously their revenues went down. But the State recently announced a 2.2, I think—either $2.250 or $2.5 billion excess in their State revenue. I know the City of New Orleans, their sales tax revenue is back to very close to pre- Katrina levels. That is obviously because of the economic activities, but to be fair, I think part of that is because of the consumers buying new appliances, carpet, lumber and things. The same thing is true in Mississippi. There has been an economic push. But I think we need to temper that with, what is it going

to look like 2 and 3 and 4 and 5 years now? So there has been an upswing in revenue to State government and local government.

Mr. EDWARDS. Much of that is because of the direct infusion of tax dollars?

Mr. POWELL. That is right.

Mr. EDWARDS. Okay. Thank you.

Thank you, Mr. Chairman.

Chairman SPRATT. Thank you, Mr. Edwards. I am going to run the clock until about 3 minutes. We have got a series of votes coming up, a 15-minute vote, followed by three 5-minute votes. So we are going to try to move this along.

Mr. Hensarling?

Mr. HENSARLING. Thank you, Mr. Chairman.

Mr. Ryan covered most of the ground that I wanted to cover, but I did want to add my voice to that of my fellow Texan, Mr. Edwards, and thank Mr. Powell for his service to his country. I know it is a sacrifice. It is an important job, but it is probably a thankless job as well.

Mr. Powell, I have kept up with a series of articles written by the New Orleans Times-Picayune. They seem to have done a series of reports and exposés about the Road Home Program. In this article, they recount how, last year, the Governor thanked Congress and the President for fully funding the program, although now we know they are requesting $5 billion more. In this same article, dated July 28th, just a couple of days ago, it says that the State now lacks money to pay more than a third of the applicants, that the last day to file an application was approaching, and that the State had not succeeded in handing out money already in hand, that only about a quarter of eligible applicants had collected grants, compared with 83 percent of eligible flood victims in neighboring Mississippi.

So I am going to have two questions. Number one, what was Mississippi doing differently than New Orleans in their ability to help their homeowners in a more timely fashion? Second of all, the article goes on to say that the Blanco administration made a series of politically popular promises, vowing to help seemingly every storm victim, landlords, business owners, New Orleans power company, and University Hospital, and then it talks about the controversial decision to cover wind damage. So the second question is really, is this particular article accurate?

Mr. POWELL. Congressman, I have read that article. And while I don't make a habit of reading articles each and every day, I think that article pretty well reflects the history of the Road Home Program. I think it depicts the events accurately, and also I think it describes the rationale and the reason for the potential shortfall.

Why is Mississippi 83 percent and Louisiana a third? There are various reasons. Some of them are subjective, obviously. Again, I described earlier that the devastation in Mississippi presented unique challenges, and they sure presented unique challenges in Louisiana. Title records, the complexity of destroyed title information in Louisiana was I think a little bit different than in Mississippi. Amending the Road Home Program in Louisiana on numerous, numerous times I think caused a slow-up of the process. The sheer volume of applicants in Louisiana presented more of a

challenge. So I think there are several reasons, but I think the Road Home Program in Louisiana now has got its feet beneath it and is—now they have closed something like almost 40,000, 40,000 of these programs.

Chairman SPRATT. Thank you, Mr. Hensarling.

Mr. Boyd, I take it you want to ask a question, probably about insurance.

Mr. BOYD. Mr. Chairman, is it your intention to come back after the votes?

Chairman SPRATT. I think, in fairness to our witnesses, we will not come back, because it will be at least 45 minutes before we make it.

Mr. BOYD. Okay. Mr. Chairman, I will be very brief then. And I wanted to say that welcome, first of all, to the witnesses, and thank you for your work, all of you. And tell you that I represent a portion of the Gulf Coast in Florida that I don't know, is probably 250 miles of the Gulf Coast. And we are very accustomed to hurricanes. We get them several times a year. I told Chairman Powell when he was visiting the other day, we get out of the way, let them come through, and then we go in and clean up and pick up and rebuild as a common occurrence.

And we learned in 1992 after Andrew that FEMA and our State emergency response—preparedness and response systems were inadequate. And we worked hard in Florida to fix that. And the Federal Government fixed FEMA, too. And I have dealt with FEMA for 10 years, or 15 years now, and found it to be one of the best Federal agencies there was. Something happened in 2001, and we are not sure what, at least in my experience in response—in dealing with FEMA. But we deal with them every year on several different incidents.

Mr. Czerwinski, can you speak to that? Was it the structure change that we made in FEMA? You know, we see a lot of misuse of funds now and lack of response and those kinds of things. Can you speak to that?

Mr. CZERWINSKI. Sure. Sure, Mr. Boyd. First of all, I agree completely with your assessment of what went on in Florida. I led GAO's work on Andrew, and the response to Andrew was lacking both on the Federal part and on the State part. And now Florida has one of the model programs that we point others to. At that time, we also did a lot of work with FEMA about how they could improve their response. And you are absolutely right; their response improved tremendously. It seems as if they have forgotten the lessons that they have learned.

Mr. BOYD. So is it just going to take hard work? Is there structural changes Congress needs to make, or is it totally an executive decision that is going to—executive action that is going to have to improve?

Mr. CZERWINSKI. Actually, I would point to four products that lay out a road map for what FEMA needs to consider. One is what the House study did after Katrina about a year-and-a-half ago. The Senate had a similar study. GAO had another study. And the administration did, too. And if you were to follow those recommendations, you would have a fixed FEMA.

Mr. BOYD. Thank you very much. It is a complicated situation, but it is important, Mr. Chairman, to those of us who live on the gulf that we have a well-oiled, well-working Federal partner when it comes to preparing and responding to emergencies. And I hope, Mr. Chairman, we can spend some more time on this as time goes on.

Chairman SPRATT. I couldn't agree more. I come from a coastal State also. It is not on the gulf, but we have hurricanes, and we have significant damages, too. Thank you all for your testimony, and particularly for your forbearance. And we may be calling upon you again to complete our understanding of this, but you have made a substantial contribution to it today, and we greatly appreciate it. In light of the time factor, I think, in fairness to you, we will adjourn the hearing at this point. Before I do, I would like to ask unanimous consent that members who did not have the opportunity to ask questions be given 7 days to submit questions for the record. Without objection, so ordered. Once again, thank you very much.

[The information follows:]

[Questions for the record submitted by Mr. Ryan and the subsequent responses follow:]

RESPONSES FROM MR. POWELL TO MR. RYAN'S QUESTIONS FOR THE RECORD

Question: In your testimony you discuss the Louisiana homeowner grants program, aka The Road Home Program and its potential multi-billion dollar budget shortfall. Recently (July 28) I read with interest an article in the New Orleans Times Picayune (NOTP) by David Hammer that outlined the program as well. Do you agree with the overall content of that article? In your opinion, is the New Orleans Times Picayune considered the "paper of record" for Hurricane Katrina in New Orleans?

Answer: The New Orleans Times-Picayune is a well respected newspaper. It has by far the largest circulation of any paper in Louisiana and received a Pulitzer Prize in 2006 for its coverage of Hurricane Katrina.

The Office of the Federal Coordinator (OFC) saw the same article (attached) and believes that it provides a good summary of the situation surrounding the Road Home program.

Question: If, as you and the NOTP article suggest, the State has run into a shortfall because of its decision to cover wind-only damage, what does the Administration plan to do? Did the Administration allocate Federal funds for wind-only damage to any of the affected States, including Louisiana? If not, why didn't the Administration cover wind-only damage after the hurricanes?

Answer: The Administration has not taken a position with respect to the Road Home shortfall. Furthermore, any effort to cover the shortfall, in part or in full, would require legislation. Consistent with the article, current estimates prepared by HUD indicate that there would be very little or no shortfall in the Road Home program if benefits had remained limited to assistance for homeowners who experienced flooding as the Administration intended.

The Administration, through the Office of the Federal Coordinator for Gulf Coast Rebuilding, made a clear policy decision that CDBG funds would only be allocated to establish homeowner assistance programs for those homeowners that experienced flood damage. The Administration took that position for two reasons:

1. Wind damage is an otherwise insurable event. There is a robust private market in homeowners insurance that covers wind damage, and people need to carry adequate insurance rather than rely on government aid; and

2. The Federal government has a special responsibility to assist those homeowners who experienced flooding from breaches of Federal levees or storm surge not anticipated in Federal flood maps. These citizens still struggle the most to recover and we have always believed their needs should be prioritized.

The Federal government communicated this position to the State of Louisiana and to other states on the Gulf Coast—most notably Texas—when they requested CDBG funding for homeowner assistance programs that would cover those who experienced

only wind damage in Hurricanes Katrina and Rita. The Administration's request for CDBG funds for the Road Home program was based exclusively on assistance for homeowners who experienced flood damage.

Question: At what point did it come to your attention that there was a serious shortfall in the Louisiana Road Home program funds? What form of notification did you receive? Is there regular and open communication between your office and the State? Do you have any knowledge that the State was aware of a potential shortfall?

Answer: The Office of the Federal Coordinator for Gulf Coast Rebuilding read about the projected shortfall in a newspaper report outlining a May 1, 2007 letter from Representative Bobby Jindal (R-LA) in which he expressed budgetary concerns about the Road Home Program. The State of Louisiana had not sent prior notification to OFC or any other Federal Agency. It is our understanding that in Spring 2007 this subject came up informally in telephone conversations between the state and HUD although, to date, HUD has not received a formal notification from the state advising them of a funding shortfall.

In addition to daily interaction between State staff and HUD program staff, the Office of the Federal Coordinator also has led a weekly conference call with all stakeholders involved in the Road Home program since November 2006. The attendees for the call include Governor Blanco's office, the Louisiana Recovery Authority, the Louisiana state Office of Community Development, the contractor managing the program, ICF International, the City of New Orleans, as well as Federal agencies such as OFC, FEMA, HUD, and SBA. At no time was any potential shortfall raised on one of these calls.

OFC has no direct knowledge of when the State became aware of a potential shortfall. Press reports—such as the David Hammer article in the New Orleans Times-Picayune attached in response to the first question—indicate that the State may have been aware of a potential shortfall even as it was designing the Road Home program in early 2006.

Question: In your testimony you state that you met with Governor Blanco on June 6, 2007, to discuss her Road Home Program and that the very next day you submitted a number of questions to the State related to the finances of the Road Home program. At our hearing on August 2, 2007, you had still not gotten a response from Governor Blanco. Have you received the answers to your questions since? If not, have you made any efforts to contact the State of Louisiana to inquire about your list of questions and when you would get a response? If you have made efforts to contact the State, could you please furnish the dates and means employed by your office to get a response from the State.

Answer: The State submitted its response to the June 7 questions on August 12, 2007. During the intervening period we were in regular contact with the State asking for a response. When received, OFC found the State response to several questions to be incomplete, and Coordinator Powell reiterated the OFC request for the missing information in a letter to Governor Blanco on August 31, 2007. To date, no response has been received to this follow up letter.

Question: If the Federal Government is required to cover the Louisiana Road Home program shortfall, as well as Louisiana's proposal to cover wind damage, please estimate and describe:

(a) possible statutory implications

(b) any budgetary implications

(c) possible impact on similar programs in Texas, Mississippi, Alabama, Florida and other states impacted by the 2005 hurricane season.

Answer:

(a) The Federal Government is not required to cover the Louisiana Road Home program shortfall. At no point has the State of Louisiana indicated in their program documents that the Federal Government had a statutory requirement to cover any shortfall in the Road Home program. Public program documents, in fact, make it clear to the State of Louisiana and the Louisiana Recovery Authority (LRA) that any shortfall in total funding necessary to meet Road Home needs would require the filing of program amendments with HUD in order to adjust available CDBG program resources and potentially meet that need.

(b) The impact on the budget of covering the Road Home shortfall depends on the exact size of the shortfall, which is still being determined. Again, the Federal government is under no obligation to cover the Louisiana Road Home Program shortfall and has no authority to cover the shortfall under current law. Louisiana reports that more than 180,000 households have applied under the program. Louisiana officials have indicated that the State expects to exhaust its available funds in December 2007.

There is considerable uncertainty and discussion regarding the size of the Road Home shortfall. HUD has conducted a preliminary analysis of data provided by ICF International, the Road Home program administrator. HUD's analysis showed that there were thousands of duplicate addresses among the 180,000+ households reported by the State to have applied for Road Home benefits. The inclusion of these duplicates has a significant effect on the projected shortfall. HUD has notified the State about its concerns, and the State has indicated to HUD that it does not intend to revise its estimates.

(c) There would be no direct impact on housing assistance programs in other states. We anticipate, however, that other states will again raise requests for funding of wind-only housing assistance programs that were initially denied by the Administration.

Question: It seems that most of the rebuilding funds after any natural disaster come from the FEMA Public Assistance (PA) program. That process can be lengthy and is a collaborative one between the Federal, local, and State governments. Is there anything you can suggest to improve that process?

Answer: The Federal government has an important role in the reconstruction of public infrastructure after a disaster. It provides funds to rebuild public buildings, schools, public hospitals, roads, bridges, sewers, and other public assets necessary for recovery. Nevertheless, it is critical to recognize that the Federal role is not the lead role. Disaster recovery is not an exercise in central planning, and the Stafford Act leaves key decisions about rebuilding to the local officials who best represent the victims of the disaster.

Once we recognize that it is neither feasible nor appropriate for the Federal government to subsume the role played by State and local officials, approaches to improving the Public Assistance process fall under several categories:

1. Reducing Federal red tape;
2. Improving coordination and communication; and
3. Helping State and local officials perform their roles.

(1) OFC has worked with FEMA to streamline the Public Assistance process, actually reducing time for processing grants from months to weeks. Specifically, we have worked with FEMA to:

- Improve FEMA's internal management challenges by reducing personnel turnover, empowering key leaders to make decisions, and improving cost estimates for local applicants;
- Cut unnecessary layers of bureaucracy in FEMA's approval process, while still ensuring appropriate and required due diligence;
- Help local communities set their PA priorities by working more closely with local applicants to determine their priority projects and address their concerns with the PA program; and
- Implement an improved "A to Z" Tracking System that tracks applications from initial application through awarding of funds;

Notably, in March 2007, my office and FEMA were able to shepherd 18 education-related projects through the "Million Dollar Queue" within a record time of just one week. (The "Million Dollar Queue" refers to the additional review process required by Sec. 508 of the DHS Appropriations Act in order to provide ample notification to Congress of grants over $1 million.)

OFC continues to consider and develop ideas to reduce process and paperwork burdens in the Public Assistance process, and would like to solicit ideas from members of the Committee. The Stafford Act includes documentation and verification requirements that are necessary to determine and substantiate benefits. These may include verification of the condition of facilities before the disaster, the amount of damages resulting from the storm, the cause of damages, cost of repair or replacement, and compliance with mitigation and environmental conditions. While this process requires documentation and verification, it fulfills a fiduciary duty to ensure proper accountability to the U.S. taxpayers.

(2) FEMA and OFC are now working to improve the transparency of the project worksheet process to both State and local governments and to the general public. Together, we are preparing a website that will allow government officials, local leaders and the general public to track the progress of project worksheets. An incomplete beta version of the website can now be accessed at *http://www.fema.gov/hazard/hurricane/2005katrina/map/index.html.* We continue to work with FEMA to add data and refine the user interface to make the website faster and more functional.

When complete, this website will allow people to check the status of the rebuilding of their local public school, fire house, or police station. It will indicate the date that the Federal government obligated money for a project, and will indicate what

the next step is in the process as a project worksheet moves toward becoming a completed project. By providing this information to the public, we hope to provide better and more timely information to local officials who are grappling with the Public Assistance process while making public interest and concern a tool to drive progress.

(3) Local officials often face difficult and controversial decisions under trying circumstances. First, few local officials have any familiarity with the Public Assistance process before the disaster strikes. This means that they are faced with learning a new set of procedures and paperwork requirements in the midst of an emergency. This is frequently complicated by the loss of local government records and administrative resources.

Second, successful reconstruction after a catastrophe on the scale of Hurricane Katrina requires extensive planning. In New Orleans Office of Recovery Management Executive Director Dr. Blakely's words "We have to put the plans in place before we can spend the money. * * * we have to work with the recreation department, we have to make sure the fire station and police station is in the right place and so on. As we're going through that, we really can't spend any money because we can't spend the money until we get agreement on the plans." This planning often raises difficult and contentious issues because it affects the character of the communities being rebuilt.

Third, the process of rebuilding can exceed the management capacity of local government institutions. For example, a school district that normally builds one school per decade on a normal time frame can find itself faced with the task of rebuilding five schools on an emergency basis using the unfamiliar Public Assistance process. As a result, some officials are overwhelmed by the challenges of rebuilding on a massive scale even if sufficient funds are available.

Therefore, some of the most promising ideas to improve the Public Assistance process involve supplementing limited capacities at the local level. FEMA has worked to assist local stakeholders by providing additional funds for administrative costs and providing an unprecedented degree of hands-on support. The Federal government will continue to look for ways to support local officials in their rebuilding efforts and to prevent projects from stalling.

Question: There are so many pieces and aspects to a rebuilding process on this grand a scale. What do you see as a direct role of the Federal Government rather than a Federal partnership with the State/Locals?

Answer: The Stafford Act structures much of the Federal disaster response to be a coordinated effort with state and local governments. The Federal Government provides assistance, financial and technical to the affected state and local entities who are, however, responsible for implementation. For example, a disaster will generate a large amount of debris, which need to be removed and disposed of properly. The Federal Government will fund a substantial portion of this debris removed, however, the state and local governments are responsible for hiring the contractors to haul the debris, ensuring that they are properly licensed, and permitting the disposal facilities.

On the Gulf Coast, the most significant project where the Federal Government leads from securing the funding to implementation is the reconstruction and improvement of the levee and hurricane protection system. Progress on hurricane protection has been robust. The U.S. Army Corps of Engineers (Corps) completed the repair and restoration of 220 miles of floodwalls and levees by June 1, 2006. The Corps continues to improve the hurricane protection system and the New Orleans-area now has the best flood protection in its history.

The Administration is committed to achieving full 100-year storm protection for Greater New Orleans by 2011. The Corps has announced a need for an additional $6.3 billion to achieve 100-year protection, and $1.3 billion for a network of drainage projects to establish a more complete hurricane protection system for the New Orleans area. The Administration is committed to work with Congress to provide these additional funds in order to protect the area's residents. These levee improvements, combined with prior appropriations, total close to $15 billion.

An independent group of 150 scientists—the Inter-Agency Performance Evaluation Task Force—released maps that assess the risk associated with specific locations in the greater-New Orleans area. These maps (available at *http://nolarisk.usace.army.mil/*) clearly show the safety-enhancing effect of the President's commitment to 100-year storm protection. If another Katrina were to hit tomorrow along the same track, the Corps does not expect New Orleans would have the same catastrophic flooding that occurred during Katrina. Significant hurricane protection measures include: flood walls reinforced at numerous locations; I-walls replaced by stronger T-walls at breach sites; armoring of flood walls and strengthened transition points between flood walls and levees; interior pump station repairs and improve-

ments; and flood gates at the three outfall canals to prevent surge. In addition, the Corps now has 73 pumps in place with a total pumping capacity at the outfall canals of about 16,200 cubic feet per second.

[From the New Orleans Times Picayune, Sunday, July 29, 2007]

Every Step Bumpy for Road Home

CRESCENDO OF GAFFES SETS STAGE FOR SHORTFALL

By DAVID HAMMER, *Staff Writer*

On a scorching day last August, after months of haranguing Congress for flood recovery aid, Gov. Kathleen Blanco came to New Orleans to hail the opening of the first homeowner assistance center to serve beneficiaries of the newly minted Road Home program.

"Full speed ahead," the governor vowed, beaming over the impending recovery. "This is a most joyful day."

She promised to rebuild Louisiana "safer, stronger, smarter," with incentives for displaced homeowners to return, penalties for those who left and stringent protections against fraud.

Blanco seemed to have reason to rejoice: She had just emerged from a pitched political scrap with Republican-dominated Washington to secure the recovery money. She had boldly accused the White House of "choosing between our children" when the government told her to run a limited program with $6.2 billion. She had persuaded officials to increase that figure to $10.4 billion, using $7.5 billion of that for direct payments to homeowners.

But that sweltering August day might have been the last joyful one the Road Home ever gave Blanco. More important, the majority of flooded homeowners still await the joyful day when their check arrives—if ever, given the budget shortfall in the program of up to $5 billion.

Nearly a year and countless bureaucratic foul-ups after Blanco's triumphant proclamation, the state lacks the money to pay more than a third of eligible applicants. And with the last day to file a Road Home application approaching, neither has the state succeeded in handing out the money already in hand: Only about a quarter of eligible applicants have collected grants, compared with 83 percent of eligible flood victims in neighboring Mississippi.

Blanco has countered that Mississippi, by virtue of its Republican ties to then-GOP-controlled Washington, received far more recovery cash and cooperation last year from the Federal establishment. To date, Mississippi has collected about $5.5 billion in Federal blocks grants, while Louisiana—with four times the number of storm victims—has received only about double that, at $10.4 billion.

Fairness questions aside, critics say the Blanco administration fumbled the handling of the Federal aid it did secure. Hoping both to secure maximum money for rebuilding and ensure residents behaved properly by rebuilding their destroyed homes, she created the quintessential paternalistic government program: aiming to please every conceivable constituent, bloated by a micromanaging bureaucracy and bound in a thicket of attached strings.

MANY WATCHFUL EYES

In tackling what seemed the simplest of tasks—handing out the Federal Government's money—the state instead designed an expensive exercise in social engineering and forensic auditing of every cent paid out.

Over-sensitive to Louisiana's reputation for graft and seeking to reassure Washington, state officials crafted layer upon layer of verification to discourage fraud, including finger-printing. And fearing applicants would take the money and run, rather than rebuild, state officials gummed up the bureaucratic works with penalties for leaving the state and an installment program that dribbled out money to those who stayed, sending them jumping through more hoops—even after they signed on the dotted line—to prove work was being done on their homes.

"What the state created was a Rube Goldberg machine—you drop a ball in the top, and it goes through all these tubes and levers and a wheel that spins," said Nell Bolton, a leader of the Jeremiah Group, a faith-based organization that has taken on the role of Road Home watchdog.

Each lever and wheel—home appraisals, insurance payment verifications, fraud safeguards, spats with Federal authorities about grant rules, and so on—created a bottleneck that to this day keeps the bulk of grants stymied. The design of Louisiana's program, many argue, produced the opposite of the intended effect: repelling trustworthy homeowners who were already predisposed to rebuild.

Robby Knecht, an eastern New Orleans homeowner, is a case in point. During 10 months of delays over a dispute about his appraised value, he had to split his seven

children between two FEMA trailers and move the family back into a still-unfinished house. He said struggles with Road Home did more to weaken their bond with Louisiana than Katrina ever did.

"It's depressing," he said. "I could have gone anywhere. * * * We're both native New Orleanians, and we want to be here. But my wife, especially, she talks about leaving."

RUNNING OUT OF MONEY

Because of the shortfall, an estimated 50,000 eligible applicants, out of an expected total of about 140,000, will have to depend on a bailout from a wary Congress.

At the time the state crafted Road Home rules, the Blanco administration might have had reason to believe a cavalry of Federal cash would cover any shortfall. After all, President Bush's point man for Gulf Coast recovery, Donald Powell, had implied as much during tense negotiations about the initial Federal commitment of $6.2 billion, which state officials at the time called grossly inadequate.

"After that plan is in place, and there is a need for more money, I can assure you we will go back after that's done and work hand in hand with the leadership of Louisiana to ask for more money," Powell said. The Bush administration "would be open to many more needs for housing and infrastructure, or any other needs that the good people of Louisiana believe are appropriate."

And Powell's comments, of course, came on the heels of Bush's own commitment at Jackson Square to do "whatever it takes" to rebuild Louisiana.

After Powell lent his support, Congress allocated an additional $4.2 billion, bringing Louisiana's recovery kitty to $10.4 billion, for everything from housing relief to infrastructure.

Still, documents and interviews with state and Federal officials show the state knew or should have known from the start that even that increased allocation would never cover the program they promised back home.

The state's own early estimates—based on FEMA damage estimates later found to be too low—pegged the program at about $2 billion short of covering the cost. The problem would get worse, as Louisiana added more benefits for overlooked niche constituencies and as the devastation and costs to repair it all proved worse than anticipated.

SETTLING FOR LESS

In early 2006, during the negotiations with Powell for additional housing money, the Louisiana Recovery Authority used consultants to work up a detailed cost estimate for its planned homeowner assistance program. Working with the FEMA data, the consultants concluded that Louisiana would need $9.4 billion to compensate 128,000 homeowners, at a rate of about $70,000 per grant, along with some money to pay a private contractor.

Yet the Blanco administration settled for a $7.5 billion housing program and profusely thanked the American taxpayers and their congressional representatives. Last July, Blanco praised Congress and the Bush administration for "the funding we need to run our full program."

A year later, it turns out the "full program" will really cost up to $5 billion more.

One Democratic congressional aide, who declined to be quoted by name opposing Blanco, said Democrats on Capitol Hill puzzled over the governor's gleeful acceptance of the lower amount offered by Powell and Congress—and wondered how the state would make it work.

"Some of us were really surprised the governor was so happy," the unnamed aide said. "We were also surprised they (the state) were able to drop their number and make the program work. * * * The way to do it was to take that and immediately say, 'OK, we still need more.'"

SPENDING FREELY

Instead, the state started designing programs that ultimately would cost far more—in some cases ignoring the financial parameters set by Powell in closed-door meetings. Blanco's administration made a series of politically popular promises, vowing to help seemingly every storm victim: landlords, business owners, the New Orleans power company and a university hospital.

Two decisions in particular made the tab skyrocket, ensuring an eventual shortfall. The state added loans of as much as $50,000 for low-income homeowners, a decision that added an estimated $1.7 billion to estimated Road Home payouts.

And a controversial decision by state leaders to cover homes damaged only by wind—which many argued should have been shouldered by insurance companies—

put an even heavier dent in the Road Home budget. The state made that call even after Powell declined its plea for money to cover wind damage, Powell said in an interview.

The state's initial request specifically calculated wind-only compensation costs for 19,000 homes at $1.1 billion, a figure that would prove far too low. The FEMA estimates used at the time underestimated the number of wind-damaged homes by about 20,000, according to the latest figures, a gaffe that doubled the state's estimated obligation to homes that didn't flood.

Amy Liu, an analyst at the Brookings Institution, said Blanco defied the White House's calls for a limited flood-relief program because of political pressure from south-central and southwest Louisiana. Liu said Blanco's team deserves credit for creating a smart program early on, but the local politics compromised the original design.

"I don't doubt the political pressure they were under, but in the myopia of serving such a broad demand, they may have undermined their credibility in Washington," she said.

STATE CAN'T KEEP UP

Last summer, Steve Alison, who lost his Gretna home in Hurricane Katrina, kept a close eye on the state's housing aid plans and rushed to be one of the first to apply when Blanco announced the birth of the Road Home.

"I thought it would be within 30 days," he said. "At first it moved really quickly, I had the interview, they came in and estimated my damage, took pictures, but then they started the snafus."

While the state proved adept at adding beneficiaries to the aid program, it couldn't manage to get most of them paid. Struggling to speed payments while complying with hundreds of intricate policies and procedures, ICF International, the private contractor, soon found itself the early scapegoat for delays and screw-ups that started even before the state could write its first check to a flood victim.

In response, the contractor, under pressure from Blanco over delays, devised "preliminary award letters." The letters backfired, immediately infuriating applicants, both because they seemed to mean nothing—they promised no specific amount of cash, by no specific date—and because more than a quarter of the first letters included errors, often obvious assaults on common sense.

In one case that became a cause celebre, Saul and Mildred Rubin, who are in their 90s, received a letter denying the grant claim on the basis that their Lakeview house—which had taken on 9 feet of water—had no damage.

A second backlash came at the roughly 60 steps of verification, which added months to the process.

On Dec. 18, 2006—before even one-tenth of 1 percent of Road Home applicants had made it to a grant closing—state Rep. Cedric Richmond, D-New Orleans, met with state legislators and the governor's staff about the delays. He walked out in a huff over Road Home's seemingly endless checks and balances.

"You're treating homeowners like thieves and children," Richmond recalled telling the assembled officials.

The administration had worried, understandably, about reassuring Federal politicians that Louisiana would prove a good steward of their money, given the state's legendary history of corruption. But the Blanco administration seemed to have grafted that reputation—earned by the state's politicians—onto work-a-day homeowners, generally the most law-abiding and trustworthy citizens in the state, Richmond said.

"People called us thieves for so long, the governor began to believe her people were thieves," Richmond said in an interview.

UNNEEDED RED TAPE

Neither could Richmond and other critics understand the complex array of incentives, penalties and auditing procedures that sought to ensure residents rebuilt their destroyed homes. They viewed Louisiana residents, and particularly those in New Orleans, as already deeply rooted to their communities, both by family ties and unique culture. Their collective recommendation: Just compensate people for their loss—as quickly as possible—and most will decide to stay.

According to the 2000 U.S. census, 77 percent of New Orleans residents were born in Louisiana, the highest nativity rate of any major U.S. city. What's more, geographer Richard Campanella finds Katrina's flooding was worse in the parts of New Orleans with the fewest out-of-state transplants.

That makes it all the more confounding that Blanco designed a Road Home program geared so much toward keeping New Orleanians from fleeing, said John Lovett, associate law professor at Loyola University.

"The silver lining was those people were the most likely to stay, if only you would have given them a chance," Lovett said. "It's just tragic that Blanco and her consultants didn't appreciate this unique affinity New Orleanians have for their long-time community."

According to interviews with hundreds of frustrated Road Home applicants, many grant delays seemed driven by simple confusion about program rules, both on the part of applicants and program managers—confusion that often extended to senior state officials who enacted and enforced the policies.

Road Home applicants also report being treated with skepticism every step of the way, and they resented the implication that they needed to be prodded to rebuild their lives in the same communities where they grew up.

Knecht, one of thousands whose application dragged on for months—despite scores of promises, misinformation and unreturned phone calls—looked at Mississippi's record of faster payouts with envy.

"And their homeowners weren't fingerprinted, with a mug shot—like we're going to prison," he said.

The Louisiana Recovery Authority's own surveys had shown in March 2006—months before the administration finalized policies—that the vast majority of Louisianians wanted to rebuild in place. Yet the Road Home still created complex functions to keep homeowners from leaving and, once they chose to stay, to make sure they used the grants only to rebuild.

"I had no problem with verifying that I deserved the money, but then they're going to be Big Brother about how I spend it? That's where I got upset," Alison said.

MISSISSIPPI GOT MORE

Mississippi's similar homeowner assistance effort has always served as a bellwether for Louisiana's recovery efforts, with Blanco's administration alleging the state has gotten political favoritism and Louisiana's critics holding up Mississippi as a model of efficient government.

For a while this spring, Louisiana leaders avoided comparisons with Mississippi, which seemed to be a dead end in Washington. But finally, with the Road Home budget falling flat in the past two months, state leaders are back to comparing the states again, wailing about Mississippi's privilege and alleging GOP plots to make Republican Gov. Haley Barbour into a hero and Democrat Blanco a failure.

"God bless them, they suffered too, but not to the extent that we did," Blanco said of Mississippi in a recent interview.

Blanco has a point: Katrina and Rita hit larger population centers here and exacted an extra punishment on New Orleans because of the failure of federally built levees.

Donna Sanford, the disaster recovery director at the Mississippi Development Authority, said she feels for Louisiana's Road Home predicament but is proud that her state has generally avoided the same fiscal fate. Sanford attributes it to more than just the politics cited bitterly by Blanco. She credits Barbour's leadership and willingness to make hard choices about which victims would be prioritized for speedier payouts.

The plan, as Sanford describes it, was to split the homeowner aid program into "buckets" of beneficiaries and start paying the next bucket only once it was clear how much money was left over.

The first bucket paid for homes outside the flood plain damaged by flood surge. That amounted to about 16,000 homeowners with insurance, who should get a little more than $1 billion in grants. With $3 billion budgeted for homeowner relief, the state then confidently moved onto the next bucket, expected to be about 14,000 insured properties within the flood zone. From the beginning, it refused to cover uninsured homeowners, while Louisiana simply assessed a 30-percent penalty for those without coverage.

The initial FEMA estimates in December 2005, which have come into serious question now, showed 331,070 Louisiana homes damaged by the storms and 157,914 in Mississippi. Even with more than $5 billion in the first congressional handout, Mississippi decided it didn't have enough to cover them all.

Rather than using the FEMA numbers to exclude those with minor damage—as Louisiana did, only to have to add an estimated 15,000 homes classified incorrectly by FEMA—Mississippi excluded wind-only claims and prioritized those who weren't required to have flood insurance. From there, Mississippi also cut out wealthier families, limiting eligibility within the flood zone to about 9,500 families making

less than 120 percent of the area median income, or about $58,000 for a family of four.

And one more bucket of spending in Mississippi provides a stark contrast to Louisiana: its $48 million Phase One contract with Resnick Group. That accounts for less than 2 percent of the state's $3 billion housing aid package.

Louisiana will pay contractor ICF International as much as $756 million to run a $7.5 billion homeowners budget and an $869 million small rental aid program. That's 9 percent of the total budget going to the contractor.

STILL WAITING

Twenty-two months after Katrina, more than 127,000 Road Home applicants—more than the total number of homeowners FEMA initially found eligible—still have no Federal aid. And that reality will likely make it more difficult to get quick action from a Congress in the throes of budget constraints and Katrina fatigue, and, to be sure, less than impressed by the state's management of Road Home.

Only recently, and under Federal pressure, did the state reform the verification process, and then only to reduce the number of steps from 60 to 42. That action appears to have speeded payments considerably.

In another sea change, the Federal Department of Housing and Urban development pressured reluctant state officials, abandoned the practice of parceling out grants in stages from an escrow account—with the first installment no more than $7,500, an amount exasperated rebuilders said couldn't even get them started.

Soon, the state changed to a lump-sum compensation grant, similar to Mississippi's. With that and other changes, money finally started to flow in April, when the program closed 8,000 grants, followed by 10,000 in May and 10,300 in June. But when the money started moving, it then became clear the Federal spigot would run dry long before the state fulfilled its promises to victims.

Shaken by the shattering of a signature piece of her program and the firestorm of criticism it prompted, Blanco quit her re-election bid a few days later, saying she hoped to remove politics from the state's recovery efforts.

Blanco recently went to Washington, asking Congress to kick in another $3 billion to $4 billion, and has offered to match it with $1 billion in state money.

At the least, the state will have to wait until a congressional spending bill this fall, which means more uncertainty for weary homeowners, many of whom can't rebuild without the promised help or have already given up and left the state.

FEW HAPPY ENDINGS

Susan McClain said she's giving Louisiana, the state her family has called home "forever," one more chance—but she isn't optimistic.

She got a Road Home check this month, but the day before the closing it was cut by $55,000. The Road Home suddenly decided to cut her home's estimated square footage by a third, with no explanation. Closing agents told her she had better take the money or risk getting nothing because of the shortfall, something she called "the bait-and-switch with threats." The surprise slashing forced her to scrap plans to raise her Gentilly house above the 7-foot level that Katrina inundated.

"The next flood will destroy my home, and then I'm leaving this state," she said. "The corps flooded me last time, but now the state won't let me rebuild to where it needs to be."

Some of the other 39,000 who have been lucky enough to get a Road Home check have also reported a "bait and switch," but the state doesn't disclose how many grants are challenged at closings. The average award has been steadily dropping in the two months since the state first acknowledged the shortfall.

Even those who have found eventual success are weary of the Road Home. Take the case of Knecht, who proved more dogged than most in the pursuit of a reappraisal of his home's value.

An appraiser, one who also works for the Road Home, certified four months ago that Knecht's house is worth enough to get a grant, but the program never accepted the document, despite repeated reassurances from the Road Home staffers Knecht harangued for months. Then, just last week, came a breakthrough that would mean the difference between no Road Home grant and getting about $60,000 to replace the house's flimsy Tylex paper exterior with real siding.

Knecht, after months of frustration interactions with Road Home advisers, finally managed to get the ear of a top supervisor and told him he had shared his tale of woe with the newspaper. He suddenly got an e-mail Friday saying his appraisal would be accepted and that he could close on a grant within weeks. Though ecstatic, Knecht kept it in perspective.

"For the average person who doesn't get to talk to the top people, I don't know if they could ever get their money," he said.

[Questions submitted by Mr. Blumenauer follow:]

QUESTIONS FOR THE RECORD SUBMITTED BY MR. BLUMENAUER FOR MR. CZERWINSKI

a. Importance of mitigation: In 2005, the Multi-Hazard Mitigation Council of the National Institute of Building Sciences issued a report indicating that, on average, one dollar spent by FEMA on hazard mitigation provides the nation four dollars in future benefits. Also in 2005, FEMA concluded that mitigation and building standards had already saved over $1 billion annually in reduced flood losses. However, our budget rules count up-front spending on mitigation against PAYGO limits, but after-the-fact spending on disaster relief and recovery is considered "emergency" and is thus outside PAYGO limitations.

Mr. Czerwinski: Has the GAO examined this issue? Could any of the $116 billion already estimated spent by the Federal Government on Gulf Coast recovery have been avoided by expending some of those funds on mitigation prior to the storms? If so, how much could have been saved? Are there any changes you would recommend in Federal budgetary policies to encourage the investment in mitigation up-front to avoid increased damages in the future?

b. National Flood Insurance Program: The NFIP is an important part of the recovery of the region affected by hurricanes Katrina and Rita. Unfortunately, because the program is not actuarially sound, it does not have the resources to pay all the claims resulting from Hurricane Katrina and Rita. In fact, in 2005, Congress raised the NFIP's borrowing authority from $1.5 billion to $20 billion. The NFIP is currently $17.5 billion in debt. Part of this is due to the way the program is structured, which for years has encouraged the rebuilding of structures in harm's way. In 2004, Congress passed, and the President signed, legislation making changes to the program that were supposed to reduce the number of repetitively flooded properties that were putting a strain on the system. Unbelievably, three years later, FEMA has yet to implement this legislation—which would not only help keep people out of harm's way, but could make progress towards restoring the solvency of the NFIP and reduce the likelihood that the Federal taxpayer will be called upon to bail out the program.

Mr. Czerwinski: I know the GAO has done a number of studies of the NFIP. In your prepared testimony you indicate that the NFIP is unlikely to be able to repay the $20.8 billion it may borrow from the Treasury with its current premium income of about $2 billion annually. What changes to the program has the GAO recommended that could increase the likelihood that this outcome will be avoided in the future?

[Responses to Mr. Blumenauer's questions follow:]

GAO
Accountability * Integrity * Reliability
United States Government Accountability Office
Washington, DC 20548

September 7, 2007

The Honorable John M. Spratt, Jr.
Chairman
Committee on the Budget
United States House of Representatives
Washington, D.C. 20515

On August 22, 2007, you requested that we respond to questions for the official record of the Committee's hearing, "Hurricanes Katrina and Rita: What will be the long-term effect on the federal budget?" held on August 2, 2007. Your questions, along with our responses, follow.

Responses to Questions for the Record Submitted by Representative Earl Blumenauer

1. **Importance of mitigation:**

   In 2005, the Multi-Hazard Mitigation Council of the National Institute of Building Sciences issued a report indicating that, on average, one dollar spent by FEMA on hazard mitigation provides the nation four dollars in future benefits. Also in 2005, FEMA concluded that mitigation and building standards had already saved over $1 billion annually in reduced flood losses. However, our budget rules count up-front spending on mitigation against PAYGO limits, but after-the-fact spending on disaster relief and recovery is considered "emergency" and is thus outside PAYGO limitations.

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The Comptroller General wrote to the congressional leadership in November 2006 suggesting that one area needing fundamental reform and oversight was preparing

for, responding to, and rebuilding after catastrophic disasters.[1] Although GAO has not specifically estimated how much of the Gulf Coast response and recovery spending could have been avoided by expending funds on hazard mitigation prior to the Gulf Coast hurricanes, we are conducting work in a number of areas that will assist Congress in considering lessons that can be learned from the response and rebuilding efforts following the 2005 hurricanes. GAO is also conducting work on hazard mitigation, the use of emergency supplemental appropriations, and the quality of estimates of funds needed to respond to disasters. Our ongoing and completed work on these issues is described below:

- Our ongoing work on lessons learned from past national disasters will provide an opportunity for the Congress to consider actions that could mitigate the effects of potential catastrophic events. Potentially valuable lessons can be gleaned from reviewing the approaches to and results of previous efforts to rebuild after disasters. This work will consider the role played by government in rebuilding and successes and challenges of previous efforts. Specifically, we are considering (1) how federal, state, and local governments in the U.S. and abroad have rebuilt after past disasters; (2) lessons that can be learned from past rebuilding experiences; and (3) how lessons learned from past disasters could be applied to ongoing efforts to rebuild the Gulf Coast.

- Given the importance of natural hazard mitigation and its potential for reducing future losses caused by natural hazards, our ongoing work on natural hazard mitigation examines (1) natural hazards that present a risk to life and property in the United States, areas that are most susceptible to them, factors that may be increasing these risks, and mitigation activities that reduce losses from natural hazards; (2) methods for encouraging and impediments to implementing mitigation activities; and (3) collaborative efforts of federal agencies and other stakeholders to promote mitigation. The potential for future events, such as floods, hurricanes and earthquakes, demonstrates the importance of hazard mitigation—actions that reduce the long-term risks to life and property from natural hazard events.

- Our ongoing work reviewing the use of emergency supplemental appropriations will discuss (1) trends in the use of emergency supplemental appropriations laws; and (2) steps that could be taken to increase transparency and establish additional control over emergency supplemental appropriations. Although supplemental appropriations provide important flexibility, these laws are not subject to the discipline and tradeoffs of the regular budget process.

- Our examination of the quality of the Federal Emergency Management Agency's (FEMA) estimates of the funds needed to respond to any given disaster will examine (1) FEMA's process for developing and refining cost estimates for disasters; (2) how close disaster cost estimates have been to

[1]See GAO, *Suggested Areas for Oversight for the 110th Congress*, GAO-07-235R (Washington, D.C.: Nov. 17, 2006).

actual costs for disasters; and (3) how FEMA could improve its management of disaster-related resources.

Disaster preparation and response that is well-planned and coordinated can save lives and mitigate damage. The losses to life and property from past disasters and the potential for similar or worse events in the future show the importance of taking steps to reduce the impact such events can have on the nation. Hazard mitigation can potentially reduce the economic and social costs of natural hazard events. GAO's completed and ongoing work on lessons learned from past disasters, hazard mitigation and the use of supplemental appropriations can contribute to an understanding of how the nation can move forward and learn from the 2005 Gulf Coast devastation.

You also asked a broader question about when and how the budget process should permit a tradeoff between spending in one time period for a specific purpose such as mitigation and potential savings in a future time period. This question applies to a broad range of policy areas beyond disaster mitigation and response. This issue presents complex challenges such as linking spending with potential future savings as well as determining acceptable time horizons for linking resources and activities to results.

2. **National Flood Insurance Program:**

   The NFIP is an important part of the recovery of the region affected by Hurricanes Katrina and Rita. Unfortunately, because the program is not actuarially sound, it does not have the resources to pay all the claims resulting from Hurricanes Katrina and Rita. In fact, in 2005, Congress raised the NFIP's borrowing authority from $1.5 billion to $20 billion. The NFIP is currently $17.5 billion in debt. Part of this is due to the way the program is structured, which for years has encouraged the rebuilding of structures in harm's way. In 2004, Congress passed, and the President signed, legislation making changes to the program that were supposed to reduce the number of repetitively flooded properties that were putting a strain on the system. Unbelievably, three years later, FEMA has yet to implement this legislation – which would not only help keep people out of harm's way, but could make progress towards restoring the solvency of the NFIP and reduce the likelihood that the Federal taxpayer will be called upon to bail out the program.

   I know the GAO has done a number of studies of the NFIP. In your prepared testimony you indicate that the NFIP is unlikely to be able to repay the $20.8 billion it may borrow from the Treasury with its current premium income of about $2 billion annually. What changes to the program has the GAO recommended that could increase the likelihood that this outcome will be avoided in the future?

GAO elevated the National Flood Insurance Program (NFIP) to our list of high-risk issues in March 2006 after the program's long term solvency was brought into question as a result of Hurricanes Katrina and Rita. Since that time, GAO has reviewed various aspects of the NFIP and made a variety of recommendations that could potentially help enhance the financial condition of the program. For example,

- In December 2006, we recommended that, for future flood events, the Federal Emergency Management Agency (FEMA) should implement our prior recommendation to do quality assurance reinspections of a statistically valid sample of claims adjustments. We recommended that FEMA analyze the overall results of claims adjustments done for each future flood event to determine the number and type of claims adjustment errors made and to help determine whether new, cost-efficient methods for adjusting claims that were introduced after Hurricane Katrina are feasible to use after other flood events.[2]

- In May 2007, we reported that the NFIP has not developed information on the program's longer term exposure to the potential risk of increased extreme weather events associated with climate change as part of FEMA's risk management practices. We recommended that FEMA assess the potential long-term implications of climate change for the NFIP, and report its findings to the Congress.[3]

- In June 2007, we testified that the NFIP does not collect the information it needs to help evaluate whether it has paid only what it is obligated to pay under the flood policy for properties subjected to both high winds and flooding, such as those damaged by hurricanes Katrina and Rita. The lack of information collected by NFIP to understand both the wind and flood damage determinations made for hurricane-damaged properties limits FEMA's ability to know whether claims paid under the flood policy were limited to only flood damages. For these properties, we concluded that obtaining both the flood and wind adjustment claims data, whether from the same write-your-own (WYO) insurer[4] that services both or from different insurers, would be necessary for NFIP to verify the accuracy of the payments made for flood claims.[5]

- In September 2007, we reported that the approach FEMA uses to determine operating costs for WYO insurance companies cannot ensure that payments are based on reasonable estimates of actual expenses because FEMA does not

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[2]See GAO, *National Flood Insurance Program: New Processes Aided Hurricane Katrina Claims Handling, but FEMA's Oversight Should Be Improved*, GAO-07-169 (Washington, D.C.: Dec. 15, 2006).

[3]See GAO, *Climate Change: Financial Risks to Federal and Private Insurers in Coming Decades are Potentially Significant*, GAO-07-820T (Washington, D.C.: May 3, 2007).

[4]Write-your-own insurers sell and service flood insurance policies on NFIP's behalf. NFIP contracts with private insurers to sell and administer flood insurance policies through the WYO arrangement, allowing the insurers to write flood policies backed by the federal government.

[5]See GAO, *National Flood Insurance Program: Preliminary Views on FEMA's Ability to Ensure Accurate Payments on Hurricane-Damaged Properties*, GAO-07-991T (Washington, D.C.: June 12, 2007).

collect data on actual WYO flood insurance expenses from the WYO insurance companies. We also found that biennial financial statement audits—FEMA's primary management control mechanism to provide assurance that it receives complete and accurate financial management information from the WYO insurance companies—were not performed consistently as required by regulation. We recommended that FEMA (1) ensure that its approach to establishing a schedule of operating costs is based on a reasonable estimate of actual expenses; and (2) ensure that biennial financial statement audits of WYO insurance companies are conducted by independent CPA firms as required by FEMA regulation, and that FEMA reviews the audits to ensure that payments made are proper and in accordance with program requirements.[6]

It is important to note that implementation of these recommendations would not enhance the NFIP's financial solvency to the degree needed to pay program losses in the magnitude of those generated by Hurricanes Katrina and Rita. Nonetheless, it is fiscally prudent and an inherent program responsibility for FEMA to seek to minimize program expenses and expenditures wherever possible. Our past and continuing audit efforts are intended to help the agency achieve this goal.

Thank you for the opportunity to participate in your August 2, 2007 hearing on Hurricanes Katrina and Rita and the long-term effect on the federal budget. Please contact me at (202) 512-6806, if you or other Committee members have additional questions.

Sincerely yours,

Stanley J. Czerwinski
Director, Strategic Issues

[6]See GAO, *National Flood Insurance Program: FEMA's Management and Oversight of Payments for Insurance Company Services Should Be Improved*, GAO-07-1078 (Washington, D.C.: Sept. 5, 2007).

[Whereupon, at 11:23 a.m., the committee was adjourned.]

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