

TESTIMONY OF DONALD E. POWELL

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BEFORE THE

UNITED STATES HOUSE COMMITTEE ON THE BUDGET

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

THURSDAY, AUGUST 2, 2007

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
- **\$8.4 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 extensive 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.

Hurricane Protection

The Army Corps of Engineers started work almost immediately after the hurricanes to strengthen the hurricane protection system to achieve a 100-year level of protection for the City of New Orleans. As of today, over \$8.4 billion has been secured for hurricane protection, 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 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.

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 exclusively 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.