

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**THE STATE'S DISASTER RELIEF FUND
HAS INSUFFICIENT REVENUES TO COVER
ALL STATE COSTS FROM THE LOMA PRIETA EARTHQUAKE**

**The State's Disaster Relief Fund
Has Insufficient Revenues To Cover
All State Costs From the Loma Prieta Earthquake**

P-123, May 1992

**Office of the Auditor General
California**



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May 6, 1992

P-123

Honorable Robert J. Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the use of Disaster Relief Fund money for responding to and recovering from the Loma Prieta earthquake. The report indicates that 19 agencies and 2 programs received money from this fund, that the fund will be depleted in fiscal year 1992-93, and that the total estimated state costs of the earthquake exceed the fund's resources by approximately \$677 million.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kurt R. Sjoberg".

KURT R. SJOBERG
Auditor General (acting)

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Summary

Results in Brief Following the Loma Prieta earthquake in October 1989, the Disaster Relief Fund was established in law as a source of revenue for earthquake response and recovery programs. The sources of money for this fund were increases in the State's sales tax and use tax of one-quarter of one cent for a 13-month period. During our review of appropriations, allocations, and expenditures of Disaster Relief Fund money, we found the following conditions:

- The Disaster Relief Fund received approximately \$776 million in tax revenues;
- The total estimated state costs of recovering from the earthquake are at least \$1.414 billion;
- With \$39 million in Disaster Relief Fund money taken into account that was not available for earthquake recovery programs on December 31, 1991, the state costs resulting from the earthquake will exceed the resources of the fund by approximately \$677 million;
- Of the \$677 million shortfall, approximately \$648 million is for costs that the Department of Transportation expects to incur repairing and reconstructing the State's highways. Because the Disaster Relief Fund will have insufficient resources to pay the \$648 million, the remainder will have to come from another source. According to the Department of Transportation, the \$648 million will come from the State Highway Account;

- As reported during fiscal year 1991-92, approximately \$403.6 million in state money had been spent for recovery from the earthquake. Approximately \$297.9 million was spent by 18 state agencies, approximately \$101.2 million was spent for tax relief programs, and approximately \$4.5 million was spent by one local government agency;
- Based on expenditures reported in fiscal year 1991-92, the state agencies with the largest earthquake recovery expenditures were the Office of Emergency Services with approximately \$101.6 million, the Board of Control with approximately \$67.5 million, and the Department of Housing and Community Development with approximately \$50.7 million;
- The total estimated recovery costs for the Department of Transportation, including costs not yet incurred, are \$779 million, which are the largest of any state agency;
- As of December 31, 1991, appropriations and allocations from the Disaster Relief Fund and the Special Fund for Economic Uncertainties for recovery from the earthquake totaled approximately \$622 million;
- With scheduled uses of Disaster Relief Fund money included, this fund will be depleted during fiscal year 1992-93;
- Scheduled transfers from the Disaster Relief Fund in fiscal year 1992-93 exceed its available money by approximately \$33 million; and
- Interest income generated for the State's General Fund by surplus money in the Disaster Relief Fund was approximately \$27 million through June 30, 1991.

Background On October 17, 1989, a 7.1 magnitude earthquake struck Northern California, resulting in 63 deaths, several thousand injuries, thousands of homes and businesses damaged or destroyed, and billions of dollars in property damage. Subsequently, legislation was enacted to address earthquake-related losses incurred by state agencies, local agencies, and private individuals. Included in this legislation were statutes that appropriated money for the following purposes: to compensate individuals for deaths, personal injuries, and personal property losses resulting from the collapses of the San Francisco-Oakland Bay Bridge and the I-880 Cypress structure; to make loans for rehabilitating housing damaged by the earthquake; to reimburse counties for property tax revenues lost as a result of the earthquake; and to retrofit publicly owned bridges that have seismic structural deficiencies. In addition, this legislation created the Disaster Relief Fund as a source of revenue for earthquake response and recovery programs.

The Office of Emergency Services' Assistance to Local Governments The State's Office of Emergency Services (OES) administers California's disaster assistance program and coordinates the federal program that provides financial assistance to local agencies affected by natural disasters. These programs provide financial assistance to local agencies following a disaster such as the Loma Prieta earthquake. Since that earthquake, the OES has received applications from 620 local agencies for \$108.7 million in state money for earthquake recovery costs. Of this amount, the OES had paid 232 local agencies \$78.3 million as of November 8, 1991. In addition, 8 local governments had received \$19.25 million through executive orders, bringing the total amount paid to local agencies to \$97.6 million. The OES had also incurred an estimated \$4 million in administrative costs for the program as of June 30, 1991, according to its chief of Administration, resulting in total program costs of at least \$101.6 million. Officials of the OES estimate that the total state costs of the disaster assistance program will be approximately \$206.7 million, including disaster assistance payments to local agencies of approximately \$200.7 million for recovery from the earthquake.

The Department of Transportation's Repair and Retrofitting Activities

As of September 30, 1991, the Department of Transportation (Caltrans) had spent approximately \$26.2 million to repair and restore highways damaged by the earthquake. The total repair costs are not yet known because some of the repair projects are still being defined or designed, or both. However, Caltrans estimates that the total state costs will be approximately \$698 million. In addition to this repair work, Caltrans is also developing new seismic standards for the State's highways and bridges, and it is retrofitting bridges that have seismic structural deficiencies. As of October 31, 1991, Caltrans had spent at least \$10.48 million for developing new seismic standards and for retrofitting deficient bridges. Caltrans estimates that the total state cost of developing the new standards and retrofitting deficient bridges will be more than \$137 million; \$81 million of this will be paid for with Disaster Relief Fund money.

The Department of Housing and Community Development's Disaster Assistance Program

The Department of Housing and Community Development (HCD) provides low interest loans, through its natural disaster assistance program (CALDAP), to homeowners and owners of rental property whose property was damaged during the Loma Prieta earthquake or subsequent disasters. These loans may be used only to rehabilitate or reconstruct eligible housing. According to the HCD, as of March 31, 1991, the HCD and its local agency contractors had received applications for 2,544 CALDAP loans. Of the 2,544 applications, the HCD had approved 731 loans worth \$65.6 million, and 367 applications had been denied or withdrawn at either the HCD or the local agency contractors. Of the remaining 1,446 applications, 273 were awaiting further action at the HCD, and 1,173 were awaiting further action at local agency contractors. The HCD estimates that total program costs will reach \$175 million.

The Board of Control's Earthquake Disaster Relief Program

The Board of Control (BOC) developed the Earthquake Disaster Relief Program (program) to implement Chapters 21X and 22X, Statutes of 1989. Under this legislation, the BOC was authorized to settle claims against the State for deaths, personal injuries, or personal property losses that resulted from the earthquake-induced collapses of the San Francisco-Oakland Bay Bridge and the I-880 Cypress structure. The BOC received a total of 412 claims and approved settlements for 297 claims. The remaining 115 claims were rejected for compensation, are being handled as tort claims, or were withdrawn at the applicant's request. As of November 21, 1991, the BOC had resolved 278 of the 297 approved claims and had paid claimants \$66.7 million. As of that date, it estimated that additional payments to the remaining 19 applicants would be no more than \$3.4 million. Therefore, including administrative costs of approximately \$870,000, the total costs of the program should be no more than approximately \$71 million.

The Department of Social Services' Individual and Family Grant Program

Through the Individual and Family Grant Program (grant program), the Department of Social Services (DSS) provides grants to disaster victims to meet disaster-related serious needs and necessary expenses. Under this program, which the state and federal governments jointly fund, eligible victims of the Loma Prieta earthquake could receive up to \$10,400. In addition, the DSS could provide supplemental grants of up to \$10,000 to eligible victims. According to the DSS, it has completed the grant program for the victims of the Loma Prieta earthquake. As of May 24, 1991, it had received a total of 38,813 applications for grants from earthquake victims and had approved 28,382 (73.1 percent) of these applications. In addition, the DSS awarded supplemental grants to 667 of these victims. It denied 7,780 (20 percent) applications, and 2,651 (6.8 percent) victims withdrew their applications. According to the DSS, the total estimated state costs of the grant program will be approximately \$23.8 million.

**Other Agencies
Received
Earthquake
Recovery
Money**

Thirteen state agencies other than those discussed up to this point have received state money for activities resulting from the Loma Prieta earthquake. In a survey that we conducted, these 13 agencies reported that, as of December 31, 1991, they had received a combined total of approximately \$23.5 million from the Disaster Relief Fund, the Special Fund for Economic Uncertainties, and the General Fund for these activities. In addition, 6 of these agencies indicated that they planned to request a combined total of approximately \$2.8 million more in state money to recover from the earthquake. One agency, the Department of Commerce, returned \$3.8 million in unneeded money to the Disaster Relief Fund. The 13 agencies reported that they had spent an estimated \$17.8 million in state money on earthquake recovery activities and expect to spend approximately \$4.7 million more.

**Disaster Relief
Fund Money
Used To
Replace Lost
Tax Revenues**

Chapters 15X and 16X, Statutes of 1989, enabled taxpayers who had suffered financial losses from the Loma Prieta earthquake to use these losses to reduce their taxes for up to 16 years. In addition, these chapters allowed counties affected by the earthquake to request reimbursement from the State for lost property tax revenues. The combined fiscal effect of these tax-related provisions is an estimated \$121.3 million; \$117.1 million of this is for the provisions concerning individuals' tax losses, and \$4.2 million is for the provisions concerning counties' lost property tax revenues. As of June 30, 1991, the director of the Department of Finance, under authority granted to him in the 1990 Budget Act, had directed that transfers of \$97 million be made from the Disaster Relief Fund to the State's General Fund to compensate the latter fund for lost tax revenues. In addition, according to the Department of Finance's records, counties have been paid a net amount of approximately \$4.2 million.

**Disaster Relief
Fund Money
Earned
Approximately
\$27 Million**

Surplus money in the Disaster Relief Fund earned approximately \$27 million in investment income from November 1989 through June 1991. This investment income accrued to the General Fund instead of to the Disaster Relief Fund because the legislation that established the Disaster Relief Fund did not specify that the fund's money should be invested and because the Department of Finance, which administers this fund, has a policy of investing a fund's money only if the fund's enabling legislation requires it.

Recommendation

To ensure that money in the Disaster Relief Fund is properly budgeted, the Department of Finance should revise the Disaster Relief Fund's budget for fiscal year 1992-93 so that the total combined amount of money transferred or scheduled to be transferred from the fund does not exceed the fund's available money.

**Agency
Comments**

The Department of Finance agrees with our conclusion that the Disaster Relief Fund has insufficient revenues to pay all state costs resulting from the Loma Prieta earthquake. The Business, Transportation and Housing Agency agrees with the information in our report concerning the Department of Housing and Community Development and the Department of Transportation. Similarly, the Department of Social Services, the Office of Emergency Services, and the Board of Control agree with the information we present in our report concerning these three agencies.

Introduction

On October 17, 1989, a 7.1 magnitude earthquake, known as the Loma Prieta earthquake, struck Northern California and resulted in 63 deaths, several thousand injuries, thousands of homes and businesses damaged or destroyed, and billions of dollars in property damage. Following the earthquake, legislation was enacted to address earthquake-related losses incurred by state agencies, local agencies, and private individuals. Included in this legislation were statutes that appropriated money for the following purposes: to compensate individuals for deaths, personal injuries, and personal property losses resulting from the collapses of the San Francisco-Oakland Bay Bridge and the I-880 Cypress structure; to make loans for rehabilitating housing damaged by the earthquake; to reimburse counties for property tax revenues lost as a result of the earthquake; and to retrofit publicly owned bridges that have seismic structural deficiencies.

Legislation enacted after the earthquake, Chapters 13X and 14X, Statutes of 1989, created the Disaster Relief Fund. This fund was designed to provide state revenues for responding to and recovering from earthquakes, aftershocks, and any other related casualties. The sources of money for this fund were increases in the State's sales tax and use tax of one-quarter of one cent for a 13-month period.

Chapters 13X and 14X also provided the director of the Department of Finance with the authority to transfer money from the Disaster Relief Fund to the Special Fund for Economic Uncertainties. This provision of Chapters 13X and 14X authorized reimbursement of the Special Fund for Economic Uncertainties for

money that was allocated from it for earthquake relief activities. The Special Fund for Economic Uncertainties has been reimbursed from the Disaster Relief Fund for all of the money allocated from it in fiscal years 1989-90 and 1990-91. In addition, the director has indicated that all subsequent allocations will be reimbursed subject to the availability of money in the Disaster Relief Fund. Consequently, when we refer in this report to allocations from the Special Fund for Economic Uncertainties, readers should remember that these allocations have been reimbursed or are scheduled to be reimbursed with revenues from the Disaster Relief Fund.

The federal government has also provided resources to assist the State recovery from the Loma Prieta earthquake. For example, the Federal Emergency Management Agency and the Federal Highway Administration administer programs that have provided financial assistance to areas affected by this disaster.

Scope and Methodology

The purpose of this audit was to determine if the Disaster Relief Fund has enough money to pay the state costs associated with the Loma Prieta earthquake. To accomplish this purpose, we first determined the revenues to and the appropriations and allocations from the Disaster Relief Fund. We also determined the appropriations and allocations from the Special Fund for Economic Uncertainties to agencies and programs for earthquake-related activities. We further determined earthquake recovery expenditures by agencies and programs and estimates of expenditures for future years.

To determine the Disaster Relief Fund's revenues, we reviewed Chapters 13X and 14X, Statutes of 1989, which increased the State's sales tax and use tax by one-quarter of one cent for a 13-month period. We also reviewed records of the Board of Equalization, which was responsible for collecting these taxes and distributing the appropriate share of the tax revenues to the Disaster Relief Fund.

To determine how much money was appropriated or allocated to state agencies from the Disaster Relief Fund and the Special Fund for Economic Uncertainties, we reviewed executive orders issued by the Department of Finance and various California statutes. We also obtained information concerning appropriations and allocations from the 19 agencies that received money from these two funds.

In determining actual and expected earthquake recovery expenditures by agencies and programs, we concentrated on the 5 state agencies that received 95 percent of all money appropriated or allocated to state agencies from the Disaster Relief Fund or the Special Fund for Economic Uncertainties as of June 30, 1991. We surveyed the other 14 agencies that received money from either of these funds to identify the amounts of earthquake recovery expenditures they have incurred or expect to incur.

The 5 agencies that received the most money from the Disaster Relief Fund and the Special Fund for Economic Uncertainties were the Office of Emergency Services, the Department of Transportation, the Department of Housing and Community Development, the Board of Control, and the Department of Social Services. At each of these agencies, we reviewed accounting records and program records to determine expenditure amounts and to gain minimum assurance of the adequacy of the agencies' systems of internal control for their earthquake recovery programs. With the exception of one minor internal control weakness at the Office of Emergency Services, the 5 agencies' internal controls were adequate.¹

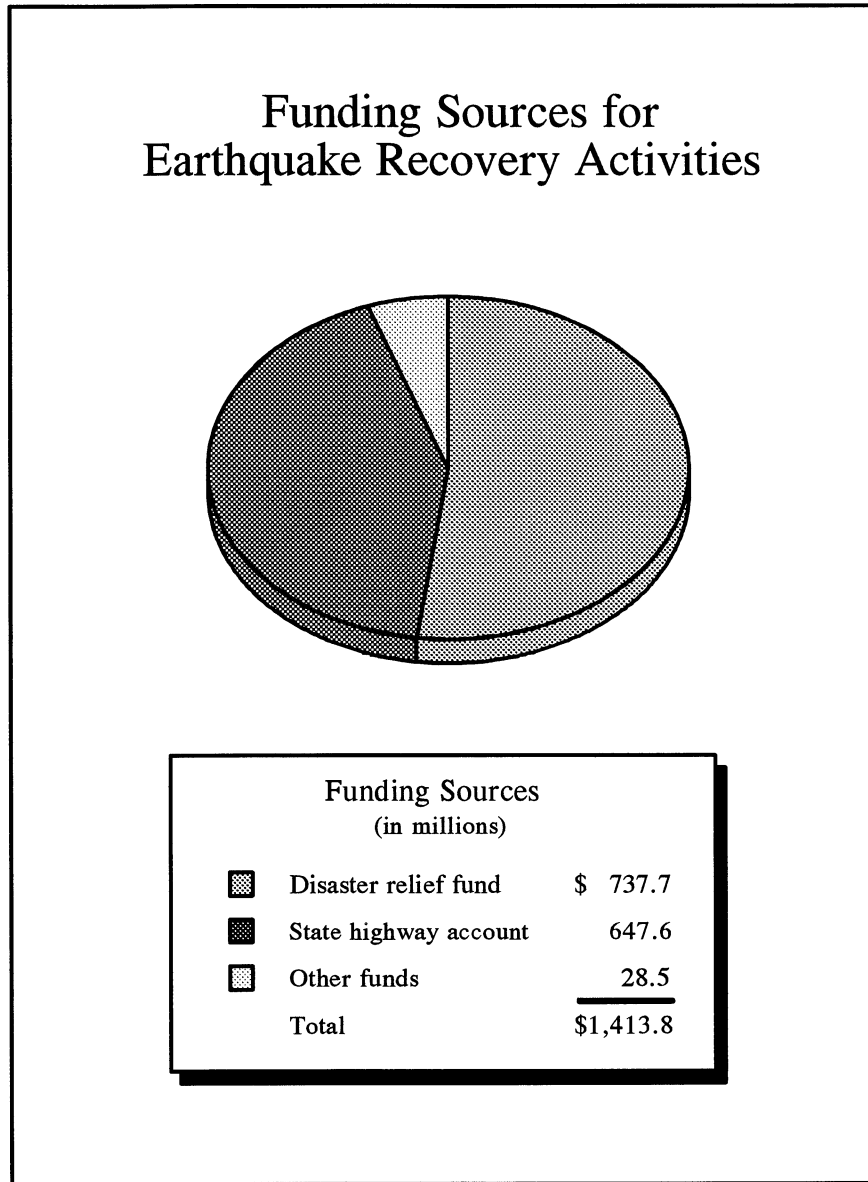
Another purpose of this audit was to determine the amount of interest that money in the Disaster Relief Fund has generated. To determine the amount generated through June 30, 1991, we multiplied the average monthly cash balances in the fund by the Pooled Money Investment Account's monthly earning rates. We discuss interest earned on Disaster Relief Fund money in the appendix of this report.

¹We sent the Office of Emergency Services a management letter on May 1, 1992, that detailed this control weakness.

**Chapter The Disaster Relief Fund Has Insufficient
Revenues To Cover All State Costs
From the Loma Prieta Earthquake**

**Chapter
Summary** An increase in the state sales tax and use tax of one-quarter cent for a 13-month period generated approximately \$776 million in revenues for the Disaster Relief Fund. This fund was to be used as a source of revenue for recovery from earthquakes. However, the total estimated state costs for recovery from the Loma Prieta earthquake of October 1989 are approximately \$1.4 billion. Excluding approximately \$39 million in Disaster Relief Fund revenues that either are no longer available for disaster relief programs or are not currently available for these programs, the state costs for recovery from the Loma Prieta earthquake will exceed the resources of the Disaster Relief Fund by approximately \$677 million. Of this \$677 million shortfall, approximately \$648 million is for costs that the Department of Transportation expects to incur repairing and reconstructing the State's highways that were damaged by the earthquake. Because the Disaster Relief Fund will not have sufficient resources to pay the \$648 million, the additional money will have to come from another source. According to the Department of Transportation, the \$648 million will come from the State Highway Account. Figure 1 shows the sources of state funding for recovery from the Loma Prieta earthquake.

Figure 1



As of December 31, 1991, approximately \$622 million had been appropriated or allocated from the Disaster Relief Fund or the Special Fund for Economic Uncertainties to agencies and programs for response to the effects of the Loma Prieta earthquake. Of this \$622 million, \$3.8 million was subsequently transferred back to the Disaster Relief Fund. Therefore, when we account for

scheduled reimbursements from the Disaster Relief Fund to the Special Fund for Economic Uncertainties for allocations from it, approximately \$158 million in Disaster Relief Fund money was available for subsequent appropriations or allocations to agencies and programs for recovery efforts.

In the Governor's Budget for fiscal year 1992-93, \$17.9 million is budgeted for transfer in fiscal years 1991-92 and 1992-93 from the Disaster Relief Fund to the State's General Fund for a tax relief program. These transfers would reduce available Disaster Relief Fund money to approximately \$140 million. The Governor's Budget also proposes providing approximately \$174 million from the General Fund during these two fiscal years to two agencies for their disaster relief programs. According to the Department of Finance, the Special Fund for Economic Uncertainties is scheduled to be reimbursed from the Disaster Relief Fund for the \$174 million. However, our analysis shows that approximately \$33 million of the \$174 million will not be reimbursable from the Disaster Relief Fund because that fund will be depleted. Finally, we identified six state agencies that plan to request a combined total of \$2.8 million more in state money for disaster recovery activities.

**Earthquake
Recovery Money
Received by
Many Agencies**

As of December 31, 1991, approximately \$622 million was appropriated or allocated from the Disaster Relief Fund or the Special Fund for Economic Uncertainties to agencies and programs for earthquake recovery activities. Table 1 shows the amounts appropriated or allocated for 18 state agencies, one local government agency, and two tax relief programs.

Table 1 Appropriations and Allocations From the Disaster Relief Fund and the Special Fund for Economic Uncertainties for Response to and Recovery From the Loma Prieta Earthquake as of December 31, 1991

Agency or Programs	Appropriations	Allocations	Total Money
Department of Housing and Community Development	\$139,300,000	\$ 0	\$139,300,000
Department of Transportation	81,000,000	50,395,560	131,395,560
Board of Control	110,000,000	0	110,000,000
Tax Relief Programs	0	101,178,646	101,178,646
Office of Emergency Services	31,374,000	59,277,000	90,651,000
Department of Social Services	19,400,000	3,931,000	23,331,000
Department of Commerce	4,553,000	5,000,000	9,553,000
Department of Industrial Relations	1,486,992	1,800,000	3,286,992
Metropolitan Transportation Commission	3,115,000	0	3,115,000
Board of Equalization	1,496,000	1,581,000	3,077,000
Department of Forestry and Fire Protection	0	1,704,000	1,704,000
California State University	0	1,442,817	1,442,817
Department of the Military	0	952,000	952,000
State Water Resources Control Board	0	831,389	831,389
University of California	0	684,935	684,935
Department of General Services	0	620,000	620,000
Office of Planning and Research	0	300,000	300,000
Seismic Safety Commission	0	250,000	250,000
Hastings College of the Law	0	115,189	115,189
California State Fire Marshal	0	77,761	77,761
Total	\$391,724,992	\$230,141,297	\$621,866,289

Sources: Unaudited agency records.

Note: Some of the money included in the amounts listed under appropriations was appropriated from the General Fund rather than from the Disaster Relief Fund or the Special Fund for Economic Uncertainties. However, for all appropriations from the General Fund that are included in this table, the Special Fund for Economic Uncertainties has been or, according to the Department of Finance, is scheduled to be reimbursed from the Disaster Relief Fund. Consequently, in this table, appropriations from the General Fund are considered to be appropriations from the Special Fund for Economic Uncertainties.

Of the \$622 million, approximately \$392 million was appropriated to 8 state agencies and one local government agency, approximately \$122 million more was allocated by executive order to 6 of these 9 agencies, and approximately \$7 million was allocated to 10 other state agencies. The approximate \$101 million remaining was allocated for two disaster-related tax relief programs.

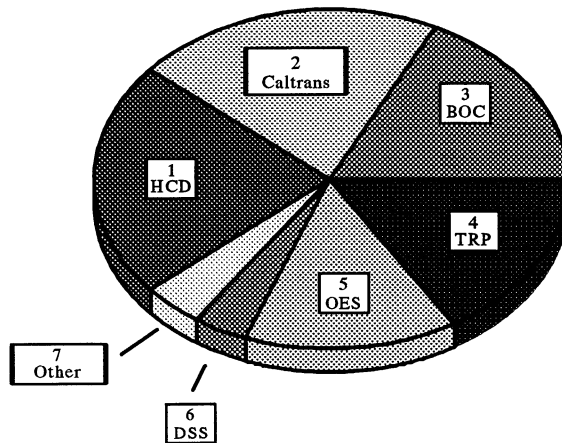
As shown in Table 2 and as reported during fiscal year 1991-92, agencies and programs had expended approximately \$403.6 million on earthquake recovery programs, and their total estimated costs for these programs will be approximately \$1.4 billion. The state agency with the largest expenditures was the Office of Emergency Services; it expended approximately \$101.6 million. The state agency with the largest estimated expenditures overall is the Department of Transportation; it estimates it will expend \$779 million for earthquake recovery programs.

Table 2 Expenditures of State Money by Agencies and Programs for Response to and Recovery From the Loma Prieta Earthquake Amounts Reported During Fiscal Year 1991-92 Unless Otherwise Noted

Agency or Programs	Expenditures	Estimated Pending Expenditures	Total Estimated Expenditures
Department of Transportation	\$ 36,664,500	\$ 742,335,500	\$ 779,000,000
Office of Emergency Services	101,555,119	105,081,630	206,636,749
Department of Housing and Community Development	50,673,594	134,138,636	184,812,230 ^a
Board of Control	67,452,950	3,513,605	70,966,555
Department of Social Services	23,712,365	51,998	23,764,363 ^b
Department of Commerce	1,522,080	3,345,822	4,867,902 ^{a,b}
Department of Industrial Relations	4,477,926	331,250	4,809,176
Board of Equalization	3,635,000	312,000	3,947,000
California State University	1,840,979	631,132	2,472,111
Department of Forestry and Fire Protection	2,188,000	0	2,188,000
University of California	1,641,150	0	1,641,150
State Water Resources Control Board	849,310	0	849,310
Department of General Services	620,000	0	620,000
Department of the Military	366,107	0	366,107
Seismic Safety Commission	216,134	31,677	247,811
Office of Planning and Research	196,121	0	196,121
Hastings College of the Law	136,569	0	136,569
California State Fire Marshal	135,141	0	135,141
Subtotal for state agencies	\$297,883,045	\$ 989,773,250	\$1,287,656,295
Metropolitan Transportation Commission	4,515,023	324,495	4,839,518
Tax Relief programs	101,178,646	20,100,000	121,278,646
Total	\$403,576,714	\$1,010,197,745	\$1,413,774,459
Disaster Relief Fund revenues			776,286,394
Less estimated remaining money in the San Francisco-Oakland Bay Bridge and I-880 Cypress Structure Disaster Fund			19,033,445
Less reversion to the General Fund			20,000,000
Net Disaster Relief Fund money available			737,252,949
Total earthquake recovery expenditures			1,413,774,459
Excess of expenditures over available Disaster Relief Fund money			\$(676,521,510)
Sources: Unaudited agency records			
^a These agencies administer earthquake recovery programs in which they make loans that will return money to the State when repaid.			
^b Expenditures and estimated pending expenditures as of June 30, 1991.			

As shown in Figure 2, five state agencies and two tax relief programs received most of the state money appropriated or allocated for earthquake recovery programs as of December 31, 1991. The five state agencies were the Office of Emergency Services, the Department of Transportation, the Department of Housing and Community Development, the Board of Control, and the Department of Social Services. We discuss the earthquake relief programs administered by each of these five agencies, as well as the two tax relief programs, in the following sections of this report.

**Appropriations and Allocations to Agencies
and Programs From the Disaster Relief Fund
and the Special Fund for Economic Uncertainties
as of December 31, 1991**



Appropriations and Allocations to Agencies and Programs (in millions)		
1.	Department of Housing and Community Development (HCD)	\$ 139.3
2.	Department of Transportation (Caltrans)	131.4
3.	Board of Control (BOC)	110.0
4.	Tax Relief Programs (TRP)	101.2
5.	Office of Emergency Services (OES)	90.7
6.	Department of Social Services (DSS)	23.3
7.	Other	<u>26.0</u>
	Total	<u><u>\$ 621.9</u></u>

Figure 2

**The Office of
Emergency
Services'
Assistance
to Local
Governments**

Under the Natural Disaster Assistance Act (act), as amended, the Office of Emergency Services (OES) administers a disaster assistance program that provides financial assistance to local agencies to help them recover from natural disasters such as the Loma Prieta earthquake. As defined for the Loma Prieta earthquake, local agencies include cities, counties, special districts, school districts, community college districts, county offices of education, and approved private nonprofit organizations. Under the act, program money can be used for a variety of purposes, such as reimbursing local agencies for personnel overtime costs and for costs to repair, restore, reconstruct, or replace local agencies' real property or facilities that were damaged as a result of a natural disaster. Program money may also be used to provide matching fund assistance for cost sharing required under the federal disaster assistance programs and to provide state administrative and engineering support required to implement and administer the disaster assistance program. Money provided under this act to local agencies may not supplant available federal disaster funds. In addition, local agencies applying for less than \$2,500 in state disaster assistance are not eligible for assistance under the act.

The OES is also responsible for coordinating the federal program that provides financial assistance to local agencies affected by natural disasters. Under the federal program, the federal government, through the Federal Emergency Management Agency (FEMA), generally pays not less than 75 percent of eligible disaster recovery costs. The state and local agencies are responsible for paying the remaining eligible costs. Under the act, as amended, the State is responsible for paying the remaining eligible costs resulting from the Loma Prieta earthquake.

Following a request by local agencies for state and federal disaster assistance, inspectors from the federal and state governments inspect all damage and prepare damage survey reports to estimate the costs of repairs or restoration. The costs are then summarized into project applications that have to be approved by the OES and the FEMA.

After the OES and the FEMA approve a project application, the OES can provide the local agency with an advance payment of up to 90 percent of the State's share of the project's estimated costs. Since the State's share of costs eligible for FEMA reimbursement was up to 25 percent of the total project's cost, the advance to the local agency could be up to 22.5 percent of the total project's estimated cost. In addition, according to the state public assistance plan, for projects with total approved costs of less than \$36,500, the FEMA will pay the State, which may then pay the local agency the full amount of the federal share of approved costs. For projects with total approved costs of \$36,500 or greater, the FEMA reimburses local agencies only for documented expenditures made during the project. (According to the State's administrative plan for this program, dated December 12, 1989, the \$36,500 amount will be adjusted annually to reflect changes in the Consumer Price Index for All Urban Consumers.)

After all the work for a project is completed, the local agency files a final application with the OES. Before the OES and the FEMA make final payments to a local agency, an OES policy requires that an OES representative conduct an on-site review of the completed work. Any local agency that receives financial assistance from the state and federal governments following the Loma Prieta earthquake is subject to an audit by the State Controller's Office.

Payment of State Money to Local Agencies

On October 26, 1989, the governor directed the OES to provide \$17 million of disaster assistance money to seven counties. This money was provided through an executive order to assist the counties in quickly paying costs incurred to recover from the earthquake. The money was advanced against future claims for state money for the counties' earthquake recovery costs. Two subsequent executive orders provided \$2.25 million in additional advances through the OES to specific local governments. Overall, these three executive orders provided eight local governments with \$19.25 million from the Special Fund for Economic Uncertainties.

Since the Loma Prieta earthquake, the OES has received applications for disaster assistance from 620 local agencies and private nonprofit corporations for \$108.7 million in state money. As of November 8, 1991, the OES had approved applications from 367 applicants and had not approved applications from 253 applicants. Of the 253 applicants, 231 (91 percent) applied for disaster assistance of less than \$2,500. For the 367 approved applicants, the OES had approved \$105.1 million in state disaster assistance payments and had paid 232 of these applicants \$78.3 million. Because eight local governments received the \$19.25 million through executive orders that we discussed earlier, the total amount paid to applicants was \$97.6 million. According to the chief of the Disaster Assistance Division at the OES, the amount of approved disaster assistance is greater than the amount of disaster assistance payments because not all local agencies requested advance payments and because the OES can provide local agencies with advance payments of up to 90 percent of the approved state share of project costs until their claims are closed. Table 3 shows the amount of state money approved for different types of applicants for different categories of earthquake recovery costs.

Table 3
Summary of the Amounts Approved by the OES
in Disaster Assistance Payments for Damages
From the Loma Prieta Earthquake
as of November 8, 1991

Category	Community Colleges	County Offices of Education	Cities and Counties	Private Nonprofit Organizations	School Districts	Special Districts	Total
Debris removal	\$ 14,435	\$ 2,789	\$ 3,606,609	\$ 127,181	\$ 15,776	\$ 23,526	\$ 3,790,316
Emergency protective measures	52,800	329	19,188,931	933,140	248,383	2,221,681	22,645,264
Road system repairs	6,392	0	6,399,448	5,101	12,343	1,321,947	7,745,231
Dikes, levees, and flood control	0	0	155,892	2,052	25,673	398,495	582,112
Public buildings	318,954	27,480	26,794,135	18,120,281	1,261,688	1,452,207	47,974,745
Utilities	34,162	496	2,809,438	2,211,990	139,038	2,898,204	8,093,328
Other	7,137	16,834	3,307,988	110,448	2,677,248	4,136,291	10,255,946
Subtotal	433,880	47,928	62,262,441	21,510,193	4,380,149	12,452,351	101,086,942
4% administrative allowance	17,355	1,917	2,490,498	860,408	175,206	498,094	4,043,478
Total	\$451,235	\$49,845	\$64,752,939	\$22,370,601	\$4,555,355	\$12,950,455	\$105,130,420
Number of approved applicants	7	4	78	153	62	63	367
Number of pending applicants	1	0	3	11	4	3	22
Total Approved Applicants	8	4	81	164	66	66	389
Applicants with total claim less than \$2,500							231
Total All Applicants							620
Source: Unaudited OES data							

According to the chief of the Disaster Assistance Division at the OES, the total state costs of providing financial assistance to local agencies will be approximately \$200.7 million, or approximately \$95 million more than the OES had approved as of November 8, 1991. However, this is only a preliminary estimate because it can take years to resolve all claims associated with a major disaster such as the Loma Prieta earthquake. For example, the OES sent its revised final reports for a 1971 earthquake and the 1983 Coalinga earthquake to the FEMA in September 1991. According to the chief of the Disaster Assistance Division, the \$200.7 million estimate could increase dramatically.

The chief of Administration for the OES estimated that it will incur approximately \$6 million in state administrative costs related to the Loma Prieta earthquake, of which approximately \$4 million was incurred by June 30, 1991. These costs in addition to the costs of providing financial assistance to local agencies bring the disaster assistance program's costs as of November 8, 1991, to at least \$101.6 million; the total estimated state costs of the program are approximately \$206.7 million.

As of December 31, 1991, the OES had been appropriated or allocated a total of approximately \$90.7 million from the Special Fund for Economic Uncertainties and the General Fund to pay for costs resulting from the Loma Prieta earthquake; this figure includes the \$19.25 million in state money mentioned earlier in this section that was provided through the OES to specific local governments. Of the \$90.7 million, approximately \$12.7 million was allocated for administrative costs of the OES, and approximately \$78 million was appropriated or allocated for providing financial assistance to local agencies. In addition, the Governor's Budget for fiscal year 1992-93 includes \$128.8 million for the disaster assistance program in fiscal years 1991-92 and 1992-93, which would bring the total amount appropriated or allocated to the OES to approximately \$219.5 million. Finally, according to the OES' chief of Administration, the OES had also received \$124 million from the federal government as of January 6, 1992, as its share of payments for applicants' claims.

**The
Department of
Transportation's
Programs for
Earthquake
Recovery**

As of September 30, 1991, the State had spent approximately \$26.2 million to repair and restore highways damaged by the Loma Prieta earthquake. The total repair costs are not yet known because some of the repair projects are still being defined or designed, or both. However, the Department of Transportation (Caltrans) estimates that the total state costs will be approximately \$698 million. Under state law, Caltrans is generally responsible for repairing, restoring, and reconstructing state highways damaged by natural disasters. However, the costs of these activities are shared between the state and federal governments. According to the chief of Caltrans' Division of Budgets, a total of \$1 billion in federal funds will be available for the federal share of repair costs resulting from the Loma Prieta earthquake.

In addition to the foregoing responsibilities, Chapters 17X and 18X, Statutes of 1989, directed Caltrans to develop new seismic standards for the State's highways and bridges. These chapters also required the Caltrans to identify publicly owned bridges that have seismic structural deficiencies and retrofit them to correct these deficiencies. As of October 31, 1991, Caltrans had spent at least \$10.48 million for developing new seismic standards and for retrofitting deficient bridges. It estimates that the total state cost of developing the new standards and retrofitting deficient bridges will be more than \$137.8 million, or approximately \$56.8 million more than Caltrans was appropriated from the Disaster Relief Fund for these purposes.

**Estimated Costs To Repair and
Reconstruct Highways Are \$698 Million**

The federal emergency relief program is a cost-sharing program in which the Federal Highway Administration supplements the commitment of resources by states, their political subdivisions, or other federal agencies to help pay the unusually heavy expenses resulting from extraordinary conditions. Money from the emergency relief program may be used for repairing, restoring, and reconstructing highways, roads, and trails seriously damaged by natural disasters.

The federal government will be providing money for most of the emergency relief program's costs resulting from the Loma Prieta earthquake. The federal share of the costs is 100 percent of the costs incurred in the 180-day period beginning on the date of the Loma Prieta earthquake. Following this 180-day period, the federal share is the prorata share that would normally apply to the type of highway damaged. For example, costs incurred in repairing federal interstate roads are reimbursed by the federal government at a rate of 91.57 percent, while repair costs for urban and secondary roads are reimbursed at a rate of 85.87 percent. According to the chief of Caltrans' Federal Program Accounting Branch, as of December 31, 1991, Caltrans had claimed reimbursement from the federal government for approximately \$118.7 million in emergency relief program costs. In addition, according to the chief of Caltrans' Division of Budgets, the total federal funds available for the federal share of the emergency relief program's costs will be \$1 billion.

According to the 1992 State Transportation Improvement Program Fund Estimate (fund estimate), Caltrans will need approximately \$695 million in state money to repair damages caused by the Loma Prieta earthquake. The fund estimate also indicates, however, that the estimated recovery costs are preliminary because repair and recovery projects are still being defined or designed, or both. Nonetheless, according to the fund estimate, Caltrans reserved \$695 million for fiscal years 1991-92, 1992-93, and 1993-94 to pay for earthquake recovery projects. According to the chief of the Caltrans' Division of Budgets, the \$695 million for earthquake recovery projects will come from the State Highway Account, which had received \$47.4 million from the Special Fund for Economic Uncertainties as of December 31, 1991. In addition to financing the State's share of the emergency relief program, this money will also pay for earthquake recovery costs that are not reimbursable by the federal government.

Supplementing the \$47.4 million, Caltrans received \$3 million more from the Special Fund for Economic Uncertainties for emergency relief program costs to be paid from accounts other than the State Highway Account. Consequently, the total estimated state costs for Caltrans' earthquake recovery projects are approximately \$698 million.

The \$50.4 million that Caltrans had received as of December 31, 1991, was for a variety of purposes. In its requests for this money, Caltrans indicated that the money was for capital outlay projects, contracts, materials, equipment rental, consultation and design services, personal services (including overtime), travel, per diem, the Cypress Traffic Mitigation Plan, demolition of the San Francisco Embarcadero Freeway, engineering design, construction oversight, and miscellaneous expenditures.

As shown in Table 4, as of September 30, 1991, Caltrans had spent approximately \$26.2 million on emergency relief projects and had encumbered \$5.7 million more.

Table 4 Caltrans' Expenditures and Encumbrances for Emergency Relief Projects Resulting From the Loma Prieta Earthquake as of September 30, 1991

	Cumulative Expenditures	Unliquidated Encumbrances	Total
Support/operations	\$15,289,216	\$ 961,226	\$ 16,250,442
Capital expenditures	10,886,065	4,729,676	15,615,741
Local assistance	0 ^a	0 ^b	0
Total	\$26,175,281	\$ 5,690,902	\$ 31,886,183

Source: Unaudited Caltrans data

^a Although Caltrans administers the federal emergency relief program for local streets and roads, local governments are responsible for providing any required matching money. Chapters 1X and 2X, Statutes of 1989, authorized local governments to obtain full reimbursement for any matching money greater than \$2,500 that they provide through the State's disaster assistance program, which is administered by the OES.

^b Caltrans has estimated that it will spend \$13.1 million of its local assistance money on projects to relieve traffic congestion, such as increasing the use of mass transit and ridesharing and removing local traffic from the freeways.

Requirements for New Seismic Standards and Retrofitted Bridges

Chapters 17X and 18X of the Statutes of 1989 provided Caltrans with \$80 million in Disaster Relief Fund money to identify and correct structural seismic design deficiencies of public bridges in California by December 31, 1991. These chapters also provided Caltrans with \$1 million in Disaster Relief Fund money for developing new seismic standards for the State's highways and bridges. Subsequently, Chapter 265, Statutes of 1990, required Caltrans to prepare an inventory of all state-owned bridges that must be strengthened or replaced to meet seismic safety standards in effect on January 1, 1991. In addition, this statute required Caltrans to prepare a multiyear plan and schedule for completing the retrofit or replacement of all bridges in the inventory, including estimates of the annual costs and total costs of carrying out the plan. Caltrans submitted this plan to the governor and to the Legislature on January 1, 1991. Additional legislation, Chapter 1082, Statutes of 1990, extended the deadline for retrofitting deficient bridges to December 31, 1992, except multicolumn bridges, which have a deadline of December 31, 1994.

Caltrans' Progress in Seismic Research and Retrofitting Bridges

Caltrans' program for developing new seismic standards is part of its seismic research program. The seismic research program concentrates in three areas—general research, focused problem solving, and monitoring the seismic activity of transportation structures. In its September 30, 1991, status report on seismic research projects, Caltrans reported that it had awarded 15 contracts and that 11 additional contracts were being negotiated or were under review. Five of the awarded contracts and one of the pending contracts are for developing seismic standards. The remaining contracts concern other seismic research projects.

Caltrans' program for retrofitting bridges with seismic deficiencies (seismic safety retrofit program) has two components, a state highway program and a local streets and roads program. The primary purpose of both programs is to strengthen or replace all bridges that do not meet seismic safety standards. To determine which bridges required seismic retrofit, Caltrans reviewed all 12,000 bridges on the state highway system and collected data for approximately 12,000 bridges on local streets and roads. Based on these steps and subsequent analysis, Caltrans, as of October 1991, had identified 792 bridges on the state highway system that qualified for high priority retrofit. In addition, as of February 1992, it had identified 170 bridges on local streets and roads that qualified for high priority retrofit. According to Caltrans, as of October 2, 1991, it had already retrofit some bridges on the state highway system. Specifically, retrofit projects were completed on 22 bridges, retrofit construction was in process on 52 bridges, and contracts for retrofit projects were being finalized on 156 bridges. As of February 1992, Caltrans also had completed retrofit projects on two bridges on local streets and roads and was advertising for construction bids on one project with two bridges.

Costs for New Seismic Standards and Retrofitting Will Exceed \$137.8 Million

The estimated state costs of Caltrans' seismic standards and seismic safety retrofit programs are \$137.8 million and will exceed its appropriations for them by more than \$56.8 million. Specifically, as shown on Table 5, the estimated costs of the seismic standards program are approximately \$1.094 million, or \$94,000 more than was appropriated for this purpose. Included in this amount is \$1.057 million in contracts that Caltrans had awarded as of October 9, 1991, for developing seismic standards. Caltrans' estimate of the State's costs for the seismic safety retrofit program include \$110 million for retrofitting bridges on state highways, \$20 million for retrofitting bridges on local streets and roads, and \$6.7 million budgeted for seismic research. These costs do not include the costs to retrofit ten state-owned toll bridges because, as

of January 1, 1991, Caltrans had not estimated these costs. Consequently, the total estimated state costs of retrofitting bridges will be more than \$136.7 million, or at least \$56.7 million more than the \$80 million that was appropriated for this program. Moreover, according to the chief of Caltrans' Division of Budgets, more than \$900 million in matching federal money will have to be used for retrofit projects instead of for other programmed transportation projects. As a result, projects already programmed will be delayed, and other projects will not be programmed.

According to its accounting records, as of October 31, 1991, Caltrans had spent at least \$138,856 for developing new seismic standards. In addition, as of October 31, 1991, it had spent at least \$10.4 million for retrofitting bridges. Table 5 summarizes the expenditures and unliquidated encumbrances, by category of expenditure, for the seismic standards and the seismic safety retrofit programs.

Table 5
Summary of Caltrans' Expenditures and Unliquidated Encumbrances for the Seismic Standards Program and the Seismic Safety Retrofit Program

	Expenditures	Unliquidated Encumbrances	Total
Seismic standards program	\$ 138,856	\$ 955,075	\$ 1,093,931
Seismic safety retrofit program			
Support/operations	\$ 6,512,399	\$ 10,077,569	\$ 16,589,968
Capital expenditures	3,397,453	2,203,810	5,601,262
Local assistance	440,511	3,050,736	3,491,247
Program totals	\$ 10,350,363	\$ 15,332,115	\$ 25,682,478
Totals, Both Programs	\$10,489,219	\$16,287,190	\$ 26,776,409

Source: Unaudited Caltrans data. Data for projects funded in fiscal years 1990-91 and 1991-92 is as of August 15, 1991. Data for projects funded in fiscal year 1992-93 is as of October 31, 1991.

**The Department
of Housing and
Community
Development's
Disaster
Assistance
Program**

The California Natural Disaster Assistance Program (CALDAP) was established shortly after the Loma Prieta earthquake on October 17, 1989. The CALDAP, administered by the Department of Housing and Community Development (HCD), provides low interest loans to homeowners and owners of rental property whose property was damaged during the earthquake and subsequent natural disasters. The HCD contracts with 15 local public agencies (local agency contractors) to administer most CALDAP loans. However, some applications for loans came directly to the HCD because they were from geographical areas outside the jurisdiction of local agency contractors. In these cases, the HCD assumed all the responsibilities for processing the loan applications.

The CALDAP provides assistance to victims of the Loma Prieta earthquake either who did not qualify for assistance from private lenders or from other available federal and state programs, such as through the United States Small Business Administration or the Individual and Family Grant Program, or who needed additional assistance to rehabilitate or reconstruct housing damaged or destroyed by that earthquake. Money obtained through the CALDAP may be used to pay only the costs needed to rehabilitate or reconstruct eligible structures, such as work necessary to meet applicable health and safety codes. Additionally, CALDAP loans cannot be used for nonessentials such as luxury quality materials, personal property, or furnishings. Financial assistance from the CALDAP is intended to be aid of last resort. However, the Health and Safety Code prohibits the HCD from considering either individual or family income in determining eligibility for a CALDAP loan.

The HCD provides victims of the Loma Prieta earthquake with two types of loans through the CALDAP. The CALDAP-O provides financial assistance for rehabilitating or reconstructing owner-occupied dwellings that were damaged or destroyed. The CALDAP-R provides money to persons who own or will acquire rental property that was damaged or destroyed. Both types of loans are fixed rate mortgages with annual interest rates of three percent. The statutory deadline for applying for either type of loan was August 1, 1991.

The maximum CALDAP-O loan amount is \$30,000 unless the HCD waives this limit because a structure requires additional funds to meet health, safety, and seismic standards. Borrowers do not have to make payments of principal or interest until they sell, transfer, or refinance their properties or until the property is no longer the borrower's principle residence or becomes a rental unit.

There are no maximum amounts for CALDAP-R loans. Borrowers do not have to make payments of principal and interest until the loan term ends—20 years for rehabilitation loans and 30 years for acquisition or refinancing and rehabilitation loans. In addition, if all the rental units in their projects are affordable to and occupied by lower income households (as defined in Section 50079.5 of the Health and Safety Code) for a minimum of ten years, the borrowers are eligible to have a portion of their loan amounts forgiven. The percentage of loan forgiveness is based on the ratio of the original loan term to the number of years during which the rents are maintained at affordable levels. For example, borrowers who maintain affordable rents for ten years will have either 30 percent or 50 percent of the loan amounts forgiven, based on their original loan terms. Borrowers who maintain affordable rents for the full term of their original loans will have 100 percent of their loans forgiven. The HCD estimates that, as of June 30, 1991, borrowers of approximately \$7.5 to \$8.6 million, or 35 to 40 percent of the approved CALDAP loans, had agreed to these loan forgiveness provisions.

According to the HCD, as of March 31, 1992, the HCD and its local agency contractors had received applications for 2,544 CALDAP loans. Of this amount, the HCD had approved 731 loans worth \$65.6 million, and 367 applications had been denied or withdrawn at either the HCD or local agency contractors. Of the remaining 1,446 applications, 273 were awaiting further action at the HCD, and 1,173 were awaiting further action at local agency contractors. Table 6 provides more specific information concerning applications and approved loans for both types of CALDAP loans.

Table 6 Applications for and Approvals of CALDAP Loans as of March 31, 1992

	Applications for Which Review Is Not Completed	Applications Approved	Applications Withdrawn or Denied	Total Applications
CALDAP-O				
Local agency contractors	888	N/A	154	1,042
HCD	193	608	102	903
Subtotal	1,081	608	256	1,945
CALDAP-R				
Local agency contractors	285	N/A	60	345
HCD	80	123	51	254
Subtotal	365	123	111	599
CALDAP Total	1,446	731	367	2,544

Source: Unaudited HCD data

According to a deputy director in the HCD, the HCD has a goal of reviewing all backlogged applications by June 30, 1993. To achieve this goal, according to the deputy director, the HCD is taking or considering the following steps: fill all CALDAP vacancies as soon as possible within the constraints imposed by the hiring freeze; increase technical assistance to local agency contractors to expedite packaging and review of loans; have each local agency contractor review its backlog of pending applications and screen out applications that have been withdrawn or that are clearly ineligible; set goals for local agency contractors consistent with the HCD's June 30, 1993, goal, and provide incentives to local agencies in the form of increased administrative funding to meet these goals; consider setting an absolute deadline for local agency contractors to submit applications to the HCD; and consider delegating some loan approval authority to local agency contractors.

As of December 31, 1991, the HCD had been appropriated a combined total of \$129.3 million from the Special Fund for Economic Uncertainties and the General Fund for the CALDAP. However, the HCD estimates that the total costs of the CALDAP will reach approximately \$175 million, of which \$83 million is for

CALDAP-O and \$92 million is for CALDAP-R. To cover the anticipated shortfall, the Governor's Budget for fiscal year 1992-93 includes an additional \$45 million in program funding.

Other HCD Programs for Earthquake Relief

The HCD has four other programs that received a combined total of \$10 million for earthquake relief activities. These four programs are the Natural Disaster Emergency Shelter Program, the Natural Disaster Farmworker Housing Grant Program, the Natural Disaster Predevelopment Loan Program, and the Natural Disaster Office of Migrant Services Program. Although we did not review these four programs to the same level of detail as we reviewed the CALDAP program, we did observe that the HCD uses many of the same procedures for managing these programs as it uses to manage the CALDAP.

The Board of Control's Earthquake Disaster Relief Program

Following the Loma Prieta earthquake, Chapters 21X and 22X, Statutes of 1989, were enacted to compensate individuals for deaths, personal injuries, or personal property losses resulting from the earthquake-induced collapses of the San Francisco-Oakland Bay Bridge and the I-880 Cypress structure. This legislation specified that the Board of Control (BOC) would evaluate all claims for compensation and authorized the BOC to settle these claims. In addition, these chapters established the San Francisco-Oakland Bay Bridge and I-880 Cypress Structure Disaster Fund (fund) and transferred to the fund \$30 million to compensate claimants. Overall, \$110 million has been transferred to the fund from the Special Fund for Economic Uncertainties.

To implement Chapters 21X and 22X, the BOC developed the Earthquake Disaster Relief Program (program). Following criteria it established, the BOC reviewed claims for financial assistance to determine their eligibility and contracted with a claims adjuster to review the circumstances of each claim. It also contracted with a settlement facilitator to assist in settlement negotiations and to avoid litigation.

Individuals who filed claims with the program could receive two types of financial assistance—emergency payments and negotiated compensation. Claims for compensation could be made for medical expenses, rehabilitation expenses, funeral or burial expenses, personal property losses and damages, lost income or financial support, and noneconomic losses such as a victim's permanent cosmetic deformities. Emergency payments were designed to provide immediate assistance to surviving families and injured persons while their claims were being reviewed for additional compensation. Negotiated compensation awards were meant to compensate individuals for all valid losses without regard for legal liability, fault, or responsibility and without the need for litigation. In determining the amounts of negotiated compensation to award victims, the BOC considered the amounts of emergency payments they had already received.

Individuals who were injured as a result of the collapse of the San Francisco-Oakland Bay Bridge or of the I-880 Cypress structure could apply for emergency payments of up to \$25,000. Any surviving dependent parent of an individual killed or any surviving parent or guardian of a dependent minor killed could apply for an emergency payment of \$25,000. In addition, a surviving spouse, dependent minor, or dependent adult offspring of an individual killed as a result of the collapses could apply for an emergency payment of \$50,000. The combined maximum emergency payment that could be made to all members of the immediate family of a deceased individual was \$200,000.

The BOC received and reviewed 412 claims for compensation for losses suffered as a result of the earthquake. Of these 412 claims, it approved compensation for 297 and rejected compensation for 75. The remaining 40 claims did not meet the criteria for eligibility, are being handled as tort claims against Caltrans, or were withdrawn at the applicant's request. Of the 297 claims that the BOC approved, it had settled 278 of them as of November 21, 1991.

The total cost of compensating individuals who suffered death, personal injury, or personal property losses as a result of the collapses of the San Francisco-Oakland Bay Bridge and the I-880 Cypress structure should not exceed \$71 million. As of November 21, 1991, the BOC had paid \$3.4 million in emergency payments and \$63.2 million in negotiated compensation to the eligible claimants whose cases had been resolved. As of that date, the maximum amount the BOC estimated it would pay for the remaining 19 claims was \$3.4 million. It estimated an additional \$870,000 in administration costs.

Of the \$110 million appropriated for the program, the program's estimated expenditures of \$71 million left \$39 million in the program's fund. The Budget Act of 1991 specified that \$20 million would be reverted from the program's fund to the General Fund on June 30, 1991. Consequently, approximately \$19 million will remain in the program's fund after all claims have been resolved and the program is terminated. Since the money appropriated to this fund was continuously appropriated, the \$19 million will remain in the fund until legislation transfers it to another fund.

**The Department
of Social Services'
Individual and
Family Grant
Program**

The Department of Social Services (DSS) provides grants to disaster victims through the Individual and Family Grant Program (grant program) to meet disaster-related serious needs and necessary expenses not met by other federal or state programs or by insurance. The grants can be used to repair or replace owner-occupied residences and personal property and can be used for transportation, medical, dental, or funeral expenses. To be considered for a grant, victims must first apply to the United States Small Business Administration for loan assistance. The exception to this rule concerns disaster victims whose claims are only for medical, dental, or funeral expenses. The DSS will not consider an application for the grant until the Small Business Administration notifies the State that the victim's application for loan assistance has been either rejected or approved but that the victim still has unmet necessary expenses or serious needs.

The grant program is jointly funded by the state and federal governments and is activated when the president agrees to the governor's request to proclaim a disaster area. Under federal law, the maximum award available from the grant program for victims of the Loma Prieta earthquake was \$10,400. For each grant up to \$10,400 that the DSS awarded, the federal share of the grant was 75 percent, and the state share was 25 percent.

In conjunction with the grant, the DSS may provide state supplemental grants to the victims of major disasters. These grants can be made only to victims who are eligible for the federal grant program and have suffered losses in excess of the maximum federal grant amount. These supplemental grants equal the difference between the federal grant awarded and the eligible appraised loss, not to exceed \$10,000 per victim. Since the maximum federal grant amount for victims of the Loma Prieta earthquake was \$10,400, the largest possible award to grant program recipients was \$20,400.

According to reports prepared by the DSS, it has completed the grant program for the victims of the Loma Prieta earthquake. These reports indicate that, as of May 24, 1991, the DSS had received a total of 38,813 applications for grants from victims of the Loma Prieta earthquake. It approved 28,382 (73.1 percent) of these applications and awarded a total of approximately \$45.7 million in grants of up to \$10,400 to these victims. The State's share of the \$45.7 million was \$11.4 million, and the federal share was \$34.3 million. In addition, the DSS awarded approximately \$4.2 million in supplemental grants of up to \$10,000 each to 667 of these victims. Of the remaining applications, the DSS denied 7,780 (20 percent), and 2,651 (6.8 percent) victims withdrew their applications.

The DSS was initially appropriated \$19.4 million from the General Fund to pay costs relating to the Loma Prieta earthquake. It later received approximately \$3.9 million more from the Special Fund for Economic Uncertainties to help cover the expenditures for the grant programs. In addition, the DSS requested and obtained from the Department of Finance the authority to spend on the grant programs \$1.95 million originally budgeted for other DSS

programs. As of June 30, 1991, according to the DSS, its expenditures and pending expenditures for the State's share of the grant programs, including administrative expenses, totaled approximately \$23.8 million.

**Other Agencies
Received
Earthquake
Recovery Money**

Thirteen state agencies other than those already discussed in this report have received state money for activities resulting from the Loma Prieta earthquake. In a survey that we conducted, these 13 agencies reported that, as of December 31, 1991, they had received a combined total of approximately \$23.5 million from the Disaster Relief Fund, the Special Fund for Economic Uncertainties, and the General Fund for these activities. In addition, 6 of these agencies—the California State University, the Board of Equalization, the Department of Forestry and Fire Protection, the Department of Industrial Relations, the University of California and Hastings College of the Law—indicated that they planned to request a combined total of approximately \$2.8 million more in state money to recover from the Loma Prieta earthquake. One agency, the Department of Commerce, returned \$3.8 million in unneeded money to the Disaster Relief Fund. The 13 agencies reported that they had spent an estimated \$17.8 million in state money on earthquake recovery activities and they expect to spend approximately \$4.7 million more.

Some of these agencies received state money for assisting in recovery efforts. For example, according to the Military Department, it provided air transportation to assess damage, heavy equipment to remove earth slides and to reopen roads, and tents and generators for earthquake victims. In another example, according to the State Water Resources Control Board, its Region 2 staff inspected leaks in or below ground-storage tanks, toxic pits, and waste discharge facilities.

Other agencies received state money to relocate or make repairs so that they could continue their operations. For example, the Department of Industrial Relations and the Department of General Services received money to lease or rent new office space and to relocate staff. In another example, the University of California received money to repair its facilities.

**Disaster Relief
Fund Money
Used To
Replace Lost
Tax Revenue**

Chapters 15X and 16X, Statutes of 1989, enabled taxpayers who suffered financial losses from the Loma Prieta earthquake to use these losses to reduce their taxes for up to 16 years. In addition, Chapters 15X and 16X allowed counties affected by the earthquake to request reimbursement from the State for lost property tax revenue. The combined fiscal effect of these tax-related provisions is an estimated \$121.3 million.

Chapters 15X and 16X, Statutes of 1989, amended existing law to allow taxpayers who had suffered financial losses caused by the Loma Prieta earthquake to reduce both their personal income taxes and their bank and corporation taxes. Under the provisions of Chapters 15X and 16X, taxpayers may use their losses to reduce their tax liabilities for up to six tax years including the tax year in which the losses were originally used. In addition, taxpayers may use any losses remaining after these six years at a 50 percent rate towards reducing their tax liabilities for up to an additional ten tax years.

As Table 7 shows, the Department of Finance estimated that Chapters 15X and 16X would result in \$117.1 million in lost tax revenues to the State for fiscal years 1989-90 through 1993-94. Using a method that its staff had previously used to estimate lost tax revenues, the Department of Finance projected that the State would lose \$76.1 million in personal income tax revenues and \$41 million in bank and corporation tax revenues for this period. We reviewed this method and found it to be reasonable.

Table 7 Estimated State Tax Revenues Lost Because of the Loma Prieta Earthquake and Chapters 15X and 16X, Statutes of 1989 (in millions) Fiscal Year 1989-90 Through 1993-94

	1989-90	1990-91	1991-92	1992-93	1993-94	Total
Personal income tax	\$33	\$27	\$ 8.5	\$5.4	\$2.2	\$ 76.1
Bank and corporation tax	28	9	4.0	0.0	0.0	41.0
Total	\$61	\$36	\$12.5	\$5.4	\$2.2	\$117.1

Source: Department of Finance

To compensate the General Fund for tax revenues lost as a result of the earthquake, the director of the Department of Finance, under authority granted to him in the 1990 Budget Act, directed transfers of \$97 million to this fund from the Disaster Relief Fund as of June 30, 1991. This left \$20.1 million of the total estimated \$117.1 in lost state tax revenues. To offset the estimated reduction in state tax revenues in fiscal years 1991-92 and 1992-93, the Governor's Budget for fiscal year 1992-93 includes planned transfers of \$17.9 million from the Disaster Relief Fund to the General Fund.

Under the provisions of Chapters 15X and 16X, property owners in counties affected by the earthquake could request a reassessment of their properties and defer their property tax payments until the counties reassessed their properties, if the counties had adopted ordinances allowing such actions. In addition, the chapters authorized the director of the Department of Finance to allocate from the Special Fund for Economic Uncertainties to an affected county that requested it an amount equal to the sum of all deferred property taxes. Following the reassessment of real properties, the counties were required to compute the differences between any allocations they had received from the Special Fund for Economic Uncertainties and their actual tax revenue losses. If their losses were less than the amounts they had been allocated, they were required to remit the differences to the General Fund. If their losses were greater than the allocations they had received, the State was required to pay the counties the differences.

According to the records of the Department of Finance, four counties requested and received approximately \$6.4 million from the State; this amount was based on estimates of lost property tax revenues because the counties had not yet reassessed property values. After the counties had reassessed property values, these four counties and two other counties submitted final claims for lost property tax revenues. Based on these final claims, the Department of Finance directed the State Controller's Office to pay the two counties that submitted only final claims approximately \$32,000 and to pay three of the other four counties approximately \$1.3 million more than they had initially requested. The remaining

entity, the City and County of San Francisco, returned approximately \$3.5 million to the State. This was the amount by which the initial allocation it had received from the State exceeded its actual tax revenue losses. Therefore, according to the records of the Department of Finance, the net amount paid to counties from the Special Fund for Economic Uncertainties for lost property tax revenues was approximately \$4.2 million.


Conclusion The Disaster Relief Fund has insufficient revenues to pay for all state costs resulting from the Loma Prieta earthquake. Although the increase in the State's sales and use taxes of one-quarter cent resulted in approximately \$776 million in revenues, the total state costs of the earthquake are estimated to be approximately \$1.4 billion. Excluding approximately \$39 million in Disaster Relief Fund revenues that either are no longer available for disaster relief programs or are not currently available for these programs, the state costs for recovering from the Loma Prieta earthquake will exceed the resources of the Disaster Relief Fund by approximately \$677 million. Of this \$677 million shortfall, approximately \$648 million is for costs that Caltrans expects to incur in repairing and reconstructing the State's highways. According to Caltrans, the \$648 million will come from the State Highway Account.

Recommendations To ensure that money in the Disaster Relief Fund is properly budgeted, the Department of Finance should revise the Disaster Relief Fund's budget for fiscal year 1992-93 so that the total combined amount of money transferred or scheduled to be transferred from this fund does not exceed the fund's available money.

To ensure that applications for CALDAP loans are reviewed as soon as possible, the HCD should implement as necessary the steps it reported it is taking or considering for completing review of all applications for CALDAP loans by June 30, 1993.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


KURT R. SJOBERG
Auditor General (acting)

Date: May 4, 1992

Staff: Steven L. Schutte, Audit Manager
John J. Billington
Frank A. Luera, CPA
Thomas A. Sachs
Arnold J. Gittleman
Mark B. Campbell

Appendix Investment Income Earned From Disaster Relief Fund Money

Surplus money in the Disaster Relief Fund earned approximately \$27 million in investment income from November 1989 to June 1991. This investment income accrued to the General Fund instead of to the Disaster Relief Fund because the legislation that established the Disaster Relief Fund did not specify that its money should be invested and because the Department of Finance, which administers this fund, has a policy of investing a fund's money only if the fund's enabling legislation requires it.

Generally speaking, the State combines its surplus cash into a general account, the Pooled Money Investment Account (PMIA), which may be used to invest in various types of securities. These investments are managed by the Pooled Money Investment Board (board), consisting of the state controller, the state treasurer, and the director of the Department of Finance. Money in the Surplus Money Investment Fund (SMIF) is invested as part of the PMIA. The SMIF consists of the surplus cash of all special funds that participate in the SMIF.

According to the board's guidelines, there are two methods by which a fund may participate in the SMIF. If the enabling legislation for a fund states that the fund money is to be invested, the State Controller's Office will automatically include its surplus money in the SMIF, and the agency responsible for administering the fund need not take any action. However, if the fund's enabling legislation does not state that its money is to be invested, the fund's administering agency must request the board to include the fund's surplus in the SMIF.

Apart from paying reasonable costs incurred by the state treasurer and the state controller in administering the SMIF, all investment income earned by the SMIF money from the investments in the PMIA must be distributed to the funds with surplus money in the SMIF. The Government Code, Section 16475, requires the State Controller's Office to apportion these investment earnings to the funds in the SMIF in an amount directly proportionate to the respective amounts transferred from the funds to the SMIF and to the length of time the amounts remained in the SMIF.

The Government Code requires that the investment earnings of the PMIA on the surplus money of state funds that are not in the SMIF accrue to the State's General Fund. The General Fund is the principal operating fund for general governmental activities, and its money is used for a variety of purposes.

The Disaster Relief Fund, which was created to provide state revenues for response to and recovery from earthquakes, aftershocks, and any other related casualties, is one of the state funds that is not in the SMIF. We estimated the amount of investment income generated through the PMIA by surplus money in the Disaster Relief Fund from November 1989 through June 1991 to be approximately \$27 million. Since the Disaster Relief Fund is not in the SMIF, these interest earnings accrued to the General Fund. (In making this estimate, we assumed that the Disaster Relief Fund's average cash balances in the state treasury between November 1989 and June 1991 were surplus.)

The legislation establishing the Disaster Relief Fund does not specify that the surplus money from this fund should be invested. Therefore, according to the procedures established by the board, this fund can be included in the SMIF only at the request of its administering agency, the Department of Finance. The director for the Department of Finance stated that it is the department's policy that a fund's money not be deposited in the SMIF unless statutory provisions require it.

DEPARTMENT OF FINANCE

OFFICE OF THE DIRECTOR
STATE CAPITOL, ROOM 1145
SACRAMENTO, CA 95814-4998



April 28, 1992

Kurt R. Sjoberg
Auditor General (acting)
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

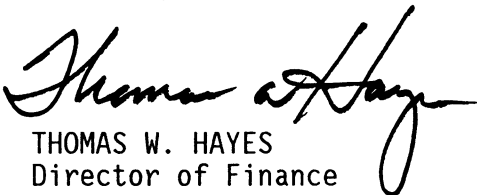
Dear Mr. Sjoberg:

Thank you for your report on the Disaster Relief Fund. We anticipate that the findings contained in your report will serve as a useful guide as we continue to work with the Office of Emergency Services (OES) and other agencies to take into account the Disaster Relief Fund expenditures made to date and to revise the estimates on expenses which are anticipated to be approved.

In the long run, I agree with the report's overall assessment that the Disaster Relief Fund will be exhausted. We intend to take the steps necessary to accurately reflect the condition of the Disaster Relief Fund in subsequent Governor's Budgets, utilizing many of the findings contained in your report. And, as the Disaster Relief Fund is exhausted, we are committed to assessing any remaining funding needs for possible funding from alternative sources.

If you have any questions or need additional information regarding this matter, please call Robert A. Gibbs, Principal Program Budget Analyst, at 445-8913.

Sincerely,


THOMAS W. HAYES
Director of Finance

Memorandum

To : Mr. Kurt R. Sjoberg
Auditor General (Acting)
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Date : April 27, 1992

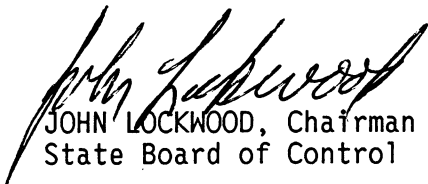
From : State Board of Control

Subject : Report on Disaster Relief Fund Expenditures

Thank you for giving me the opportunity to review and respond to your draft report entitled "The State's Disaster Relief Fund Has Insufficient Revenues to Cover All State Costs from the Loma Prieta Earthquake."

I agree with your depiction of the State Board of Control's role in administering the Disaster Relief Program, including the statement that, based upon the limited amount of testing performed, the State Board of Control's system of internal controls over the administration of the Disaster Relief Program appears adequate. In addition, the total amount shown as the State Board of Control's actual and anticipated Disaster Relief Program expenditures is consistent with our records.

If there are any questions or comments related to the State Board of Control's portion of the report, you may wish to have your staff contact Austin Eaton, Executive Officer, at 323-3432.



JOHN LOCKWOOD, Chairman
State Board of Control

JL:MCL:mek

cc: Austin Eaton, Executive Officer, State Board of Control



OFFICE OF EMERGENCY SERVICES
2800 MEADOWVIEW ROAD
SACRAMENTO, CALIFORNIA 95832
(916) 427-4990



April 29, 1992

Kurt R. Sjoberg
Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

Thank you for your report on the Disaster Relief Fund and the Office of Emergency Services' (OES) use of that fund. In general, I agree with the report as it relates to OES.

I would also like to thank your staff for their courteous and unobtrusive manner. Their concerted effort to minimize the impact of their presence on our daily activities was very much appreciated.

If you have any questions or need additional information regarding this report, please call John Eastman, Chief of Administration, at 427-4242.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Andrews".

Richard Andrews, Ph.D.
Director

DO1:CORR:SJOBORG.CS

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Appraisers
Office of Small Business
Advocate
Office of Traffic Safety

BUSINESS, TRANSPORTATION AND HOUSING AGENCY

CARL D. COVITZ
Secretary

April 27, 1992

Honorable Kurt R. Sjoberg
Acting Auditor General
660 J Street, Suite 300
Sacramento, California 95814

Dear Mr. Sjoberg:

We have reviewed the report from your office entitled, "The States' Disaster Relief Fund Has Insufficient Revenues to Cover all State Costs From The Loma Prieta Earthquake."

The expenditures and projections of future expenditures contained in the report for the Department of Transportation and the Department of Housing and Community Development fairly reflects their budget and accounting records. Additionally, the report accurately describes the program activities of both departments in carrying out their disaster related responsibilities.

Sincerely,

A handwritten signature in black ink, appearing to read "Carl D. Covitz".

CARL D. COVITZ

DEPARTMENT OF SOCIAL SERVICES
744 P Street, Sacramento, CA 95814



April 24, 1992

Kurt R. Sjoberg
Auditor General (acting)
Office of the Auditor General
660 J Street, Suite 300
Sacramento, Ca. 95814

Dear Mr. Sjoberg:

Health and Welfare Agency Secretary Russell Gould asked me to respond to the section of Auditor General Audit "P-123 THE STATE'S DISASTER RELIEF FUND HAS INSUFFICIENT REVENUES TO COVER ALL STATE COST FROM THE LOMA PRIETA EARTHQUAKE", which deals specifically with funds allocated to the Individual and Family Grant Program (IFGP).

In regards to the total number of IFGP applicants, the number of cases approved, the number of cases denied and the funds disbursed, the statistics cited in the report are correct. We also concur with the report's findings that the Department of Social Services' internal accounting records and program records were adequate in determining expenditure amounts and assuring control of the Department's earthquake recovery program.

In reviewing the rest of the draft section, at this time, the Department of Social Services has no other specific comments concerning the content or context of the report.

If you should require any additional assistance or desire to further discuss the administration of the IFGP, please feel free to call me at 657-2598.

Sincerely,

John D. Healy
JOHN D. HEALY
Interim Director

**cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps**