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Reallocation of Hurricane Katrina Emergency Appropriations: Defense and Other Issues

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Summary

As the first session of the 109th Congress draws to a close, some Members continue to address urgent needs from Hurricane Katrina funding. On October 28, 2005, the President proposed to reallocate \$17.1 billion of the \$60 billion in funds previously appropriated for disaster relief in two Katrina supplementals (P.L. 109-61 and P.L. 109-62). On the same day, the President submitted a request to rescind \$2.3 billion to offset some of the costs of the federal response.

Congressional action on the reallocation and rescission proposals may occur before the first session of the 109th Congress adjourns if the package is attached to the FY2006 Defense Appropriations bill (H.R. 2863) or some other legislative vehicle. Some of the issues raised by the proposal include the following:

- How would the reallocation of funds from FEMA affect recovery efforts?
- What programs would receive additional funds and what is the urgency of those needs?
- Is all of the proposed \$2 billion payment to contractors for higher shipbuilding costs necessary and appropriate?
- Are additional funds for these or other programs needed now to meet the needs of states, local governments, and other entities that continue to provide assistance to Hurricane Katrina victims?
- What programs would be affected by the proposed rescissions?

This report will be updated as events warrant.

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Reallocation of Hurricane Katrina Emergency Appropriations: Defense and Other Issues

The President's Reallocation Request

On October 28, 2005, President Bush submitted a reallocation request to Congress that would transfer to other agencies \$17.1 billion of the \$60 billion appropriated to the Federal Emergency Management Agency's (FEMA's) Disaster Relief Fund (DRF) to respond to Hurricanes Katrina, Rita, Wilma, and other disasters. According to the White House, the proposed reallocation is "to undertake response and recovery activities in the affected regions that cannot be funded by FEMA under the Stafford Act," primarily for repair and replacement of federal facilities. The same day, the Administration also submitted a package of rescissions totaling about \$2.3 billion to offset part of the cost.¹ This report deals primarily with the reallocation requests. A separate section entitled "The President's Proposed Rescissions" outlines proposed rescissions.

The Administration contends that after the reallocation is made, "remaining amounts available in the DRF are expected to be sufficient through May of 2006 to proceed uninterrupted with ongoing disaster-response efforts underway in the affected regions, state and local infrastructure rebuilding requirements, as well as potential costs arising from Hurricane Wilma." According to Director of OMB Joshua Bolten, these proposed reallocations "address pressing needs through May 2006," and OMB anticipates recommending additional funding for further recovery and reconstruction in early 2006.²

The timing and legislative vehicle to respond to the President's proposed reallocation is currently being negotiated. According to press reports, some Members are considering attaching the Congressional version of the reallocation request to the conference version of FY2006 Defense Appropriations bill (H.R. 2863). In a recent

¹ OMB, FY2006 Estimate No. 13, Reallocation package for Hurricane Katrina Relief and Recovery (Various Agencies); hereinafter, OMB, *Reallocation package*, Oct. 28, 2005. [http://www.whitehouse.gov/omb/budget/amendments/reallocation_package_10_28_05.pdf] ; hereinafter, *President's Reallocation request*, October 28, 2005; OMB, FY2006 Estimate no. 14, Rescission package to Help Offset the Costs of Hurricane Katrina (Various agencies), 10-28-05; hereinafter, OMB, *Rescission package*, Oct. 28, 2005. [http://www.whitehouse.gov/omb/budget/amendments/rescission_package_10_28_05.pdf]

² OMB letter to the President, October 28, 2005 accompanying OMB, *Reallocation package*, Oct. 28, 2005, p. 1.

interview, Chair of the Senate Appropriations Committee, Senator Cochran, from Mississippi, has called for doubling the Administration's request by adding funds to help storm victims rebuild homes, increase social service grants, and aid agricultural disaster victims. The specifics of the Cochran package are not public — some press reports say that the plan includes \$11 billion to \$13 billion in community development block grants for homeowners in Mississippi and Louisiana who didn't have flood insurance and more funds for the levees — and negotiations, including with both the White House and other Members, are ongoing.³ Mississippi Governor Haley Barbour and some Members of Congress have also called for additional aid. The prospect for the original or a revised package of additional assistance remains unclear because of fiscal concerns. Unless offset, extra funds would add to the \$314 billion deficit predicted by CBO for FY2006, which many analysts now say will be closer to \$350 billion. Other major concerns are how quickly the levees will be repaired and rebuilt and whether they would be able to withstand another major storm, how best to aid victims, and how to reconstruct the region.⁴

In the near-term, many are concerned with the level of protection that will be available at the start of the 2006 hurricane season. By June 2006, the Army Corps of Engineers expects to have completed its repairs of the existing infrastructure. However, the findings from the Corps' investigation into the causes of the floodwall failures are not anticipated until June 2006, raising the question of whether the agency will be able to improve the floodwalls' reliability when repairing the damaged levees and floodwalls for the 2006 hurricane season that begins in June.⁵

Disaster Relief Fund Activity

(Written by Keith Bea; x7-8672)

The President's reallocation request would cancel \$17.1 billion that Congress appropriated to the Federal Emergency Management Agency (FEMA)'s Disaster Relief Fund (DRF) and reallocate those funds to other federal agencies. The Federal Emergency Management Agency of the Department of Homeland Security (DHS) draws from the DRF, which serves as the source of funding for activities authorized by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (the Stafford

³ *Roll Call*, "Cochran Pushes Katrina Funds," December 7, 2005, p. 1; *Clarion-Ledger*, "Cochran must snap fed purse shut," editorial, December 14, 2005; Associated Press, "Lawmakers Scramble for storm aid," December 14, 2005; *The Sun Herald*, "Aid package 'on track'; Mississippi officials more optimistic," December 15, 2005; *Times-Picayune*, "Pressure is on for improved levees," December 15, 2005; *USA Today*, "Money worries stall help for Katrina victims," December 15, 2005.

⁴ Congressional Budget Office, *The Budget and Economic Outlook: An Update*, August 2005, p. 2; [<http://www.cbo.gov/showdoc.cfm?index=6609&sequence=0&from=7>]

⁵ See CRS Report RL33188, *Protecting New Orleans: From Hurricane Barriers to Floodwalls* by Nicole Carter; [<http://www.congress.gov/erp/rl/pdf/RL33188.pdf>]

Act).⁶ The statute authorizes the provision of emergency management assistance, including disaster relief, in two broad categories — direct federal aid and financial assistance provided through grants.

Direct federal aid involves operations undertaken before and after significant catastrophes occur, generally through “mission assignments” given to federal agencies by the official designated to be responsible for managing the federal response. Federal assistance provided to individual victims, states, tribal governments, units of local governments, and certain nonprofit organizations is used to provide mass care, restore damaged or destroyed facilities, clear debris, and aid individuals and families with uninsured needs, among other activities. All funds appropriated to the DRF remain available until expended; the DRF is a “no-year” account.⁷

Activities Funded to Date. As of November 30, 2005, roughly \$32 billion had been obligated from the DRF to provide emergency assistance to victims, communities, and states affected by the hurricanes and other declared major disasters and emergencies. Almost \$40 billion remained unobligated as of that date.⁸ Of the \$32 billion obligated, \$19.3 billion has been dedicated to needs resulting from Hurricane Katrina, \$2.7 billion for those from Hurricane Rita, and \$800 million from Hurricane Wilma.⁹

The obligated funds have been used to relieve the immediate suffering of individuals and families, to clear debris, to reimburse federal agencies for the costs of technical and direct assistance, and to support federal operations such as search and rescue, delivery of consumables, and meeting immediate needs. The \$19 billion

⁶ For background on the Stafford Act, major disaster, and emergency declarations see CRS Report RL33053, *Federal Stafford Act Disaster Assistance: Presidential Declarations, Eligible Activities, and Funding*, by Keith Bea. For information on the declarations see “2005 Federal Disaster Declarations,” at [<http://www.fema.gov/news/disasters.fema>], visited Dec. 5, 2005.

⁷ Money appropriated to the DRF remains available for all major disaster and emergency declarations issued by the President. The \$62.3 billion appropriated in the supplemental appropriations legislation, plus other funds previously appropriated as well as the \$2 billion appropriated in P.L. 109-90 in the FY2006 appropriations legislation for the Department of Homeland Security, resulted in a total of over \$71 billion available since Hurricane Katrina made landfall. For background on the types of federal budget accounts see CRS Report 98-410, *Basic Federal Budgeting Terminology*, by Bill Heniff, Jr.

⁸ Because the hurricanes occurred toward the end of FY2005, the majority of funds obligated from the DRF in that fiscal year were not used for activities caused by the hurricanes. Funds are obligated “when contracts are signed, grants awarded, trips taken, mission assignments signed, etc.” See *Disaster Relief Terms Used*,” at [http://appropriations.house.gov/_files/FEMAstaturpt1202.pdf], visited Dec. 7, 2005.

⁹ Table on FY2006 Disaster Relief Fund activity; [http://appropriations.house.gov/_files/FEMAstaturpt1202.pdf], visited Dec. 7, 2005.

obligated as of November 30 in response to Hurricane Katrina has been obligated as follows:

- \$8.0 billion for human service needs including unemployment compensation, personal needs that are not met by insurance, and temporary housing (including vouchers for hotel/motel rooms and mobile homes);
- \$2.2 billion for debris removal, public building repair and replacement, and damage inspections;
- \$4.4 billion for technical and direct assistance provided by federal agencies;
- \$14.7 million for inspections and hazard mitigation; and,
- \$4.7 billion for administrative expenses, almost \$3 billion of which has been obligated for mission assignment operations undertaken by other federal agencies at the direction of the federal officer responsible for coordinating response activities.¹⁰

As a general rule, the obligation of funds from the DRF varies according to the needs that result from a catastrophe. Aid to victims for immediate concerns (housing, purchase of clothing, uninsured essential needs) is provided quickly; longer term concerns, such as the reconstruction of facilities and development of new infrastructure, can take years in order for completion of the federal commitment. The devastation caused by Hurricane Katrina, and the need to consider the redesign and components of many communities, including New Orleans, will likely result in months if not years of plans and contracting negotiations. The quantity of the debris that still exists, and, to some degree, the complications associated with the disposal of hazardous material, constitute one major obstacle to prompt recovery and rebuilding in the area.

Components of the President's Request

Major components of the President's \$17.1 billion reallocation request are:

- \$6.3 billion to repair and replace federal facilities (about \$3.5 billion for the Department of Defense and \$2.8 billion for other federal agencies);
- \$1.8 billion to repair the levees, locks, and restore wetlands;
- \$2.3 billion to repair highways and roads;
- \$3.6 billion for various grant and loan assistance programs for states and individuals;

¹⁰ "Katrina Declarations by Major Object Class," Ibid. Mission assignments to federal agencies included \$165 million to the U.S. Coast Guard, \$115 million to the Federal Protective Service, over \$3.5 billion to the Army Corps of Engineers, and \$1.6 billion to the Department of Defense. See "Katrina Mission Assignments," Ibid.

- \$1.1 billion for military personnel costs including activating reservists; and
- \$2.0 billion for higher Navy shipbuilding costs.¹¹

Table 1 summarizes the appropriations made to the FEMA and other federal agencies in the first two Katrina supplementals (P.L. 109-61 and P.L. 109-62) and the President’s reallocation and rescission proposals by department or Federal agency.

Table 1. Previous Appropriations and President’s Reallocation and Rescission Request for Hurricane Katrina

In billions of dollars

Department/Federal Agency	P.L. 109-61	P.L. 109-62	Total Approp.	Reallocation Request	Rescission Request
FEMA Disaster Relief Fund	\$10.0	\$50.0	\$60.0	NA	NA
Defense	.4	1.5	1.9	See below	See below
Army Corps of Engineers	0	.4	.4	See below	See below
Proposed FEMA Cancellation	0	0	0	-17.1	NA
Proposed Reallocations					
Agriculture	0	0	0	0.5	-0.6
Commerce	0	0	0	0.1	-0.1
Education	0	0	0	0	0
Defense	0.5	1.4	1.9	6.6	-0.2
Energy	0	0	0	0	-0.1
Health and Human Services	0	0	0	0.6	-0.1
Homeland Security	10.0	50.0	60.0	0.4	-0.3
Housing and Urban Development	0	0	0	2.2	-0.1
Interior	0	0	0	0.1	-0.3
Justice	0	0	0	0.1	0
Labor	0	0	0	0.1	-0.1
State	0	0	0	0.0	-0.1
Transportation	0	0	0	2.4	0
Treasury	0	0	0	0.0	0
Veterans Affairs	0	0	0	1.4	0
Army Corps of Engineers	0	0	0	1.6	0
EPA	0	0	0	0.0	-0.2
GSA	0	0	0	0.1	0
Intern. Assistance Programs	0	0	0	0	0
Broadcasting Bd of Gov.	0	0	0	0	0

¹¹ CRS calculations based on President’s reallocation request; U.S. Executive Office of the President, Office of Management and Budget, “Estimate No.13,” at [http://www.whitehouse.gov/omb/budget/amendments/reallocation_package_10_28_05.pdf]

Department/Federal Agency	P.L. 109-61	P.L. 109-62	Total Approp.	Reallocation Request	Rescission Request
Corp. for Public Broadcasting	0	0	0	0	0
Federal Commun. Commiss.	0	0	0	0	0
NASA	0	0	0	0.3	0
SBA	0	0	0	0.5	0
Armed Forces Retire. Home	0	0	0	0	0
Judicial Branch	0	0	0	0.1	0
TOTAL	\$10.5	\$51.8	\$62.3	\$17.1	-\$2.3

Notes and Sources: Totals may not add due to rounding. Below \$100 million rounded to zero.

CRS calculations based on P.L. 109-61, P.L. 109-62, and Office of Management and Budget, *FY2006 Estimate No. 13, Reallocation package for Hurricane Katrina Relief and Recovery (Various Agencies)*;

[http://www.whitehouse.gov/omb/budget/amendments/reallocation_package_10_28_05.pdf] and OMB, *FY2006 Estimate no. 14, Rescission package to Help Offset the Costs of Hurricane Katrina (Various agencies)*, 10-28-05;

[http://www.whitehouse.gov/omb/budget/amendments/rescission_package_10_28_05.pdf]

Potential Issues in Reallocation Requests

This section discusses potential issues associated with the Administration's reallocation requests. Additional issues may be identified as developments warrant.

Proposal to Expand Transfer Authority For All Agencies

In the October 28 Reallocation request, the President proposes a government-wide general provision that would permit any agency or department to transfer "funds available in FY2006" between or within accounts to meet an emergency requirement in response to Hurricane Katrina if the transfer is for "higher priority items," and not for a requested item that has been "denied by law." Congress would be notified within 15 days of all transfers.¹²

This proposed language would place no limits on the individual or total amounts that could be transferred for Katrina-related emergencies, and would permit the Administration to define which transfers are for a Katrina emergency since Congress would only be notified after-the-fact.

The exclusion of items "denied by law" would allow the Administration to

¹² *Reallocation proposal*, "Government-wide General Provisions."

alter and reverse the detailed programmatic decisions of the appropriations committees and Congress that are generally included in report language. After-the-fact notification does not necessarily protect Congressional interests, and goes against the general congressional practice of requiring prior approval by the Appropriations Committees of certain types of transfers (moving funds between accounts) and reprogrammings (moving funds within an account).¹³

Congress generally places limits on the amount and types of transfers of appropriated funds by setting total funding caps for transfers each year and caps by type of appropriation, as well as requiring advance notification to the relevant congressional committees. Transfers generally are limited to a small percentage of an agency's funds such as five percent or less.

While some agencies have transfer authority to meet emergencies, such authorities are limited to particular purposes and other conditions may apply such as exhausting other funds, requiring replenishment through supplementals, and advance notification to the Appropriations Committees. For example, some Department of the Interior agencies can transfer funds for emergency replacement of buildings and facilities damaged or destroyed by fire, flood, storm, or other "unavoidable causes" provided that emergency funds are first exhausted and transferred funds are replenished through a supplemental. The Forest Service in the Department of Agriculture can transfer funds to the Wildland Fire Management account for various fire emergency purposes if the Appropriations Committees are notified and if all other wildfire suppression funds are obligated. The Administration's proposed language does not include these type of limits.

Another example is the authority for the Corps of Engineers for emergency response to natural disasters (33 U.S.C. §701n) which permits transfer with some conditions: "The Secretary of the Army may allot, from existing flood-control appropriations, such sums as may be necessary for the immediate prosecution of the [emergency disaster response] work herein authorized." This language, however, applies only to flood control monies in an emergency, whereas the proposed language does not limit the purposes, the amounts, or the accounts from which funds may be transferred.

Army Corps Of Engineers Reallocation To Cover Initial Costs.

(Prepared by Nicole Carter, x7-0854)

As a result of the first two Katrina supplementals, the Corps of Engineers has received \$400 million in direct appropriations and is estimated to receive \$4.2 billion in FEMA reimbursements for technical assistance, engineering, and construction management, emergency contracting, power, roofing, repair of wastewater and solid waste facilities, and monitoring and stabilization of damaged structures and the

¹³ CRS Report RL33151, *Committee Controls of Agency Decisions*, by Louis Fisher.

demolition of hazardous structures.¹⁴ The Administration's proposal would provide an additional \$1.6 billion to the Corps of Engineers, including:

- \$1.3 billion for rehabilitation and repair of flood control, storm damage reduction projects, and navigation facilities;
- \$250 million for Gulf coastal ecosystem projects that help reduce storm damage risk; and
- \$5 million for an expedited study of reducing flood and storm damages in the greater New Orleans metropolitan area.¹⁵

President Proposes \$1.3 Billion For Flood Control and Navigation.

This \$1.3 billion proposed reallocation is intended to cover at full federal expense initial repairs to the existing federally-constructed flood control and navigation projects. These funds would not cover the cost of actions to provide a higher level of hurricane protection system for coastal Louisiana. The ongoing investigation of the reasons for the failures is likely to affect what actions are taken to repair the levees and the costs of those actions.

As of November 2005, only a preliminary analysis about how the New Orleans levees failed has been completed. Analysis of what caused the foundation failures of some of the levees protecting New Orleans (e.g. faulty design, poor construction) is ongoing. The results of these investigations are likely to determine the long-term actions that are taken to repair the levees, which could vary widely in cost. Estimates of the cost of building a hurricane protection system for New Orleans from a Category 5 storm start at \$3.5 billion with estimates for protecting coastal Louisiana as high as \$32 billion.

Initial Funding of Wetlands Restoration to Reduce Storm Damage.

The proposed reallocation of \$250 million for coastal ecosystem studies and projects to improve flood protection is expected to provide funding for the first steps in this effort. Plans to respond to the loss of coastal wetlands range from \$2 billion for near-term actions to \$14 billion for a more comprehensive approach.

¹⁴ Weekly Reports on the Allocation and Obligation of Appropriated Funds," *U.S. Army Corps of Engineers, Report of December 1, 2005*, [http://appropriations.house.gov/_files/CORPSstatusrpt1202.pdf], visited Dec. 5, 2005.

¹⁵ The \$5 million requested for a study of reducing flood and storm damage is similar to a broader \$8 million study already funded in the Energy and Water Development Appropriations Act for FY2006 (P.L. 109-103).

Issues in Department of Defense Reallocations

(Written by Amy Belasco, x7-7627)

The Administration proposes that \$6.6 billion be transferred from FEMA's Disaster Relief Fund to the Department of Defense (DOD) to pay for ship cost overruns due to damage at shipyards, restore damaged defense facilities, and evacuate, re-locate and provide for military and civilian personnel beyond the costs covered by the \$1.9 billion already appropriated to DOD in the first two Katrina supplementals (P.L.109-61 and P.L.109-62).¹⁶

The \$6.6 billion transferred to DOD would pay for the following:

- \$2.0 billion to pay shipbuilders for estimated increases in the cost of 11 ships under construction at Ingalls shipyard in Pascagoula, MS and Avondale shipyard in New Orleans;¹⁷
- \$2.0 billion for urgent repair of facilities and equipment, and to evacuate and temporarily re-locate military and civilian personnel;
- \$1.5 billion to replace facilities and family housing units on military bases;
- \$550 million to activate reserve personnel for relief and recovery efforts; and
- \$600 million for defense health and other costs.¹⁸

Few, if any, issues are likely to be raised about the request for military personnel costs — primarily to cover the costs of deploying 40,000 military personnel (including about 31,000 National Guard).¹⁹ DOD's estimate assumes that the number of activated reservists would be drawn down to about 5,100 by mid-January, and

¹⁶ Of the \$1.9 billion appropriated to DOD in the first two Katrina supplementals, \$1 billion has been obligated including \$400 million for military personnel, \$430 million for facilities, base support and supplies and equipment, and \$84 million for humanitarian relief for DOD civilian employees, military personnel and dependents; see DOD, *Monthly Report on Hurricane Katrina Estimated Costs*, September 30, 2005.

¹⁷ The two damaged shipyards, Ingalls, Pascagoula, MS, and Avondale, New Orleans, LA both belong to Grumman, which is responsible for final assembly of the ships; other contractors, such as Lockheed Martin, provide subassemblies for ships assembled at these yards.

¹⁸ CRS calculations based on Department of Defense, *FY2006 Hurricanes Katrina & Rita Budget Allocation Request and Rescissions*, November 2005. Other includes health, procurement, research, development, test and evaluation, and commissary repairs.

¹⁹ Since the Stafford Act cannot cover government salaries, DOD bears the cost of activating reserves, who assisted in rescue and recovery efforts for both civilians and DOD personnel.

remaining at that level to early May.²⁰ If higher or lower levels than planned materialize, this estimate could change.

Nor are issues likely to be raised about DOD's request for \$1.95 billion in Operation and Maintenance (O&M) funding that would be used to repair utility systems and facilities at military installations, conduct hazardous waste disposal and environmental cleanup, support teams supporting recovery, evacuate and sustain civilian workers, and continue temporary operations, and replace equipment and supplies. Facility restoration estimates are based on engineering assessments of the cost to repair existing facilities deemed repairable.²¹ DOD typically exercises wide discretion in handling O&M costs. See **Table 3** for more details about DOD's request.

Potential Oversight Issues in Ship Cost Increases

Navy's Request. In the request, DOD asks for broad authority to transfer \$2.0 billion from its Shipbuilding and Conversion, Navy

“for necessary expenses related to the consequences of Hurricanes Katrina and Rita, which shall be available for transfer within this account to replace destroyed or damaged equipment, prepare and recover naval vessels under contract; and provide for cost adjustments for naval vessels for which funds have been previously appropriated . . .”²²

According to DOD's justification material, the Navy's \$2.0 billion is expected to cover:

- \$289 million for additional overhead charges because of downtime;
- \$543 million assuming a 25% increase in labor hours because loss of skills, inefficiency, as well as higher wages to retain workers in competitive environment;

²⁰ CRS calculations based on data in OMB, *Reallocation Request*, October 28, 2005; [http://www.whitehouse.gov/omb/budget/amendments/reallocation_package_10_28_05.pdf] Department of Defense, *FY2006 Hurricanes Katrina & Rita Budget Allocation Request and Rescissions*, November 2005, p. 9.

²¹ Of the total, \$1 billion is for the Navy, \$605 million for the Air Force, \$271 million for the Army, \$24 million for the Marine Corps and the remainder for defense wide activities; see Department of Defense, *FY2006 Hurricanes Katrina & Rita Budget Allocation Request and Rescissions*, November 2005, pp. 10-16.

²² The total Navy request is \$1.987 billion, rounded to \$2.0 billion in this discussion. Office of Management and Budget, OMB, FY2005 Estimate No. 13, Reallocation of \$17 billion of FEMA funds for Katrina needs, hereinafter, OMB, *Reallocation Request*, October 28, 2005, entry for Department of Defense, Procurement, Shipbuilding and Conversion, Navy. [http://www.whitehouse.gov/omb/budget/amendments/reallocation_package_10_28_05.pdf]

- \$715 million for replacing government and contractor-furnished equipment;
- \$132 million for damage to naval vessels under construction;
- \$61 million for technical manuals and other items;
- \$246 million for estimated higher contract premiums and escalation for LPDs 22 and 23.²³

The language in the Navy's request appears to cover a broad array of expenses and would allow DOD to transfer funds between ships, which is unlike regular defense appropriations bills where Congress designates the amounts for individual ships in report language. Therefore, the breakdown of costs above is essentially illustrative, in other words, it is an estimate which could change based on how the scope of expenses actually develop. The Navy's total estimate for higher ship costs due to Katrina damage is \$2.7 billion but apparently, a decision was made to request \$2.0 billion from Congress initially with the remainder requested in a later supplemental.

According to a September 21, 2005 memo from then Assistant Secretary of the Navy John J. Young to the Deputy Secretary of Defense, the rationale for the Navy's request was to take a "proactive" approach in order to preserve the skills of the workforce, "limit the schedule slips, and associated inevitable long term cost increases, on ships under construction," and return the shipyards to "their capability, and profit opportunities, prior to the day Katrina hit." Young also noted that this approach also "has the short-term benefit of contributing in a significant way to the restoration of jobs and the economy in the Gulf Coast."²⁴

Questions About Navy's Request. Several questions that could be raised about the Navy's request for \$2.0 billion in funding that would go to shipbuilders (primarily Northrop Grumman) to cover higher costs for the 11 ships under construction at the Ingalls are:

- Does the Navy's request set any limits on the government's liability for higher costs due to "business interruption" resulting from the damage in the shipyards, and if not, should language to impose limits be added? Could a Navy decision to reimburse contractors for *most if not all* higher costs due to natural disasters create new precedents for other government contractors?
- Is there some overlap between Northrop's claims with its insurers and

²³ Department of Defense, *FY2006 Hurricanes Katrina & Rita Budget Allocation Request and Rescissions*, November 2005.

²⁴ Assistant Secretary of the Navy, John J. Young, Memorandum, for Deputy Secretary of Defense (Acting), "Hurricane Katrina," September 21, 2005. The estimate of \$2.7 billion is from this memo.

the \$2.0 billion requested by the Navy? If the Navy agrees to cover these costs in advance, what incentive would Northrop have to negotiate with its insurer? Would Northrop be required to reimburse the Navy for any costs recovered from its insurers?

- What are the assumptions underlying the Navy's estimates and are they reasonable? Would delaying the request allow the Navy's estimate to include fewer unknowns and allow insurance negotiations to proceed further?
- Why is the Navy requesting funds with a five year availability to deal with an emergency? Should the Navy instead request one-year funds in FY2007 in its "Cost to Complete" line item that is designed to handle ship cost overruns?
- Is there any potential for the Navy to use these funds to cover non-Katrina cost increases? How could Congress increase transparency and tracking to limit the likelihood that other types of increases will be covered with these monies?
- Is the Navy's current plan the most efficient business approach? Would a full hiatus in shipbuilding efforts while the yards are fully restored be more efficient and could the delays be acceptable for ships which typically have a life of 30 years or longer?

Potential Overlap Between Government and Insurance Liabilities.

It appears that the Navy may not be liable for all higher ship costs due to Hurricane Katrina. Northrop reportedly is currently in discussions with its insurer about the extent and nature of its coverage for "business interruptions" — lost earnings due to business disruptions resulting from the property damages. This could include, for example, the higher costs because of delays and downtime because workers are returning gradually and Northrop is devising workarounds because equipment is not available to follow standard procedures. These problems are expected to delay schedules by several months and increase costs.

Although Northrop has already collected \$500 million for damage to its facilities, the company has not yet submitted claims to its secondary insurer, which covers costs in excess of \$500 million, for the higher costs due to business interruption. According to a SEC filing, Northrop and its insurance provider are in "disagreement regarding coverage for certain losses above \$500 million." If the contractor can show that costs are higher because of schedule delays attributable to the damage to property from the storms, then the insurance company may be liable for some costs.

The Navy appears to be assuming that the government is liable for *all* higher production and overhead costs, damage to equipment, and escalation due to business interruption. (Northrop is collecting from its insurance company for damages to its facilities.) Citing a wartime, 1942 memo from Secretary of the Navy Knox, the Navy claims that the government assumes the risk for loss or damage to Government-owned property, which, in the case of ships, is defined as including “raw materials, work in process, and completed products to which the Navy has taken title.”²⁵

This assumption does not appear to take into account contractual limits on costs. For cost-plus contracts, the government continues to pay higher costs up to the amount appropriated. Once that limit is reached, the Navy would need to re-negotiate its contract based on the funds appropriated. For fixed price, incentive-fee contracts, the contractor and the government *share* costs that are above the target price on a 50:50 basis until the total level in the contract — which includes the fee or profit for the contractor — is reached. At that point, the contractor is liable for all additional costs.

In the case of cost-plus contracts, Northrop’s insurer is apparently expecting that the government would be responsible for only part of the costs in fixed price contracts. For both contract types, the amount or upward limit on the government’s liability is not yet decided. If the Navy runs out of funds in its fixed price contracts, those would need to be re-negotiated. For fixed prices, the Navy and Northrop will need to reach a settlement about how costs may be shared. Of the Navy’s \$2.7 billion estimate of total costs, about 75% is for ships under fixed price contracts.²⁶ If the Navy and Grumman shared the cost overruns in the fixed price contracts, the Navy may not need much of the roughly \$1.5 billion in the request for those contracts, and possibly some of the funds requested for cost-plus contracts.

If the Navy pays Northrop for such costs in advance, the company would have little, if any, apparent incentive to engage in the complex, long-term negotiations with its insurance company that are likely. As proposed, the language in the Navy’s request (see above) does not appear to set any upward limits on the government’s liability and does not require that Northrop reimburse the government for any payments it may receive for higher costs due to business interruption.

²⁵ Frank Knox, Secretary of the Navy, to the Chiefs of the Bureaus, Offices and Boards, Navy Department on “Builder’s Risk Insurance - Ships,” June 12, 1942, and Chief of the office of Procurement and Material, “PM Circular Letter 330-4 (Revised)” to the chiefs of the Bureaus, Navy department, September 26, 1942. See also Navy response to CRS questions, December 5, 2005.

²⁶ CRS calculations based on table in Assistant Secretary of the Navy, John J. Young, Memorandum, for Deputy Secretary of Defense (Acting), “Hurricane Katrina,” September 21, 2005; DDG, LCAC, T-AKE and LHDs are under fixed price contracts, and the LPD is a cost plus incentive fee contract.

Uncertainties in Navy Estimates. Developed in mid-September only two to three weeks after the storms, the Navy's rough estimate includes an additional \$833 million for higher overhead and labor charges, based on three months of downtime and three months ramp up to the pre-Katrina workforce level, a 25% increase in the number of labor hours needed to complete ships, and higher wages for skilled laborers because of competition for those workers in other restoration efforts.²⁷ The 25% increase in labor hours is based on Grumman's experience with change orders.

Originally, there were 20,000 workers at Ingalls, Pascagoula and Avondale shipyards. After Katrina, there was a two-week hiatus when no workers could return to the shipyards. By mid-October, about 16,000 workers had returned to work including 2,700 who were working part-time.²⁸ More recently, Northrop is estimating that the Pascagoula yard will experience closer to one month of downtime and nine months of ramp-up; there was much less damage in Avondale. The new assumption would generate a different estimate of higher costs. The Navy and Grumman are currently developing new schedules for each ship.

Some observers would argue that given the level of uncertainty from both ongoing insurance negotiations and the effect of the damage on ship schedules, the Navy could be better off waiting to develop its estimate of ship cost overruns. The same argument could be made about the Navy's estimates of \$715 million to replace government-furnished and customer furnished equipment — some of which may be repaired and some replaced — and \$132 million for damage to ships under construction.

Urgency of Navy Request. As is customary, the Navy is requesting that shipbuilding monies be available for five years even though the request is for emergency funding. The Navy argues that a longer availability "allows the Navy to more judiciously execute available funds," that some contracts may require more than six months to renegotiate and award, and that vendor issues and labor inefficiencies could also take more than a year.²⁹ These rationales may not be consistent with the FY2006 budget resolution criteria that emergency funds are to be used for "urgent, pressing, and compelling needs requiring immediate action," or with OMB's criteria that the reallocation include only funds needed until May 2006.³⁰ Since substantial funds remain in the shipbuilding accounts for these ships, it is also not clear that the Navy needs the funds immediately.

Some would argue that it could be more appropriate for the Navy to use its "Cost to Complete" line item designed to cover unanticipated increases in ship costs.

²⁷ Young, Memorandum, "Hurricane Katrina," September 21, 2005; Navy response to CRS questions, December 5, 2005.

²⁸ Navy, "Briefing to Congressional staffers", November 18, 2005.

²⁹ Navy, "Response to CRS Questions," December 5, 2005.

³⁰ Sec. 402 (c) of the FY2006 Concurrent Budget Resolution (H.Con.Res. 95).

In that line, Congress designates specific funds for cost increases for individual ships that are available for one-year.³¹ One-year funds are provided to ensure closer scrutiny. The unanticipated costs due to Katrina could be considered a more extreme version of other delays experienced in shipbuilding programs. If the Navy requested funds in its FY2007 budget, it could also rely on later, and presumably more accurate estimates.

Segregating Katrina-related Costs. As proposed, the language in the Navy's request does not include any mechanism that would require the Navy to show that cost increases were attributable to Katrina damage rather than other factors. Congress might want to consider adding reporting requirements where the Navy would track and certify that ship cost increases funded with these monies were attributable to delays related to damage from Katrina.

Efficiency of Navy's Ramp-Up Plan. The Navy's justification does not include production schedules for ships in the two yards because those are currently being developed.³² Northrop and Grumman appear to be pushing for workers to return as quickly as possible and are looking to swapping work and workers between shipyards, out-sourcing work where capacity or equipment is not available, and developing workarounds. Northrop required that all workers return by October 17, 2005 in order to retain their seniority and benefits.³³

The Navy does not appear to have considered any alternative approaches, such as closing down the shipyards for six months to a year while repairs are underway, and then starting up at a level closer to complete operations. Although such an approach would raise concerns, including potential loss of skills among workers, it might be more efficient and more appropriate particularly if environmental hazards and housing shortfalls remain critical and if repairs to the levees are delayed. While the Navy dislikes delays in receiving new ships, ships typically last at least 30 years; a temporary delay might be acceptable if an alternative approach was more cost-effective.

Critics of the Navy's proposal have suggested that the funding requested may be too high, that contractors should share costs and that allocating funds for this purpose signals questionable government priorities.³⁴ No hearings have been held on these issues thus far.

³¹ See for example, Sec. 8099 in P.L.108-287.

³² Navy response to CRS questions, December 5, 2005.

³³ Navy briefing to Congressional staff, "Hurricane Katrina Impact on Gulf Coast Shipyards, November 18, 2005.

³⁴ "U.S. Navy seeks hurricane aid for shipyard," *New York Times*, November 18, 2005. Add cites.

Issues in DOD's Military Construction Request

DOD's Request. DOD's \$1.5 billion request for military construction and family housing funding would be used to replace facilities and infrastructure in Louisiana, Mississippi, and Florida that were severely damaged by the storm as well as for repair and replacement of family housing. DOD's rationale for its family housing request is that there are not sufficient units available on the private market that would be affordable to service personnel.

DOD's request includes:

- \$414 million for the Army;
- \$570 million for the Navy;
- \$439 million for the Air Force; and
- \$45 million for Defense-wide facilities.

For more details, see **Table 4** for funding by service and account.

Air Force and Navy facilities suffered major damage to facilities in Louisiana and Mississippi as can be seen in **Table 5**. The facilities with the highest bills include Naval Construction Battalion Training Center and Jackson Barracks in New Orleans, Keesler Air Force Base and the Stennis Space Center in Mississippi and various reserve facilities. See **Table 5** for funding, types of projects, and the BRAC status of individual bases.

Potential Issues in Military Construction Request. Several questions could arise about the President's request to reallocate \$1.5 for military construction and family housing needs due to Katrina, some similar to those for shipbuilding.

1) Why is DOD requesting funds to rebuild facilities that are being closed or significantly realigned as part of BRAC? Should all facilities be returned to their previous or upgraded status if there is capacity available at other bases to perform certain functions?

2) Should DOD request one-year rather than five-year military construction monies for emergency requests and to encourage closer scrutiny in light of the uncertainty of quickly-developed cost estimates? Would some kind of reporting requirement be merited because of the potential inaccuracy of estimates?

3) Is it wise to press to restore DOD facilities and return DOD military and civilian personnel before repair of the levees is complete and utility and other services may not

be restored? Are all projects and needs equally urgent? For example, is replacement of a DOD fitness center of equal importance as replacement of equipment repair facilities?

4) What is the full amount of funding likely to be needed? And could DOD finance some of these requirements from within existing resources?

Funds For Bases Affected by BRAC. DOD is requesting funds for some projects on bases that are scheduled to close or be realigned. For example, \$58 million is proposed to construct two new bachelor enlisted quarters at Naval Station Pascagoula, MS, which is slated for closure, and \$20 million for a new central energy plant and \$25 million for a new Diagnostic Center at Keesler Medical Center, scheduled to be realigned to a community hospital.

DOD is also proposing to spend \$86 million at Keesler Air Force base and \$313 million at Construction Battalion, Gulfport, MS for family housing on bases where privatization initiatives are already underway. It is not clear why DOD would request funds for these bases which are slated for closure or realignment or where privatization of housing is already underway.

Emergency Nature and Visibility of Funds. DOD is requesting that funds be available for the standard time periods for each accounts — five years for military construction and shipbuilding, three years for RDT&E, two years for procurement and one year for O&M and military personnel accounts. As with shipbuilding, it could be argued that if military construction funds are an emergency, then they should be available for one year.³⁵ DOD would argue that retaining the traditional time periods fits with how each type of funding is typically managed.

If Congress provides the funds as requested, the monies for Katrina-related damage will be mixed with regular peacetime funding and wartime funding. That may make it difficult, if not impossible, to track how funds are actually used and to ensure that funds intended for one purpose are not used for another purpose. To increase visibility, Congress could require that DOD set up separate accounts and require quarterly reporting on use of the funds. This approach has been used in recent supplementals when Congress provided funds for war where it was difficult to estimate expenses in advance (for example, the Iraq Freedom Fund that included initial Iraq war spending).

Unlike most military construction requests, estimates for these projects were developed in a matter of weeks rather than months, creating questions about their

³⁵ OMB, *Reallocation Request*, October 28, 2005, p. 1, letter to the President from OMB Director, Joshua Bolten, and *passim* for length of availability of different appropriations accounts.

accuracy. Requests also do not include the amount of detail typically provided to Congress on such projects. A potential precedent for dealing with such uncertainty is the 15-day advance notification requirements added by Congress to war supplementals in recent years in response to the uncertainties of military construction projects needed in support of Iraq and Afghanistan.³⁶

DOD has not provided Congress with an estimate of the full amount that may be needed or a timetable that would outline the urgency for the funds. The timing of a return of military personnel to bases may also depend on the time and effectiveness of repairs to the levees, restoration of utilities, and dealing with environmental issues in the region.

Department of Housing and Urban Development

(Prepared by Maggie McCarty, 7-2163)

The Administration's October 28th reallocation package would transfer \$2.2 billion to the Department of Housing and Urban Development including:

- \$250 million for an urban homesteading initiative;
- \$390 million to HUD's Section 8 account for the Katrina Disaster Housing Assistance Program (KDHAP);
- \$1.5 billion for Community Development Block Grants (CDBG); and
- \$70 million for HUD's HOME Investment Partnerships program.

Urban Homesteading. (Prepared by Eugene Boyd, 7-8689) A speech made by President Bush on September 15, 2005 included a new Urban Homesteading proposal as a key feature of the government's response to Hurricane Katrina. Urban homesteading would allow Katrina evacuees to occupy a government-owned home at a favorable mortgage rate, in exchange for their personal investment of sweat equity in the property. Under this approach, defaulted housing or other property in the region owned by the federal government would be conveyed to eligible citizens free of charge, through a lottery. In return, homesteaders would pledge to rebuild on the lot, with either a mortgage or help from a charitable organization like Habitat for Humanity. HUD, in cooperation with other federal agencies, local governments, and public housing authorities, would support the development of homes on federal property in communities across the region, and would encourage nonprofit organizations to commit properties as well.

The October 28th reallocation package submitted by the Administration includes \$250 million for urban homesteading. Of that amount \$50 million would be

³⁶ See Division B, Chapter 10, Sec. 1001 (a) and (b), P.L. 107-117; Sec. 1001 (a) and (b), P.L. 107-206; Title I, Chapter 3, P.L. 108-11.

provided to the Self-Help and Assisted Homeownership (SHOP) account to finance the construction or rehabilitation activities, subject to enactment of the Hurricane Katrina and Rita Recovery Homesteading Act of 2005, introduced on December 13, 2005 as H.R. 4514. The remaining \$200 million would be available to reimburse the insurance funds of the Federal Housing Administration (FHA), the Housing Program Account of the Department of Veterans Affairs (VA), and the Rural Housing Insurance Fund Program Account of the Department of Agriculture (USDA) for transferring the affected properties.

Katrina Disaster Housing Assistance Program (KDHP). (Prepared by Maggie McCarty, x7-2163) KDHP was created in early October and is currently administered by HUD, but funded through a mission assignment from FEMA. It provides special rental assistance vouchers to families that were displaced by Hurricane Katrina and that were receiving HUD assistance or were homeless before the storm. This includes families that had Section 8 vouchers and lived in public or other assisted housing, as well as families that were living in homeless shelters. The October 28th reallocation request proposes to transfer over \$390 million from FEMA to HUD's Section 8 account for the KDHP initiative. By transferring the funding from FEMA to HUD, HUD would gain total control of the program. (For more information on KDHP, see CRS Report RL33173, *Hurricane Katrina: Questions Regarding the Section 8 Housing Voucher Program.*)

Additional Block Grant Funds. In several past disasters, Congress has provided emergency supplemental appropriations to HUD's HOME Investment Partnerships (HOME) program and Community Development Block Grant (CDBG) program. HOME and CDBG are block grant programs through which HUD distributes housing and community development funding to state and local units of government. HOME funds can be used to build or rehabilitate owner- or renter-occupied housing and provide first-time home buyer or tenant-based rental assistance to low and moderate income families. CDBG funds can be used for a much broader array of activities including housing, community development, economic development, public assistance, assistance to sub-recipients (including for-profit and non-profit entities, and religion-based organizations), and disaster relief efforts including short-term disaster relief, disaster mitigation, and long-term disaster recovery efforts. The President's reallocation proposal would provide \$1.5 billion for CDBG and \$70 million for HOME. (For more information, see CRS Report RL33078, *The Role of HUD Housing Programs in Response to Disasters* and CRS Report RS22303, *Community Development Block Grant Funds in Disaster Relief and Recovery.*)

Transportation Would Receive \$2.4 billion

(Prepared by David Randall Peterman; x7-3267)

The President proposes \$2.4 billion in additional appropriations for the Transportation Department, including \$2.3 billion for the Federal Highway Administration (FHWA)'s Emergency Relief Program to repair damaged highways that are eligible for relief under that program. Funds would be available until expended, state matching requirements would be waived, and the limit of \$100 million for Emergency Relief projects in a single state for a single fiscal year could be exceeded. If the \$2.3 billion is more than is needed for Hurricane Katrina-related projects, the remaining funds could be used for other emergency relief projects.

The President also requests \$40.6 million, which would come from the Airport and Airway Trust Fund, to fund the FAA's Facilities and Equipment account to repair air traffic control towers, buildings, and navigation aids damaged by Hurricanes Katrina and Rita. The requests also includes \$7.5 million to repair and reconstruct the damaged Poland Street pier and warehouse in New Orleans, Louisiana, which are owned by the Maritime Administration, and used by the U.S. Navy to support the Ready Reserve Force Fleet, cargo ships that may be used for rapid deployment of military forces.

\$1.2B to Replace and Repair VA Hospitals

(Prepared by Sidath Panangala, x7-0623)

The Administration proposes to transfer \$1.4 billion to the Department of Veterans Affairs including:

- \$1.2 billion primarily to replace the VA medical center in New Orleans and also add a new bed tower to the medical center in Biloxi, Mississippi;
- \$198 million to replace pharmaceuticals and other medical equipment in VA facilities; and
- \$24.9 million for activating new VA regional office in New Orleans, Louisiana, as well as miscellaneous operating costs to continue veterans benefits processing.

A portion of the Administration's \$1.2 billion construction request would accelerate plans to add a bed tower to the VA medical center in Biloxi, Mississippi because the nearby Gulfport VA medical center that had been slated for closure was destroyed by the storm.³⁷ Under the proposal, VA intends to replace clinical functions

³⁷ The Capital Asset Realignment for Enhanced Services (CARES) Commission, a commission that evaluated health care needs of veterans over the next 20 years, called for

at VA medical center in Biloxi, Mississippi within 2 or 3 years rather than by 2010. Some observers have also suggested that Keesler Air Force Base Hospital in Biloxi, Mississippi, which is two miles away from the VA hospital in Biloxi, could pick up the VA workload.

The Administration is also proposing several general provisions for VA that would make additional adaptive housing grants (e.g. for wheelchairs), extend subsistence allowances for vocational rehabilitation, and expand other independent living benefits veterans displaced by Hurricanes Katrina and Rita through FY2006.

Funds to Rebuild NASA Facility

(Prepared by Marcia Smith, x7-7076)

The President's proposal includes \$325 million for costs associated with hurricane recovery at NASA's Stennis Space Center in Mississippi, NASA's primary rocket engine test facility, and the Michoud Assembly Facility, a government-owned facility in New Orleans, LA operated by Lockheed Martin, where space shuttle External Tanks are manufactured. The funds would be used to repair and replace equipment and infrastructure, environmental remediation and emergency operations. According to its September 30, 2005 operating plan, NASA estimates that it will cost \$760 million to repair damages and relocate staff.

While NASA has shifted \$100 million in FY2005 funds to begin hurricane recovery efforts — with hopes that the accounts would be replenished from a later supplemental appropriation — the funds shifted combined with the proposed reallocation of \$325 would still not equal NASA's estimated costs.

Funds for Small Business Administration Loans

(Prepared by Eric Weiss, x7-6209)

The October Reallocation package would provide the Small Business Administration (SBA) with:

- \$277 million for disaster loan funds for homeowners, renters and businesses who are victims of Hurricanes Katrina, Rita or Wilma or other natural disasters;
- \$189 million for SBA's salaries and expenses account to pay for additional staffing to process disaster loan applications; and

closure of the Gulfport facility and the transfer of patients to Biloxi, 8 miles away. For detailed information on the CARES Program see, CRS Report, R.L.32961, *Veterans' Health Care Issues in the 109th Congress*, by Sidath Viranga Panangala.

- \$5 million for the SBA's Office of the Inspector General, a 25% increase that would be used to oversee the new loans and guarantees.

As of December 2, 2002, the SBA had approved \$1 billion in disaster loan applications, a higher rate than earlier. Some disaster victims are applying for SBA loans expecting to be rejected because this rejection will make them eligible for grants from FEMA and others.

Some observers have suggested that additional authority may be needed, including a proposal by Representative Baker in H.R. 4100 to create the Louisiana Reconstruction Corporation that would purchase property in Louisiana that was damaged by Hurricanes Katrina and Rita for redevelopment including public infrastructure. The seller would receive enough to pay off any existing mortgage or other debt and would be given the right of first refusal to buy the property after it is redeveloped. The Louisiana Reconstruction Corporation would be funded by Treasury bonds subject to the appropriations process. The money borrowed would be repaid from the proceeds of selling the property.

Environmental Protection Agency

(Prepared by David Bearden, x7-2390)

The Administration's proposal would reallocate an additional \$15 million to EPA for its Leaking Underground Storage Tank Program that would be targeted at areas affected by Hurricanes Katrina and Rita, including site assessments to speed the identification and initiation of corrective actions to address human health and environmental risks.

As of December 1, 2005, FEMA reports EPA obligations of \$361 million for its mission assignments in emergency hurricane response activities. Based on agency statements, EPA appears to be using these funds for cleanup activities, mostly in coordination with state and local officials, including environmental assessments, sampling and analysis of contaminants, and removal and disposal of hazardous materials.³⁸ The scale of additional environmental activities needed in the wake of the storm is not clear at this point.

The President's Proposed Rescissions

In an effort to address concerns about the cost of the federal response to

³⁸ For additional information, see CRS Report RL33115, *Cleanup after Hurricane Katrina: Environmental Considerations*, by Robert Esworthy, Linda Jo Schierow, Claudia Copeland, and Linda Luther.

disasters, the President submitted a proposed rescission package of \$2.3 billion together with his reallocation package. The President states, in his transmittal notice, that the rescissions are to come from “lower-priority federal programs and excess funds.”³⁹ The President indicates the specific reasons for each rescission in his proposal. The rescissions, if approved by Congress, would cancel a portion of the funding for 12 departments and 5 agencies and other federal governmental entities.⁴⁰ The amount of the rescissions would range from \$4 million for the Broadcasting Board of Governors to \$641 million for the Department of Agriculture.

The specific rescission proposals appear to raise varying degrees of controversy, and there have been different levels of interest in the impacts of the proposed rescissions on agency programs and activities. How the rescissions would be applied and their effects on funding levels also would vary. In some cases, the proposals would reduce funding levels still further below last year’s appropriation, and in other cases, funding would terminate programs. Further, the amounts of the proposed rescissions are not necessarily an indicator of their potential for controversy, as some of the rescissions are relatively small but may be of concern to Congress or affected stakeholders.

Table 2 describes individual rescissions in the Administration’s October 28, 2005 package. The table was prepared by Amy Belasco with the help of James Monke, Maggie McCarty, Stephen Cooney, Lynne Corn, Ross Gorte, Betsy Cody, Larry Nowels, David Bearden, Eric Weiss, Ralph Chite, David Whiteman, Paul Irwin, Jennifer Lake, and Pamela Smith.

³⁹ U.S. Executive Office of the President, Office of Management and Budget, “Estimate No.14,” available online at [http://www.whitehouse.gov/omb/budget/amendments/rescission_package_10_28_05.pdf], visited Nov. 1, 2005.

⁴⁰ The departments that would be affected by the rescission include Agriculture, Commerce, Defense, Education, Energy, Health and Human Services, Homeland Security, Housing and Urban Development, Interior, Labor, State, and Treasury. The five agencies or other federal governmental entities from which funds would be rescinded include the Environmental Protection Agency, the Broadcasting Board of Governors, the Corporation for Public Broadcasting, the Federal Communications Commission, and International Assistance Programs.

Table 2. Proposed Rescissions to Offset the Cost of Hurricane Katrina

(millions of dollars)

Federal Agency	Funds to be rescinded	Activities
Department of Agriculture	\$641	Rescinds \$500M for Forest Service wildfire fighting that could be needed in FY2006, and \$9M for rural development grants which the Administration has proposed to terminate and Congress has restored. Also rescinds \$10M in conservation operations, \$40M in Rural Utilities Services grants, \$45M in P.L. 480 foreign assistance, and \$37M in food stamp programs.
Department of Commerce	\$55	Rescinds the \$49M remaining in the Emergency Steel Loan Guarantee Program that could be used to guarantee up to \$600 million in loans to financially distressed steel mills; rescission would terminate a program that Congress recently extended to the end of 2007.
Department of Defense	\$155	Rescinds \$155M in unobligated funds unlikely to be needed or funds for programs executing slower than expected.
Department of Education	\$151	Rescinds funds from the Literacy Program for Prisoners (\$5 million), the Individuals with Disabilities Education Act (\$51 million), the Smaller Learning Communities program (\$90 million), and the Tech-prep Demonstration program (\$5 million).
Department of Energy	\$100	Rescinds \$100M in unobligated FY2005 funds for a waste treatment plant at DOE's former nuclear weapons production site at Hanford in Washington that Congress assumed would be available when it cut DOE's FY2006 funds; not clear whether would further delay project which has experienced construction difficulties.
Department of Health and Human Services	\$130	Rescinds funds from the following programs: Health Resources and Services Administration for construction facilities improvement, Health Centers loan guarantees, and the Nursing Education Loan Repayment Program (\$8 million), the federal portion of liquid assets of student loan revolving funds at institutions of higher education participating in certain health professions education programs (\$100 million), the Centers for Disease Control and Prevention for Individual Learning Accounts (\$7 million) and the National Institutes of Health for buildings and facilities (\$15 million).

Federal Agency	Funds to be rescinded	Activities
Department of Homeland Security	\$261	Rescinds \$261M for accrual payments for Medicare-eligible employees in the Coast Guard which the Administration says have already been made.
Department of Housing and Urban Development	\$130	Rescinds funds from Housing for Persons with Disabilities (\$100 million), Brownfields community redevelopment grants (\$24 million), and Community Development loan guarantees (\$6 million).
Department of the Interior	\$306	Rescinds \$183M from Bureau of Reclamation funds for restoration of the Walker River Basin in Nevada, which would stall the project, \$35M from Bureau of Land Management firefighting programs that could be needed, \$34M or 10% cut to the National Park Services' construction funds, \$28M for state grants to the Land and Water Conservation Fund that would eliminate all but administrative funding, as well as smaller grants programs in the Fish and Wildlife Service (FWS), including \$6M from the Cooperative Endangered Species Conservation fund, where the Administration is seeking to increase state participation. Also cut would be \$5M rescission from \$226M for Payments in Lieu of Taxes, a program that compensates local governments for federal lands in their jurisdictions where they cannot collect taxes, which the President has proposed to cut and which, in most years, Congress has increased in response to local concerns.
Department of Labor	\$70	Rescinds funds from Job Corps construction, rehabilitation, and acquisition (\$25 million) and the Responsible Reintegration of Youthful Offenders program (\$45 million).
Department of State	\$75	Rescinds \$50M from embassy security programs, \$16M from narcotics control, including \$12M from research on using mycoherbicides in eradication efforts, which has run into opposition from the UN, Colombia and Afghanistan but which Congress has supported; and \$9M from FY2005 funds for the Andean Counterdrug initiative for, a high priority initiative to eradicate drugs and establish alternative development programs in Colombia, Bolivia, Peru, Ecuador, Brazil, Venezuela, and Panama
Department of the Treasury	\$20	Rescinds \$10M from Internal Revenue Service's processing and \$10M from its health insurance tax credit administration.

Federal Agency	Funds to be rescinded	Activities
Environmental Protection Agency	\$166	Rescinds \$166M from EPA's Clean Water State Revolving Fund , which awards grants to states, based on a statutory formula, to provide seed monies to issue loans to localities for constructing and upgrading sewage treatment plants and other wastewater infrastructure. The rescission would reduce funding to \$730 million, \$190 million below the FY2006 enacted level and almost \$360 million below FY2005. The rescission would eliminate the Congressional add in FY2006 that responded to state concerns that more federal funding is needed to meet water quality standards.
International Assistance Programs	\$20	Rescinds \$20M for transition assistance to the former states of the Soviet Union, which the Administration sought to reduce to \$482 million but Congress approved \$514 million for FY2006.
Broadcasting Board of Governors	\$4	Rescinds \$4M in unobligated capital improvements funds.
Corporation for Public Broadcasting	\$10	Rescinds \$10M as part of enacted advance appropriation.
Federal Communications Commission	\$13	Rescinds \$13M in regulatory fee collections that may not be needed to support FCC activities.

Notes and Source: Administration's rescission package and other sources; Office of Management and Budget, Estimate No. 14; [http://www.whitehouse.gov/omb/budget/amendments/rescission_package_10_28_05.pdf].

Table 3. DOD's \$6.6 billion Re-Allocation Request

in millions of dollars

Category	DOD Total	Army	Navy	Air Force	Defense-wide/ Defense Health
Higher Ship Costs	\$1,987	\$0	\$1,987	\$0	\$0
Urgent Repair and Recovery	645	73	269	299	5
Evacuation of Mil. Personnel	570	88	246	226	11
Equipment	397	30	126	187	53
Temporary Continuing Ops.	185	31	97	28	28
O&M for National Guard	43	43	0	0	0
Facility Restoration	761	51	527	83	49
Military Construction	973	414	435	79	0
Family Housing	495	0	135	360	0
Military Pay and allowances	399	241	15	144	0
Defense Health Program	149	0	0	0	149
TOTAL	\$6,605	\$970	\$3,836	\$1,406	\$393

Source: Department of Defense, *FY2006 Hurricanes Katrina & Rita Budget Allocation Request and Rescissions*, November 2005.

Table 4. Military Construction & Family Housing Request By service

in millions of dollars

Service	Military Construction	Family Housing Operation & Maintenance	Family Housing Construction	TOTAL
Army	\$414	\$0	\$0	\$414
Navy	435	49	86	570
Air Force	79	47	313	439
Defense-wide	45	0	0	45
TOTAL	\$973	\$96	\$399	\$1,468

Notes and Sources: Department of Defense, *FY2006 Hurricanes Katrina & Rita Budget Allocation request and Rescissions*, November 2005, pp. 25-p.50.

Table 5. Military Construction & Family Housing Request By Base^a

in millions of dollars

Service, Base and Location	Funding Request	Number and Types of Projects	BRAC Status
Naval Construction Battalion Center, Gulfport Miss	\$189.3	21 projects: armory, training facilities, bachelor enlisted quarters, public works, roads, security.	Minor realign
Naval Station, Pascagoula	58.5	2 project: two bachelor enlisted quarters.	Close
Stennis Space Center	66.9	3 projects: boat operations, ocean sciences laboratory and power supply upgrades.	Minor realign
Keesler Air Force Base and Keesler Medical Center	89.3	12 projects: mess, training facilities, administrative buildings, maintenance, training, headquarters, fencing, medical energy plant and lab.	Major medical center realign ^b
Naval Air Station/Joint Reserve Base, New Orleans	78.7	4 projects: utilities, fitness center, and hangars.	Realign
Naval Support Activity, New Orleans	41.4	5 projects: administrative buildings, public works, bachelor enlisted quarters, youth center, utilities upgrade.	Major realign
Jackson Barracks, New Orleans	148.8	6 projects: readiness center, maintenance shops and infrastructure replacement.	Realign
Louisiana Army National Guard Readiness Centers	124.5	5 projects: 5 readiness centers.	Unchanged
Mississippi Readiness Centers & Field Maintenance Shops	140.8	9 projects: 7 readiness centers and 2 field maintenance shops.	Unchanged
Air National Guard Combat Readiness Training Centers, Gulfport, MS.	35.0	6 projects: troop quarters, squadron/wing operations and training, infrastructure, training, administrative building.	Unchanged
Family Housing Naval Construction, Gulfport/Stennis Space Center region, MS	86.2	2 projects: construction of 296 units at about \$275,000 each and housing office.	Unchanged

Service, Base and Location	Funding Request	Number and Types of Projects	BRAC Status
Family Housing Construction, Keesler Air Force Base	\$313.0	1 project: construction of 1,067 units at about \$280,000 each.	Realign ^a
Family Housing, O&M, Navy	48.9	Repair of housing at Meridian Naval Construction Battalion Center, Gulfport, MS	Unchanged
Family Housing O&M, Air Force	47.0	Provision of 865 temporary housing units at about \$54,000 each at Keesler Air Force Base, MS and repair of units at Barksdale AFB, LA.	Unchanged

Notes and Sources:

- a. Dan Else contributed to this table.
- b. The medical center at Keesler Air Force Base is to be converted to a community hospital with a net loss of 1,207 military, civilian, and indirect support jobs.