CBO TESTIMONY

Statement of
James L. Blum
Deputy Director
Congressional Budget Office

on
Budgeting for Federal Disaster Assistance

before the
Subcommittee on VA-HUD and Independent Agencies
Committee on Appropriations
United States Senate

March 16, 1995

NOTICE

This statement is not available for public release until it is delivered at 9:00 a.m. (EST), Thursday, March 16, 1995.

CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

Chairman Bond, Senator Mikulski, and Members of the Subcommittee, I am pleased to appear today to discuss the use of emergency supplementals to fund disaster assistance programs. As you know, supplementals for disaster programs have been extraordinarily large in recent years. Between 1992 and 1994, the total exceeded $22 billion. After subtracting disaster payments to farmers made through the Commodity Credit Corporation, the total is nearly $18 billion. Of that amount, 60 percent was for the Federal Emergency Management Agency (FEMA).

The recent string of costly disasters seen in the United States is unprecedented. Beginning with Hurricane Hugo in 1989 and ending with the Northridge earthquake of last year, the demands on disaster assistance programs have been enormous. No one doubts the magnitude of the needs of individuals and communities struck by such disasters.

Nevertheless, the high and unpredictable levels of spending for federal disaster programs in recent years have prompted policymakers to question current federal policy and how the Congress should budget for unpredictable needs. Policy questions include: what is the appropriate federal role in disaster relief as opposed to state and local responsibilities? Do current programs create the right incentives for individuals, businesses, and communities to protect themselves against losses by buying insurance or acting to reduce potential damage? And not least, are current programs fair?

The 103rd Congress addressed some of those policy issues and indeed reformed farm disaster assistance and the federal flood insurance program. But it did not enact any fundamental changes to other programs providing relief to victims of hurricanes and earthquakes, though many were discussed.

How to budget for those high and unpredictable costs is the subject of my testimony today. The alternatives I will discuss aim primarily at improving fiscal discipline. In so doing, however, they might also lead to changes in disaster assistance policies and programs.

CURRENT BUDGETARY PROCEDURES

Emergency supplementals receive special treatment under the budget rules in force since the Budget Enforcement Act of 1990 was enacted. Under those rules, appropriations designated as emergencies by both the President and the Congress are not subject to the same kind of budget discipline as other appropriations. Nonemergency supplemental appropriations typically require offsetting rescissions. An emergency supplemental requires no such offset. It simply causes spending and the deficit to increase.

The practice in recent years for funding disaster programs, such as FEMA's Disaster Relief Fund, has been to provide a relatively small regular appropriation. Then, when a disaster occurs or when the estimated cost of a previous disaster rises, the President requests an emergency supplemental and the Congress complies.

Critics of that practice make two arguments. First, frequent, multibillion-dollar supplementals that are exempted from the budget caps add to the budget deficit. Critics believe that, even if amounts needed for disaster relief are difficult to predict, some way should be created to budget for them.

Second, critics argue that current budget procedures give an advantage to emergency supplementals that can lead to providing overly generous assistance. If disaster aid had to compete with other federal spending priorities, standards of need might be tougher and state and local governments might have to accept more responsibility.

Supplementals have been part of the way the Congress funds disaster assistance programs since its early days, however, and their current treatment is the result of a long evolution of policy. Proponents of current policy support it with three arguments. First, funds for natural disasters and other emergencies will undoubtedly be needed from time to time in amounts that are impossible to predict

and thus difficult to budget for. Requiring the Congress to cut other programs to pay for those nonrecurring, unpredictable expenses would be unfair. It would simply transfer the hardship from disaster victims to recipients of other programs that could experience sharp and unexpected budget cuts.

Second, according to proponents, the current procedures work well. The Congress has generally passed disaster supplementals without lengthy legislative delays. Furthermore, Members of Congress often prefer to provide assistance for particular disasters through special Congressional actions rather than making the assistance subject only to the discretion of the executive branch.

Third, some proponents believe that the emergency safety valve (exempting emergency requirements from strict budget rules) was necessary to hold the budget agreements together. Staying within the appropriation caps on discretionary spending might not have been possible if large supplementals for disaster assistance had to be accommodated. Having to fit highly variable needs such as federal disaster assistance under fixed appropriation caps could cause great difficulties for appropriators, particularly late in a fiscal year.

POSSIBLE CHANGES TO CURRENT PROCEDURES

The Congressional Budget Office (CBO) examined options for procedural reform last year for the Senate Bipartisan Task Force on Funding Disaster Relief. I would like to focus on three today.

The first option would allow a budgetary point of order to be raised against emergency appropriations. If raised, a three-fifths majority would be needed to enact emergency appropriations. That requirement would help level the playing field by making it harder to appropriate emergency funds. Emergency appropriations would still not compete with regular appropriations under the discretionary caps, but they would have to pass a stricter test than they do now. The second and third options offer ways to pay for most or all disaster relief under the discretionary caps by cutting other spending in the first case or by prepaying for disaster relief in the second. One form of prepaying is to establish a so-called rainy-day fund, such as is done in some states. Implementing most of these changes would probably require amending the laws that govern the Congressional budget process.

Option I: Repeal the Automatic Exemption of Emergency Appropriations from Budgetary Points of Order

This first option would allow a point of order to be raised in the Senate against any provision of legislation designated as an emergency requirement, thus repealing the automatic exemption from budgetary points of order that now exists. Waiving the point of order would require a three-fifths majority. That change would make it more difficult to enact (and easier to delete) spending measures that otherwise would escape the budgetary disciplines that apply to nonemergency spending. If a point of order was waived or never raised, the emergency spending would be treated as it is under current law. It would not trigger a sequestration, since the discretionary spending caps would be adjusted, as they are under current policy, to reflect enacted emergency appropriations.

This option provides a way to guard against misuse of the emergency designation. Emergencies now receive special consideration under budget procedures, and proponents of this option believe that special consideration should come at a higher price than it does now. This new point of order would provide a way for Members to express their reservations about the need for the emergency designation for certain types of funding.

Opponents of this option might argue that it would make enacting appropriations for genuine emergencies harder: the point of order would give a minority a new tool to change or block legislation. Proponents claim, however, that the Congress would not deny funds for real needs. Alternatively, having to attract 60 votes could lead to providing more emergency spending.

Option II: Cut Other Spending to Offset the Cost of Disaster Assistance

The second option would tighten or eliminate the emergency safety valve provided in the Budget Enforcement Act. Disaster assistance would be paid for by reducing other spending, thereby not increasing the federal deficit. The most restrictive of such options would require that current year spending be cut, thus completely closing the safety valve. An alternative approach would reduce the discretionary caps in future years to offset the increase in current year spending. Disaster assistance provided for in 1995, for example, could be offset by reducing the caps in 1996 through 1998, the final year of the current budget agreement. The fewer years remaining in the budget agreement, the larger would be the spending reduction in each year to offset the disaster assistance. However, the appropriation caps are now likely to be extended at least through fiscal year 2000.

Requiring the Congress to cut spending in other programs would raise the political cost of providing disaster relief. Increases in spending for disaster relief now raise the budget deficit, which may hamper economic growth over the long term. But the standard of living for future generations has a far less direct effect on political decisions than would having to cut programs this year or next year. If any unnecessary or excess relief is now provided, it would be far less likely to occur under that modified pay-as-you-go scenario. Moreover, under this option, whatever relief the Congress deemed necessary would be paid for by cutting other programs rather than by increasing the deficit.

The main disadvantage of this option is that it could make providing disaster relief more difficult for the Congress. Many Members of Congress believe that federal assistance is essential to help relieve people's suffering and rebuild damaged infrastructure. Changing budgetary procedures to make providing such assistance harder could reduce that assistance. Also, in some people's view, paying for disaster relief by sharp cuts in programs just shifts the pain from one group to another.

Option III: Prepay Disaster Program Costs by Increasing Regular Appropriations or by Setting Aside Money in a Rainy-Day Fund or Reserve Account

This third option, with two variations, would require or create strong incentives for the Congress to increase the amount of funds set aside in regular appropriation

bills. In the first variation, the Congress could appropriate money for disaster programs in regular appropriation bills in amounts equal to an average or expected funding need for each program. Only after such regular appropriations were made could the emergency designation be used for supplemental funds. That requirement would increase regular appropriations for those programs and reduce the amounts of emergency supplementals. In the second variation, the Congress could establish a reserve account into which funds would be regularly appropriated. Those funds would be available only for future disaster program needs, and the Congress could maintain the discretion to allocate them.

Increasing Regular Appropriations for Disaster Programs. In this variation of prepaying, the Congress could increase regular appropriations for FEMA, Small Business Administration disaster loans, and other disaster programs. The amounts appropriated would equal some expected or average funding need. Unused funds would accumulate as unobligated balances in the agency accounts. They would be available with no further action by the Congress when the needs arose. Increasing regular appropriations would reduce the need for emergency supplementals, reserving their use for truly extraordinary events rather than as part of the standard approach to funding, as is now the practice.

Increasing the regular appropriation for an account such as FEMA's Disaster Relief Fund would require cutting spending in other areas, unless the caps

on discretionary appropriations were raised. This option then would reduce the amount of disaster assistance funded through emergency supplementals, but the deficit would be lowered from what otherwise might occur only if the caps were not raised by the amount of the required prefunding.

Various methods--such as a 10-year moving average--could be used to calculate the amount to appropriate. With such a scheme, appropriations in many years would exceed needs for those years and unobligated balances would accumulate. A tendency to spend accumulated funds might be a problem unless the law was changed to increase current restrictions on the type and size of disaster eligible for assistance.

A procedure akin to this one is used to fund the firefighting programs of the U.S. Forest Service and the Department of the Interior. The practice, begun in 1993, is to appropriate an amount based on an average of firefighting costs during the preceding 10 years. The appropriation acts give the agencies the authority to advance funds from other activities to the firefighting accounts if additional needs arise in any year. Those advanced funds can be repaid with appropriations received in subsequent years.

The practice in the firefighting programs reduces the need for supplementals by both appropriating what in many years might be enough money and allowing

for advances from other accounts that can help cover years with higher-than-average costs. Emergency supplementals have not been needed for the firefighting accounts since that practice began. The law further discourages underfunding of the accounts by limiting the use of the emergency designation to amounts in excess of the average of program costs for the preceding 10 years.

Historical averages of various lengths have been calculated for the FEMA Disaster Relief Fund. The President's request of $320 million for the 1996 regular appropriation for the fund is based on an old--and flawed--average, which was set by the Dire Emergency Supplemental Appropriations Act of 1992. This average reportedly was calculated by excluding the large costs of Hurricane Hugo and the Loma Prieta earthquake. In mid-1991, those very costly disasters may have seemed like exceptions that should be excluded from the calculation. No one can predict with certainty what will happen in the future. However, the string of expensive disasters in the early 1990s certainly weakens the case for excluding them from consideration.

A more current 10-year average far exceeds the $320 million requested by the President. The President's budget cites a 10-year average of obligations of $1,126 million, which excludes 1994 spending for the Northridge earthquake. Including costs of the Northridge earthquake--or averaging over a shorter period, such as five years--would raise the figure substantially.

If a five- or 10-year average of past needs had been used to set the regular appropriation for the Disaster Relief Fund for 1995, appropriations to other programs would need to have been cut to make room under the caps. Consequently, the federal deficit would have been smaller because of those cuts. A supplemental for the Disaster Relief Fund would still have been required to pay for costs of the Northridge earthquake, but the supplemental could have been smaller by the amount of the increase in the regular appropriation.

Create a Rainy-Day Fund to Cover Future Expenses for Federal Disaster Relief. In the second variation of this prepaying option, the Congress could create a rainy-day fund, or reserve account, financed by cuts in other discretionary spending. That could be accomplished by reducing the appropriation caps for other discretionary spending programs, as was done last year for the Violent Crime Reduction Trust Fund. Annual payments to the rainy-day fund would be made unless the balance in the account met or exceeded some target level. Spending from this fund could be made subject to further Congressional action when needs arose--an important difference from the preceding variation. Under current procedures, accumulating unobligated balances would be available to FEMA and other disaster relief agencies with no further action by the Congress. Under this option, by contrast, the Congress could retain control over the use of the funds.

The annual contribution to the fund could be determined by using a historical average level of spending, as discussed above. The Congress could give the fund the authority to borrow if costly disasters occurred before enough money had accumulated. Conversely, balances would accumulate when there were fewer, less costly disasters.

Creating a rainy-day fund would not directly change disaster assistance policy and therefore would probably not alter the amount spent on such assistance. However, as with the previous variation, large balances accumulating in the fund might tempt policymakers to be more lenient in defining a disaster, to be more generous in responding, or to raid the fund for other purposes. Creating strict definitions of eligible disasters and developing procedures that would isolate such money could be part of the legislation that creates the fund.

CONCLUSION

Improving budgeting procedures for disaster assistance does not necessarily change disaster assistance policy. New budget procedures could encourage policy reform, however, if they made the real costs of current policy clearer. Many analysts believe that current budget rules make funds for disaster assistance too easy to come by. The options I have just discussed could make funding harder to acquire and could also reduce the federal budget deficit.