DRAFT

Federal Emergency Management Agency

Washington, D.C. 20472

August 25, 1993

MEMORANDUM TO: The Honorable William J. Clinton
President

THROUGH: Steve Silverman
Cabinet Affairs

FROM: James L. Witt
Director

SUBJECT: Cost-Share Policy

My staff has reviewed cost-share issues and specifically how they relate to the recent flooding in the Midwest.

Cost-share adjustments have historically been granted only in extreme instances. One of the primary factors that has been used to determine how "extreme" a disaster has been was the quantification of capability based on the per capita impact of the disaster. The resulting number represents a *qualifying threshold* for the waiver of cost-share requirements.

Historically, $64 per capita had been the minimum qualifying threshold used in determining whether the established cost-share formula is waived for individual disaster declarations. The $64 per capita precedent was established in 1985 for a West Virginia disaster declaration, and since that time has *consistently* been used (with the exception of the Louisiana Hurricane Andrew declaration, for which a recent analysis by my staff indicates that the per capita impact for that event is currently $59, although the amount continues to increase).

In both Florida and Hawaii, the cost-share ratio was adjusted once it became clear that the qualifying threshold was reached. The adjusted cost-share ratio was set using a tiered approach: on the first tier, 75-percent of eligible costs under $10 per capita were assumed by the Federal government, leaving 25-percent to be borne through non-Federal cost-share. Once the $10 per capita threshold was surpassed, the Federal government assumed 100-percent of all eligible costs for assistance.

While this cost-share formula was effective in Florida and Hawaii, it also proved to be highly problematic. Both Florida and Hawaii ended up contributing little to the overall costs of the disaster response and recovery, and the formula lacked an incentive to minimize recovery costs due to the 100 percent Federal assumption of cost after the $10 per capita level was reached. Furthermore, the rationale for the tiered approach was difficult to defend, hard to understand, and difficult to administer.

In light of this experience, I do not think that it would be prudent to use the same approach used in Florida and Hawaii after their respective hurricanes in the granting of cost-share waivers for the States affected by the recent flooding. I would instead recommend that the $64 per capita qualifying threshold be maintained for a cost-share waiver, after which 90 percent of all eligible Public Assistance costs will be assumed by the Federal government, and 10 percent will be assumed by the States. This alternative approach is recommended in that it would:

- Create an easy to understand, defendable, and easily administrable approach to the waiver of cost-share requirements;

- Ensure that the States continue to assume a portion of the costs associated with ongoing disaster operations throughout the entire event, which provides an incentive for States to minimize disaster recovery costs;

- Retain the financial discipline of a State/local share during disaster operations; and

- Maintain the $64 per capita threshold, which would limit the attractiveness of States pursuing additional disaster requests (this may include requests that have been denied in the past, such as the State of California for the Loma Prieta Earthquake, and the State of North Carolina for damage caused by Hurricane Hugo).

If this approach is accepted and the qualifying threshold is met, cost-sharing for each of the Midwestern States would be as follows:

> 100 percent Federally funded direct Federal Assistance costs (emergency work performed or contracted by Federal personnel or resources to alleviate immediate threats to health and safety)
>
> 75 percent Federal / 25 percent non-Federal for eligible Public Assistance costs, unless the $64 per capita threshold is met
>
> If the $64 per capita qualifying threshold is met, then all eligible Public Assistance costs would be funded 90 percent Federal and 10 percent non-Federal (except for direct Federal assistance costs authorized at 100 percent Federal funding)

I believe that this alternative approach is the most equitable and economically justified approach to take in the provision of additional assistance to the most heavily impacted States in the Midwest floods. I would be pleased to proceed with this plan of action with your approval.

August 25, 1993

Projected Cost Versus Qualifying Threshold

Disaster Number	State Population (1990 U.S. Census)	Qualifying Threshold (Population x $64)	Current Projected Cost
FEMA-993-DR Minnesota	4,375,099	$280,006,336	$41,322,000
FEMA-994-DR Wisconsin	4,891,769	313,073,216	28,374,000
FEMA-995-DR Missouri	5,117,073	327,492,672	325,798,000
FEMA-996-DR Iowa	2,776,755	177,712,320	117,228,000
FEMA-997-DR Illinois	11,630,602	744,358,528	210,116,000
FEMA-998-DR Nebraska	1,578,385	101,016,640	45,842,000
FEMA-999-DR South Dakota	696,004	44,544,256	25,004,000
FEMA-1000-DR Kansas	2,477,574	158,564,736	95,738,000
FEMA-1001-DR North Dakota	638,800	40,883,200	26,965,000

The *Current Projected Cost* identified in this table is based on early estimated costs at the time the supplemental appropriation was under consideration. These estimates may not have any bearing on the actual or most recent projections of each of these declarations.

Missouri, according to the estimate shown above, is the *closest* to qualifying for an adjustment of the Public Assistance cost share at a $64 qualifying threshold.

August 25, 1993

DISASTER DECLARATIONS WITH COST SHARE ADJUSTMENTS

State	Year Declared	Population	Total Projected Cost	Impact Per Capita
West Virginia	1985	2,000,000	$128,000,000	$64
Virgin Islands DR-841	1989	150,000	$478,000,000	$3,187
Puerto Rico DR-842	1989	3,300,000	$672,000,000	$204
South Carolina DR-843	1989	3,100,000	$413,000,000	$133
American Samoa DR-855	1990	49,000	$26,300,000	$537
American Samoa DR-927	1992	46,733	$54,000,000	$1,156
Rep. of Marshall Islands* DR-925	1992	49,000	$3,300,000	$67
Rep. of Marshall Islands* DR-932	1992	49,000	$2,200,000	$45
Florida DR-955	1992	12,957,926	$2,060,000,000	$159
Louisiana DR-956	1992	4,219,973	$247,018,077	$59
Guam DR-957	1992	133,152	$66,200,000	$497
Hawaii DR-961	1992	1,108,229	$598,480,932	$540
Rep. of Marshall Islands DR-971	1993	49,000	$3,400,000	$69

* These two requests for the Republic of the Marshall Islands were considered jointly for the cost share adjustment. These occurred within close time proximity placing an even greater burden on RMI for recovery.

COST SHARE ADJUSTMENTS

	Population	Total Projected Cost	Projected Public Assistance	75% / 25%	75% / 25% to $10 then 100%	90% / 10%	85% / 15%
Missouri	5,117,073	325,798,000	123,710,250				
		Federal Share		92,782,688	110,917,568	111,339,225	105,153,713
		non–Federal Share		30,927,563	12,792,683	12,371,025	18,556,538

75% / 25% to $10 per capita, then 100% is the same cost share applied in Hurricane Andrew

- *This cost share is difficult to administer and difficult to explain.*
- *This cost share limits the financial commitment of the State to 25 percent of $10 per capita.*

RECOMMENDED COST SHARE:

- *A qualifying threshold of $64 per capita should be retained.*
- *A cost share of 90 percent Federal and 10 percent non–Federal should be recommended.*
- *This cost share will be easier to explain and administer.*
- *The State continues to participate in the recovery costs throughout the entire event.*

Federal Emergency Management Agency

Washington, D.C. 20472

August 27, 1993

MEMORANDUM TO: The Honorable William J. Clinton
President

THROUGH: Steve Silverman
Cabinet Affairs

FROM: James L. Witt
Director

SUBJECT: Cost-Share Policy

My staff has reviewed cost-share issues and specifically how they relate to the recent flooding in the Midwest.

Cost-share adjustments have historically been granted only in extreme instances. One of the primary factors that has been used to determine how "extreme" a disaster has been was the quantification of capability based on the per capita impact of the disaster. The resulting number represents a *qualifying threshold* for the waiver of cost-share requirements.

Historically, $64 per capita had been the minimum qualifying threshold used in determining whether the established cost-share formula is waived for individual disaster declarations. The $64 per capita precedent was established in 1985 for a West Virginia disaster declaration, and since that time has *consistently* been used (with the exception of the Louisiana Hurricane Andrew declaration, for which a recent analysis by my staff indicates that the per capita impact for that event is currently $59, although the amount continues to increase).

In both Florida and Hawaii, the cost-share ratio was adjusted once it became clear that the qualifying threshold was reached. The adjusted cost-share ratio was set using a tiered approach: on the first tier, 75-percent of eligible costs under $10 per capita were assumed by the Federal government, leaving 25-percent to be borne through non-Federal cost-share. Once the $10 per capita threshold was surpassed, the Federal government assumed 100-percent of all eligible costs for assistance.

While this cost-share formula was effective in Florida and Hawaii, it also proved to be highly problematic. Both Florida and Hawaii ended up contributing little to the overall costs of the disaster response and recovery, and the formula lacked an incentive to minimize recovery costs due to the 100 percent Federal assumption of cost after the $10 per capita level was reached. Furthermore, the rationale for the tiered approach was difficult to defend, hard to understand, and difficult to administer.

In light of this experience, I do not think that it would be prudent to use the same approach used in Florida and Hawaii after their respective hurricanes in the granting of cost-share waivers for the States affected by the recent flooding. I would instead recommend that the $64 per capita qualifying threshold be maintained for a cost-share waiver, after which 90 percent of all eligible Public Assistance costs will be assumed by the Federal government, and 10 percent will be assumed by the States. This alternative approach is recommended in that it would:

- Create an easy to understand, defendable, and easily administrable approach to the waiver of cost-share requirements;

- Ensure that the States continue to assume a portion of the costs associated with ongoing disaster operations throughout the entire event, which provides an incentive for States to minimize disaster recovery costs;

- Retain the financial discipline of a State/local share during disaster operations; and

- Maintain the $64 per capita threshold, which would limit the attractiveness of States pursuing additional disaster requests (this may include requests that have been denied in the past, such as the State of California for the Loma Prieta Earthquake, and the State of North Carolina for damage caused by Hurricane Hugo).

If this approach is accepted and the qualifying threshold is met, cost-sharing for each of the Midwestern States would be as follows:

> 100 percent Federally funded direct Federal Assistance costs (emergency work performed or contracted by Federal personnel or resources to alleviate immediate threats to health and safety);
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> 75 percent Federal / 25 percent non-Federal for eligible Public Assistance costs, unless the $64 per capita threshold is met;
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> If the $64 per capita qualifying threshold is met, then all eligible Public Assistance costs would be funded 90 percent Federal and 10 percent non-Federal (except for direct Federal assistance costs authorized at 100 percent Federal funding).

I believe that this alternative approach is the most equitable and economically justified approach to take in the provision of additional assistance to the most heavily impacted States in the Midwest floods. I would be pleased to proceed with this plan of action with your approval.

Attachment

August 27, 1993

Projected Cost Versus Qualifying Threshold

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FEMA-993-DR Minnesota	4,375,099	$280,006,336	$41,322,000	9.44
FEMA-994-DR Wisconsin	4,891,769	313,073,216	28,374,000	5.80
FEMA-995-DR Missouri	5,117,073	327,492,672	293,586,000	57.37
FEMA-996-DR Iowa	2,776,755	177,712,320	117,228,000	42.22
FEMA-997-DR Illinois	11,630,602	744,358,528	210,116,000	18.07
FEMA-998-DR Nebraska	1,578,385	101,016,640	45,842,000	29.04
FEMA-999-DR South Dakota	696,004	44,544,256	25,004,000	35.93
FEMA-1000-DR Kansas	2,477,574	158,564,736	95,738,000	38.64
FEMA-1001-DR North Dakota	638,800	40,883,200	26,965,000	42.21

To: Kathy
Way

Fr: Keith
Mason

Federal Emergency Management Agency

Washington, D.C. 20472

AUG 3 1 1993

MEMORANDUM FOR: The Honorable William Clinton
President

THROUGH: Steve Silverman
Cabinet Affairs

FROM: James L. Witt
Director
Federal Emergency Management Agency

SUBJECT: Cost-Share Waivers

This memorandum is a written confirmation of our meeting on August 30, 1993.

Under Section 406 (b) of the Robert T. Stafford Disaster Relief and Recovery Act (as amended), the Federal share of assistance must be ***not less than 75 percent*** of the net eligible cost of repair, restoration, reconstruction, or replacement activities carried out during relief operations for a Presidentially declared disaster. This section of FEMA's authorizing legislation has been interpreted as giving the Administration the authority to grant waivers of part or all of the State share of costs from Presidentially declared disasters through the Federal assumption of costs above the 75 percent level.

Historically, $64 per capita had been the minimum qualifying threshold used in determining whether the established cost-share formula is waived for individual disaster declarations.

COST-SHARE DURING HURRICANES HUGO, ANDREW, AND INIKI:

In South Carolina, Florida, and Hawaii, the cost-share ratio was adjusted once it became clear that the *$64 qualifying threshold was reached.* Once this level was reached, an adjusted cost-share ratio was set using a tiered approach: on the first tier, 75-percent of eligible costs under $10 per capita were assumed by the Federal government, leaving 25-percent to be borne through non-Federal cost-share. On the second tier, once the $10 per capita level was reached, the Federal government assumed 100-percent of all eligible costs beyond $10 per capita for assistance.

While this cost-share formula was effective, it also proved to be highly problematic:

- South Carolina, Florida, and Hawaii ended up contributing little to the overall costs of the disaster response and recovery . For example, Hurricane Andrew in Florida cost nearly $2 billion, yet the State share of that cost was roughly $33 million.

- The formula lacked an incentive to minimize recovery costs due to the 100 percent Federal assumption of cost after the $10 per capita level was reached.

- The rationale for the tiered approach was difficult to defend, hard to understand, and difficult to administer.

RECOMMENDATION:

As we discussed on August 30, I recommend that the $64 per capita qualifying threshold be maintained for a cost-share waiver, after which 90 percent of all eligible Public Assistance costs will be assumed by the Federal government, and 10 percent will be assumed by the States and local governments. This approach would:

- Create an easy to understand, defendable, and easily administrable approach to the waiver of cost-share requirements;

- Ensure that the States and local governments continue to assume a portion of the costs associated with ongoing disaster operations throughout the entire event, which provides an incentive to minimize disaster recovery costs;

- Retain the financial discipline of a State/local share during disaster operations; and

- Maintain the $64 per capita threshold, which would limit the attractiveness of States pursuing additional disaster requests (this may include requests that have been denied in the past, such as the State of California for the Loma Prieta Earthquake, and the State of North Carolina for damage caused by Hurricane Hugo).

Under this approach, once the qualifying threshold is met, cost-sharing for each of the Midwestern States would be as follows:

100 percent Federally funded direct Federal Assistance costs for emergency work performed or contracted by Federal personnel or resources to alleviate immediate threats to health and safety (this has previously been announced and implemented, but has currently been curtailed since federally assisted emergency work is no longer necessary);

75 percent Federal / 25 percent non-Federal for eligible Public Assistance costs, unless the $64 per capita threshold is met;

If the $64 per capita qualifying threshold is met, then all eligible Public Assistance costs would be funded 90 percent Federal and 10 percent non-Federal (except for direct Federal assistance costs previously authorized at 100 percent Federal funding).

"Table I" on the following page offers a comparison of the impact of the Midwest floods in Iowa and Missouri with the damage wrought by Hurricanes Hugo and Andrew in the States of South Carolina and Florida, respectively. The flooding in the State of Illinois was not used in this comparison due to the vastly lower number of registrations for Federal assistance in that State as compared to others in the Midwest floods (Illinois has received only 12,286 registrations as of August 29, while Iowa and Missouri have received 22,655 and 31,776 registrations, respectively). Also, due to its large population, it is doubtful that Illinois will meet the $64 per capita threshold. FEMA shall, however, work closely with representatives of the State on a program to relocate homeowners out of the floodplain or to help cover the costs associated with elevating their structures above the level of the 100-year flood (the flood that has a 1 percent annual chance of occurrence).

"Table II" projects the estimated State and Federal costs for the Public Assistance Program that would be associated in each of the aforementioned disasters with the application of: (1) the recommended 90/10 cost-share waiver plan; and (2) the formula used for Hurricanes Hugo and Andrew.

Attachment (Tables)

Table I.: Differences Between Impact of Hugo/Andrew and Present Flood Disasters in Iowa and Missouri

State	Population	Estimated Total Cost	Impact per Capita
South Carolina	3,100,000	$413,000,000	$133
Florida	12,957,926	$2,060,000,000	$159
Iowa	2,776,755	$177,712,320	$42*
Missouri	5,117,073	$327,492,672	$57*

* FEMA assumes that these costs will eventually surpass the $64 per capita qualifying threshold.

Table II.: State and Federal Costs of Cost-Share Proposals: Hurricanes Hugo/Andrew and Present Flood Disasters in Iowa and Missouri

	PUBLIC ASSISTANCE COSTS			
State	**State Share:** *FL Formula*	**Federal Share:** *FL Formula*	**State Share:** *90/10 Formula*	**Federal Share:** *90/10 Formula*
South Carolina	$7,750,000	$405,250,000	$41,300,000	$371,700,000
Florida	$32,395,000	$1,331,021,000	$136,342,000	$1,227,074,000
Iowa*	$6,943,000	$107,184,000	$11,413,000	$102,713,000
Missouri*	$12,793,000	$119,335,000	$13,213,000	$118,914,000

* Neither State currently qualifies for a cost-share adjustment at this time as the $64 per capita qualifying threshold has not yet been met. Since all Stafford Act costs are considered when determining if the $64 per capita qualifying threshold has been reached, it is difficult to estimate how the level will be reached, i.e., what mix of Individual and Public Assistance costs will be experienced to reach the threshold. For demonstration purposes only, we have increased the Public Assistance costs to the level that would be required to equal the $64 threshold for all Stafford Act costs.

Federal Emergency Management Agency

Washington, D.C. 20472

AUG 31 1993

MEMORANDUM TO: The Honorable William J. Clinton
President

FROM: James L. Witt
Director

SUBJECT: Major Accomplishments After Hurricane Andrew

This memorandum is in response to your request for background information regarding Federal response and recovery activities resulting from damages caused by Hurricane Andrew.

As of this time, the estimated total Federal cost of damages inflicted by Hurricane Andrew is just over $2 billion, making it the single most damaging storm ever experienced in the United States. In the weeks and months following the Hurricane, the Federal government undertook a number of initiatives, targeted its activities, and provided funding not only to help individuals survive the event, but also to restore their communities and make them better prepared for the possibility of future devastating events.

As part of the Federal effort, FEMA made a number of significant accomplishments. These include:

1. <u>Assistance to State and Local Governments and Eligible Private Non-Profits</u>

FEMA obligated a total of $971.7 million for assistance to 269 State, local governments, and eligible private nonprofit subgrantees covering 10,468 separate projects for recovery from Hurricane Andrew. This included:

Debris Removal-	$570.5 million*
Emergency Measures-	299.2 million**
Repair & Restoration-	102.0 million

* Included $375.0 million in payments for work performed by the U.S. Army Corps of Engineers under a mission assignment.

** Included $83.4 million in payments for emergency work performed on schools by the U.S. Army Corps of Engineers under a mission assignment.

2. Community Disaster Loans

Following Hurricane Andrew, FEMA granted four community disaster loans (CDLs) totalling $22.4 million to Florida's local governments located in Dade County. These were:

FY 1992	
City of Homestead-	$10,325,000
City of Florida City-	$ 1,046,000
FY 1993	
City of Miami-	$ 5,000,000*
Village of Key Biscayne-	$ 1,000,000

* An additional $5,000,000 was approved for the City of Miami's CDL on August 6, 1993, which increased the loan to $10,000,000.

3. Debris Removal

The massive debris removal operation is basically complete, except for debris removal in isolated areas. The debris removal effort is estimated to total $571 million. The U.S. Army Corps of Engineers, by direct Federal assistance removed and disposed of debris at a cost of $375 million and local governments removal cost is $196 million.

4. Securing and Demolition of Abandoned Structures

In South Dade County many structures have been abandoned and are considered a health and safety threat. FEMA, the state and local governments are cooperating in securing and/or demolishing the abandoned structures to eliminate health and safety threats to the community.

5. Tree Replacement

Many trees which served a function in a park or in support of another facility are eligible for replacement. FEMA is currently in the process of reviewing damaged trees to determine eligibility for replacement.

6. Codes, Specifications and Standards

In the preparation of Damage Survey Reports for destroyed structures and during project monitoring, FEMA is assuring that the work satisfies applicable codes, specifications and standards.

7. Historic Preservation and Art Conservation

FEMA immediately coordinated with the State Historic Preservation Officer (SHPO) to handle numerous historic facilities, museums, artifacts, and art objects damaged or destroyed by the hurricane. FEMA organized multi-agency efforts to assist with stabilization projects to protect historic sites and prevent further damage to museum contents. FEMA continues its work with the SHPO and historic community on repair or restoration of historic facilities and damaged art objects.

8. Hazard Mitigation

FEMA and the State of Florida have agreed that a minimum of $15,000,000 will be available for the Hazard Mitigation Grant Program. To date, one project (a Recovery and Mitigation Management project for the State) has been approved for $800,000 Federal share.

The Region has worked very closely with the State to provide technical assistance and guidance in implementing the hazard mitigation programs:

- In the initial aftermath of the storm, FEMA coordinated the distribution of mitigation material to individuals. One of the most innovative operations was the Reconstruction Information Centers, which provided one-on-one consultations with individuals on how to properly elevate their homes. This effort was initiated in October 1992 and went through March 1993.

- FEMA kicked off the State hazard mitigation planning process in November 1992, by conducting the Hazard Mitigation Planning course with State agencies and local government officials. This allowed everyone to become part of the process, sharing information and expectations. In addition to the required State Hazard Mitigation Plan, each local jurisdiction prepared their own plan focusing on local issues. The first draft of the State plan has been reviewed. The final draft is expected at any time.

- The State has developed a selection process to prioritize hazard mitigation projects for funding under the Hazard Mitigation Grant Program (HMGP). 561 pre-applications, for approximately $76 million, have been received providing initial information on the types of projects being proposed for funding. There is a great deal of interest in the HMGP, the State will work very closely with FEMA in evaluating projects for approval.

- FEMA has been proactive in working with the State, providing resources as needed to address specific issues. Four staff have been hired in the Miami field office to provide technical assistance, and conduct the project reviews for the HMGP proposals. We have learned that we must provide assistance and support to the State so that they can fulfill their role in implementing our programs.

POLICY DECISION PACKAGE # 1
Subject: Cost Sharing

Option	Pros	Cons	Remarks
1. Affirm Policy (80/20). Cost sharing is required for all Corps non-Federal PL 84-99 Rehabilitation Projects.	• Consistent with CW and past Rehab Projects. • Local "Buy In"	• Sponsors may be out of Funds.	FEMA is 75/25. SCS is changing from 80/20 to 75/25. SCS State Conservationists have discretionary authority to increase Federal share up to 100% based on "hardship" situation. Corps has no cost share requirement for rehab of Federal Projects
2. Waive Policy	• Recognizes severity of event. • Cost share requirement could delay construction.	• Sets a precedent	

Recommendation: Option #1

Approved Option: _____ SCS _____FEMA _____ USACE

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

COVER SHEET 4

Number of Pages (excluding cover sheet): 4 Date: 9/16

To:

Name: Kathi Way

Address:

Telephone:

FAX Number: 456-7239

From:

Name: STEVE REDBURN

Address: 725 17TH STREET, N.W.
WASHINGTON, D.C. 20503

Telephone: (202) 395-4610 HOME (301) 949-2256

FAX Number: (202) 395-1307

Time:

SPECIAL INSTRUCTIONS:

REIMBURSEMENT POLICY FOR STATES AFFECTED BY MIDWEST FLOODS

Experience with the Midwest Floods and other recent disasters makes clear the need to rethink the Federal policies concerning when to declare a major disaster and when to adjust various requirements for State matching funds. The President has directed White House and agency staff to work with members of Congress and with Governors to review these issues and propose administrative and legislative reforms within the next few weeks. Meanwhile, however, we must respond as best we can to the serious problems of the Upper Mississippi Valley.

Policy Statement: For the time being, the Administration will use two alternative standards in evaluating whether FEMA Public Assistance cost share adjustments should be approved for States declared major disaster areas:

(1) States declared separately as a result of a disaster having little or no relation to other declarations would continue to be evaluated using the $64 per capita qualifying threshold upon which FEMA has historically relied. These cases would indicate situations where individual States are severely impacted, but where the national economy would not seem to be significantly affected; or,

(2) States receiving declarations at the same approximate time as a result of the same or similar events (tornadoes, excessive rain, or hurricanes), if unable to meet the $64 per capita qualifying threshold, may still receive cost share adjustments if the broader range of costs associated with the disaster are of significant consequence to the national economy. This threshold is being established at .05 percent of the country's gross domestic product (GDP). This alternative measure of cost is described on the attached page.

Reimbursement of eligible public assistance disaster costs for the nine States affected by the flooding in the Midwest will be on a 90 percent Federal/10 percent State cost share ratio starting with the initiation of the incident period for each specific State.

Rationale: The President has determined that because of the unusual scope, duration, and breadth of the Midwest flooding, a review of the cost share formula was necessary and appropriate. The result of this review was a recommendation for a straight cost share policy of 90 percent Federal/10 percent State for all eligible public assistance costs. While no one State -- with the exception of Missouri -- approaches or meets Condition (1) stated above, Condition (2) is met. Total FEMA-eligible damages for the entire affected region (all nine States) are estimated at $976 million, or .016 percent of the country's GDP. Total Federal and non-Federal damages are estimated to be $7.6 billion, or .12 percent of GDP.

The cost share waiver recommendation is based on the following:

- o The flooding severely affected the entire Midwest; nine States with 500 counties having been designated for Individual Assistance, Public Assistance, or both;

- o The duration of flooding has caused unprecedented, protracted disruption of commerce and agriculture which has resulted in significant economic losses to States and communities in addition to the loss of tax base and revenues;

- o Over 100,000 people have registered for assistance. Approximately 45,000 have been determined to be eligible for temporary housing assistance, indicating the extent to which many individuals and families have been displaced from their homes, places of work, and communities; and,

- o It is in the best interests of the Nation's economy to expedite a return to economic vitality in these States and communities.

Definition of Alternative National Economic Damage Measure: An alternative, broader measure of damage and economic impact can be constructed, for this and previous disasters, that includes all damages reimbursed by Federal agencies as well as a substantial fraction of private losses that are not reimbursed. Specifically, this includes: FEMA damage estimates; business and housing losses for which SBA loans are made for reconstruction; crop losses (both those covered by Agriculture and those not covered); and damage to Federal levees and other Federal facilities.

While this alternative measure is not all inclusive -- omitting, for instance, costs of charitable and voluntary efforts, most privately insured losses, as well as other privately borne personal suffering and disruption -- it is broad enough to capture the relative magnitude of various disasters.

By this measure, the Andrew/Iniki, Hugo, and Midwest flood disasters are clearly of a magnitude sufficient to make an upward adjustment of FEMA-eligible damage reimbursement a national priority. In all of these cases, the costs identified exceed .05 percent of GDP. Other disasters fall short of this threshold (see attached Table, right-most column).

Determining Eligibility of FEMA Cost Share Adjustments
Preliminary Estimate of Economic Loss as Share of GDP
($ in millions)

		Mt. St. Helens	Loma Prieta Earthquake	Hurricane Hugo	Hurricane Andrew/Iniki/ Typhoon Omar	Midwest Floods
Estimated Losses		1,017.2	2,683.6	2,838.5	9,953.0	7,573.4
1993 GDP	6,260,000					
Loss as Share of GDP		0.00016	0.00043	0.00045	0.00159	0.00121
In Percentage Terms		0.02%	0.04%	0.05%	0.16%	0.12%

From the Office of Cabinet Secretary

202-456-6280

Date: September 14, 1993 Response Needed by:______________

☑ Joan Baggett	☑ Roy Neel
☐ Rahm Emanuel	☐ Bernie Nussbaum
☐ Mark Gearan	☐ Jack Quinn
☐ David Gergen	☑ Leon Panetta
☑ Marcia Hale	☐ Howard Paster
☐ Alexis Herman	☐ John Podesta
☐ Nancy Hernreich	☐ Carol Rasco
☐ Anthony Lake	☐ Bob Rubin
☐ Bruce Lindsey	☐ Eli Segal
☐ Katie McGinty	☐ George Stephanopoulos
☑ Mack McLarty	☐ David Watkins
☐ Dee Dee Myers	☐ Maggie Williams

Keith Mason Kathi Way

Remarks:

FYI
Re: Flood Response

Response:

REIMBURSEMENT POLICY FOR THE MIDWEST FLOODS

Policy Statement: Reimbursement of eligible public assistance disaster costs for the nine States affected by the flooding in the midwest will be on a 90% Federal/10% State cost share ratio rather than the current 75/25 ratio. This ratio will be effective starting with the initiation of the incident period for each specific State.

Rationale: The President has determined that because of the unusual scope, duration and breath of the Midwest flooding a review of the cost share formula was necessary and appropriate. The result of this review was a recommendation for a straight cost share policy of 90 Federal/10 State for all eligible public assistance costs, regardless of the per capita cost impact of the event. This recommendation was based on the following factors:

- The flooding severely impacted the entire Midwest region; affecting nine States, 500 counties have been designated for Individual Assistance, Public Assistance or both.

- The duration of the flooding has lasted up to six months in some states, with some areas experiencing repetitive flooding.

- This duration of flooding has caused unprecedented disruption of commerce and agriculture which has resulted in significant economic losses to States and communities and the concomitant loss of tax bases and revenues.

- Over 100,000 people have registered for assistance. Approximately 45,000 have been found eligible for temporary housing which in some cases has meant individuals have been displaced from their homes and places of work, their communities.

- It is in the best interest of the Nation's economy to expedite a return to economic viability in these States and communities.

Impacts of Policy:

- One time policy supported by extraordinary and unusual circumstances requires new criteria; must not be viewed as a precedent for previous or future disasters.

- Accelerates region's economic and social return to normal.

- All States impacted by this disaster are treated equally.

- o Diffuses certain concerns in some States but creates others in States effected by previous disasters such as California, New York, North Carolina.
- o Expect questions and pressure from other States that have previously been denied an adjustment.
- o Responsive to Presidential statements in Midwest.
- o Increases cost burden on Disaster Relief fund and the Federal treasury.
- o May not be well received by certain Congressional leaders (Bob Kerrey, John Glenn, etc.).

Final Recommendation of Policy Review:

The Director of FEMA will meet with the State Emergency Services Directors, NGA and others in October to discuss recommendations for cost share policies to be codified in legislation in the coming year.

HUGO/ANDREW COST SHARE VERSUS RECOMMENDED FLOOD COST SHARE

In Thousands	$ in Thousands								$ in Thousands	
Disaster Declaration & Population	Proj. Fed & Non–Fed. Disaster Cost	Impact Per Capita	100% PA Estimated Prog. Cost	====75/25 Cost Share==== Non–Federal Share	Federal Share	===Andrew Cost Share=== Non–Federal Share	Federal Share	Recommended Flood Cost Share	==Prop. Flood Cost Share== Non–Federal Share	Federal Share
Iowa* – Population 2,777	137,137	49	44,591	11,148	33,443	6,943	37,648	IFG–75/25 PA–90/10 after**	4,459	40,132
Missouri* – Population 5,117	280,151	55	125,000	31,250	93,750	12,793	112,208	IFG–75/25 PA–90/10 after**	12,500	112,500
Nebraska* – Population 1,578	46,203	29	125,000	31,250	93,750	3,945	121,055	IFG–75/25 PA–90/10 after**	12,500	112,500
Kansas* – Population 2,478	131,474	53	125,000	31,250	93,750	6,195	118,805	IFG–75/25 PA–90/10 after**	12,500	112,500
Minnesota* – Population 4,375	52,094	12	125,000	31,250	93,750	10,938	114,063	IFG–75/25 PA–90/10 after**	12,500	112,500
Wisconsin* – Population 4,892	34,232	7	125,000	31,250	93,750	12,230	112,770	IFG–75/25 PA–90/10 after**	12,500	112,500
Illinois* – Population 11,431	233,365	20	125,000	31,250	93,750	28,578	96,423	IFG–75/25 PA–90/10 after**	12,500	112,500

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In Thousands	$ in Thousands							$ in Thousands		
				====75/25 Cost Share====		===Andrew Cost Share===			==Prop. Flood Cost Share==	
Disaster Declaration & Population	Proj. Fed & Non-Fed. Disaster Cost	Impact Per Capita	100% PA Estimated Prog. Cost	Non-Federal Share	Federal Share	Non-Federal Share	Federal Share	Recommended Flood Cost Share	Non-Federal Share	Federal Share
South Dakota* – Population 696	29,129	42	125,000	31,250	93,750	1,740	123,260	IFG-75/25 PA-90/10 after**	12,500	112,500
North Dakota* – Population 639	31,554	49	125,000	31,250	93,750	1,598	123,403	IFG-75/25 PA-90/10 after**	12,500	112,500
POSSIBLE FEDERAL COMMITMENT					783,443		959,633			940,132

* None of the States listed currently qualifies for a cost adjustment at the $64 per capita qualifying threshold. This threshold is calculated using ALL Stafford Act costs, both Federal and non-Federal.

** 90/10 cost share will remain the same regardless of the qualifying threshold.

NOTE: At a $10 per capita qualifying threshold, only Wisconsin does not currently qualify.

Cost-Share in the Midwest

Talking Points

INTRODUCTION

I. *The experience with the Midwest Flood disasters makes clear the need to review the Federal policies concerning when to adjust some or all of the various requirements for State matching funds.*

A. *The Midwest Floods have demonstrated as never before how individual or related disasters can not only have a devastating local or state-wide impact, but also have a significant impact upon the economy of our entire nation.*

B. *Severe flooding caused the declaration of over 500 Counties as Presidential disaster areas in nine affected States. These States were determined eligible for Individual Assistance, Public Assistance, or both.*

C. *The duration of the flooding has caused unprecedented, protracted disruption of commerce and agriculture, which has resulted in significant economic losses to States and communities in addition to the loss of the region's tax base and revenues.*

D. *Over 100,000 people have registered for Federal disaster assistance. Approximately 45,000 have been determined eligible for temporary housing assistance, indicating the extent to which many individuals and families have been displaced from their homes, places of work, and communities.*

II. *As a result, it has become apparent to me that it is in the best interests of the Nation's economy to expedite a return to economic vitality in these States and communities.*

THE NEW POLICY

I. *For most Presidentially declared disasters, the traditional 75 percent Federal / 25 percent non-Federal cost-share ratio will remain in effect.*

II. *In the case of an extraordinary disaster, however, my Administration will use two alternative standards in evaluating whether FEMA Public Assistance cost-share adjustments should be approved for States declared major disaster areas:*

   A. *The $64 per capita qualifying threshold which FEMA has historically used will be maintained where individual States are severely impacted, but where the national economy would not seem to be significantly affected.*

   B. *A second standard will be used to address those disasters with wider economic impact. In multiple-State disasters where there are significant costs to the national economy (even if the $64 per capita threshold is not met), an alternative threshold is being established at .1 percent of the country's gross domestic product (GDP). Cost-share adjustments may be granted once the combined Federal and non-Federal costs across the multi-State disaster area surpasses this level of economic impact.*

   C. *In consideration of this new policy, and the broad economic impact on the national level as a result of the* *floods in the Midwest, I have approved the reimbursement of eligible Public Assistance disaster costs for the nine Midwest States affected by recent flooding at a 90 percent Federal / 10 percent non-Federal cost-share basis starting with the initiation of the incident period for each State.*

D. *This policy is consistent with all previous cost-share adjustments and the enabling legislation, ensuring that some degree of cost-share be maintained.*

RATIONALE

I. *I have determined that because of the unusual scope, duration, and breadth of the Midwest flooding, a review of the cost-share ratio for the affected States in the region was both necessary and appropriate.*

II. *This review resulted in a recommendation for a straight cost-share policy of 90 percent Federal / 10 percent non-Federal for all eligible Public Assistance costs.*

III. *While no individual State meets the $64 per capita threshold that has traditionally been used as a basis for cost-share adjustments, the combined Federal and non-Federal economic impact of the Great Midwest Floods of 1993 in all the affected States is estimated to be $7.6 billion, or .12 percent of the country's GDP.*

IV. *This puts the total impact upon our national economy above the threshold impact of .1 percent GDP.*

CONCLUSION

I. *Through the establishment of this two standard system for evaluating cost-share adjustment requests from States, I believe that we have now identified a way in which to improve government cost-share policy and cut red-tape in order to respond to the rare and severe circumstances that were caused by the Midwest flooding.*

II. *Under my plan, when States are individually affected by a disaster, yet little significant effect is felt throughout the National economy, the traditional $64 per capita qualifying threshold will be maintained for determining whether an adjustment to the standard 75 percent Federal / 25 percent non-Federal cost-share ratio is necessary.*

III. *However, when a situation appears where multiple States or a region is affected by the same or related disasters, and the total impact is equal to or greater than .1 percent of the Gross Domestic Product, a State or group of States may also be granted a cost-share adjustment in order to alleviate the significant consequence the event(s) had upon the national economy.*

IV. *Using this measure, it becomes clear that disasters such as those occurring in the Midwest are clearly of a magnitude to warrant an upward adjustment of FEMA-eligible damage reimbursement as a national priority.*

Determining Eligibility of FEMA Cost Share Adjustments
Preliminary Estimate of Economic Loss as Share of GDP 1/
($ in millions)

		Mt. St. Helens	Loma Prieta Earthquake	Hurricane Hugo 2/	Hurricane Andrew/Iniki/ Typhoon Omar 2/	Midwest Floods
Estimated Losses		1,017.2	2,683.6	2,838.5	9,953.0	7,573.4
1993 GDP	6,260,000					
Loss as Share of GDP		0.00016	0.00043	0.00045	0.00159	0.00121
In Percentage Terms		0.02%	0.04%	0.05%	0.16%	0.12%

1/ Loss estimates based on preliminary assessments and may not capture all private and public losses.

2 These disasters met the individual State threshold of $64 per capita in FEMA damages.

DRAFT

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Federal Emergency Management Agency

NEWS

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FEMA DIRECTOR REVISES COST-SHARE POLICY FOR COMMUNITY DISASTER AID PROGRAMS

WASHINGTON -- James Lee Witt, director of the Federal Emergency Management Agency (FEMA), today revised the policy for adjusting cost-shared public assistance expenses for Presidentially-declared disasters that could reduce the amount which the most severely impacted flood states in the Midwest would pay for fixing crippled community facilities.

By law, the federal government normally pays no less than 75 percent of the eligible costs for public works projects, with the state and affected local governments paying the remaining 25 percent. Under the policy revision, Witt said FEMA will assume 90 percent and the state 10 percent of the costs for all approved public repair projects once a qualifying threshold of $64 per capita is reached.

The threshold, used historically to determine cost-share adjustments, is derived from a formula that considers a state's population with all eligible costs under FEMA programs. For a qualifying state, the 10 percent cost-share is adjusted retroactively to the date that the disaster started.

"The most severely affected flood states could qualify for this adjustment to help alleviate additional hardships and suffering of people and communities that have been so greatly impacted, "Witt said.

He added that the simplified policy provides a "more direct and equitable way for governments at all levels to share in the new partnership of recovery responsibilities whenever extraordinary disaster conditions exist."

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NOTE TO EDITORS: Attached are comparative tables showing projected recovery and per capita impact costs for the Midwest flood states as of September 1, 1993, and those for Hurricane Hugo in South Carolina and Hurricane Andrew in Florida.

Table I.: Projected Cost Versus Qualifying Threshold

Disaster Number	State Population (1990 U.S. Census)	Qualifying Threshold (Population x $64)	Current Projected Cost	Impact Per Capita
FEMA-993-DR Minnesota	4,375,099	$280,006,336	$41,322,000	9.44
FEMA-994-DR Wisconsin	4,891,769	313,073,216	28,374,000	5.80
FEMA-995-DR Missouri	5,117,073	327,492,672	292,586,000	57.18
FEMA-996-DR Iowa	2,776,755	177,712,320	117,228,000	42.22
FEMA-997-DR Illinois	11,630,602	744,358,528	210,116,000	18.07
FEMA-998-DR Nebraska	1,578,385	101,016,640	45,842,000	29.04
FEMA-999-DR South Dakota	696,004	44,544,256	25,004,000	35.93
FEMA-1000-DR Kansas	2,477,574	158,564,736	95,738,000	38.64
FEMA-1001-DR North Dakota	638,800	40,883,200	26,965,000	42.21

Table II.: Impact of Hurricanes Hugo and Andrew

Disaster Number	Population (1990 U.S. Census)	Estimated Total Cost	Impact Per Capita
FEMA-843-DR South Carolina	3,100,000	$413,000,000	$133
FEMA-955-DR Florida	12,957,926	$2,060,000,000	$157

September 27, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: CHRISTINE A. VARNEY
CABINET SECRETARY

STEPHEN B. SILVERMAN
DEPUTY CABINET SECRETARY

SUBJECT: 90%-10% COST SHARE ADJUSTMENTS FOR FLOODED MIDWEST STATES

The attached letters to James Lee Witt, the Director of FEMA, amend previous disaster declarations for Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, and Wisconsin to authorize Public Assistance at ninety percent of total eligible costs, except for direct Federal assistance costs for emergency work authorized at 100 percent Federal funding, due to the severity and magnitude of damage sustained from flooding.

<u>Recommendation</u>:

That you sign the attached letters.

Attachments

Bcc: Kathy Way