



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

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COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

*Revision Needed in Proposed Regulation*

MAY 2 1979

Lieutenant General John Morris  
Chief of Engineers  
U.S. Army Corps of Engineers

*For Evaluating  
Nonstructural Evacuation and  
Relocation Benefits*

*AGC0030B*

Dear General Morris:

We performed a survey of the use of nonstructural measures for solving or minimizing flooding problems. Such measures were encouraged by Section 73 of the Water Resources Development Act of 1974 (Public Law 93-251). However, we did not find many cases where the Corps of Engineers had recommended nonstructural flood protection measures with Federal financial participation. Until recently, there has apparently been a lack of policy and guidance concerning nonstructural flood protection measures.

During the course of our survey, however, the President took several actions designed to promote and enhance the use of nonstructural measures and encourage the wise use of the floodplain. These actions included:

- the issuance of Executive Order 11988 on floodplain management and the President's July 1978 memorandum directing all department and agency heads to fully and expeditiously implement their responsibilities under the Order.
- the President's June 6, 1978, Water Policy Report Initiative directing that several actions be taken to increase the use of nonstructural flood protection measures. Included are (1) a requirement to develop nonstructural alternatives when considering structural alternatives, and (2) a proposal for new cost sharing rules providing equal Federal cost sharing for both structural and nonstructural flood protection measures.

Because of the action being taken by the administration we have decided to terminate our survey work. There is, however, one matter we want to bring to your attention. We believe the guidelines relating to the evaluation of benefits for floodplain evacuation and relocation projects need to be revised.

*SBA - AGC00002*

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Job assignment code  
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*Group III Report*

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PROPOSED REGULATION FOR EVACUATION  
AND RELOCATION NEEDS TO BE REVISED

To comply with Congressional and Presidential intent that full consideration be given to nonstructural alternatives, the Corps of Engineers developed proposed Engineering Regulation 1105-2-353. This regulation provides instructions for evaluation of the National Economic Development (NED) benefits and costs of nonstructural measures involving evacuation and relocation.

One aspect of NED benefits for floodplain evacuation and relocation projects is the reduction in floodplain costs that are not borne by the floodplain occupants. These costs, referred to as external costs, include subsidized flood insurance, flood emergency costs, and repair and replacement of public facilities--costs typically borne by the Federal, State, and local governments. The amount by which these costs would be reduced by a nonstructural project is an NED benefit.

We believe that there are several other significant NED type benefits which, though not included in the proposed regulation, should be addressed in the final published version. Examples of such benefits are reductions in the (1) loss of tax revenue resulting from flood victims claiming losses on their income tax returns, and (2) cost to the Federal Government of providing low-interest disaster loans from the Small Business Administration (SBA) for the repair or replacement of damaged homes and businesses.

We asked Dr. Edward Dickey, Economic Advisor to the Assistant Secretary of the Army for Civil Works, and Mr. Edward Cohn of your staff about including these additional items as NED benefits in the regulation. They agreed that the regulation should be revised to include as a project benefit the reduction of lost income tax revenue due to decreased deductions for flood casualty losses. However, they questioned the quantitative significance of low-interest SBA disaster loans as an external cost when compared with other Federal disaster relief programs such as the National Flood Insurance Program.

We believe that the SBA disaster loan program is a significant external cost associated with floodplain occupancy. For example, there is currently a bill before the House of Representatives (H.R. 90) that provides for 3 percent SBA disaster loans for the first \$55,000 in damages suffered by homeowners and 5 percent SBA disaster loans for the first \$250,000 in damages suffered by businesses. The SBA estimates that over the average life of the loans the following Federal subsidy would be provided to disaster victims if H.R. 90 were passed, assuming an annual loan program level of \$1 billion.

Home loans	\$ 70 million
Business loans	<u>100 million</u>
	<u>\$170 million</u>

These estimates were based on the following assumptions:

	<u>Home loan</u>	<u>Business loan</u>
FY 1979 estimated program level	\$300 million	\$700 million
Average size	\$3,500	\$51,000
Average maturity	9 years	10 years
Interest cost to U.S.		
Treasury	7-3/8%	7-3/8%
Proposed loan rate	3%	5%

SBA officials estimate that generally the majority of their disaster loans are flood-related.

During fiscal 1978 the SBA loan program level for disasters other than drought was about \$1 billion. During this period, interest rates on SBA disaster business loans were 3 percent per annum on the first \$250,000 and 6-5/8 percent on loans over that amount. Interest rates on disaster home loans were 1 percent per annum on the first \$10,000; 3 percent on the next \$30,000; and 6-5/8 percent on all funds in excess of \$40,000 up to a maximum of \$55,000. These rates were much lower than the 6-5/8 percent average interest rate charged to the Federal Government for obtaining loans during that period of time.

This legislation expired October 1, 1978, and interest rates for all loans under the program rose to 7-3/8 percent which is equal to the average interest cost to the Federal Government for this period of time. As illustrated above, passage of H.R. 90 would lower the interest rates and provide a significant Federal subsidy to program participants.

#### CONCLUSIONS, RECOMMENDATIONS, AND AGENCY ACTION

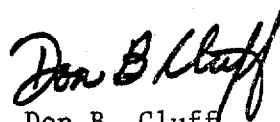
We discussed the revision of the proposed regulation on evacuation and relocation with Messrs. Dickey and Cohn. They said that they would revise the draft regulation to include as a project benefit the reduction of lost income tax revenue due to decreased deductions for flood casualty losses but questioned the significance of including as an external cost low-interest SBA disaster loans.

We believe that the potential SBA subsidy of \$170 million is quite significant and that the proposed regulation should be revised to include both lost income tax revenue resulting from deductions for flood casualty losses and the Federal subsidy for low-interest SBA loans.

Also, the regulation should be as explicit as possible to clearly identify, for the field offices, those external costs associated with floodplain occupancy that should be considered in estimating project benefits.

We would be happy to discuss the contents of this letter in further detail should you so desire. We would appreciate being advised on what final actions are taken on our recommendations. A similar letter has been sent to the Deputy Director of the Water Resources Council.

Sincerely yours,



Don B. Cluff  
Assistant Director