



INDEPENDENT
SECTOR

Testimony of
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President and CEO
INDEPENDENT SECTOR
Washington, DC

United States Senate
Committee on Finance
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“Hurricane Katrina:
Community Rebuilding Needs and Effectiveness of Past Proposals”

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Before the Senate Finance Committee
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Mr. Chairman, Senator Baucus, and distinguished Members of the Committee, I am Diana Aviv, president and CEO of INDEPENDENT SECTOR, a nonprofit, nonpartisan membership organization committed to advancing the common good by leading, strengthening, and mobilizing charitable organizations. Our coalition of more than 500 charities, foundations, and corporate philanthropy programs collectively represents tens of thousands of groups and millions of donors and volunteers who together serve a wide range of causes across the country.

I appreciate this opportunity to share with you the concerns of my colleagues in the charitable community—both those working in the areas ravaged by Hurricane Katrina, and more recently Rita, and those across the country supporting relief and rebuilding—about how this Committee and our national government can best address the immediate and longer-term needs of the hundreds of thousands of people whose lives have been devastated by these terrible storms. I also want to describe some of the lessons the charitable community has learned from events after the attacks of 9/11 and after other natural disasters. We can use that experience to develop policies and actions that will help us use our public and private resources effectively to rebuild lives and communities dislocated as a result of these hurricanes.

Over the past month, I have listened to leaders from many of the devastated communities and to staff and volunteer leaders of charitable organizations throughout the country who have been on the front lines of this relief effort. At the beginning of this week, INDEPENDENT SECTOR and the Foundation for the Mid South brought together 65 people—charity and foundation leaders from Mississippi and Louisiana and from national charitable organizations, corporate executives, and state and federal officials—to talk about the immediate and longer-term challenges that must be addressed. My testimony includes some the concerns that emerged from that meeting.

We have also learned from colleagues who were part of other immediate and long-term recovery efforts, including in those in:

- the San Francisco Bay Area after the 1989 Loma Prieta earthquake;
- Oakland Hills, California, after massive wildfires in 1991 destroyed close to 4,000 homes and structures;
- Southern California after brushfires left hundreds homeless in 2003; and
- New York after the terrorist attacks on the World Trade Center killed 3,000 people and left thousands more without jobs and with a wide range of needs.

Each of these disasters required widely different responses to help survivors rebuild their lives and their communities. Yet the stories of these experiences offer valuable information for our efforts to restore the areas affected by Hurricanes Katrina and Rita and help survivors re-establish stable, productive lives.

This morning I want to share with you some of these lessons and suggest a range of actions that this Committee might consider taking to assist the process of rebuilding the essential services and infrastructure in the Gulf region as quickly as possible and ensuring that all dislocated people, regardless of where they are now, receive adequate housing, health care, cash and other assistance they might need in the immediate future. I am mindful that other Committees in Congress have responsibility for considering a number of actions that would be helpful to rebuilding the lives of people displaced in the hurricane that are not within the jurisdiction of this Committee. I have therefore focused my testimony on aspects of the relief and rebuilding challenge that may be most relevant to your work here.

My recommendations focus on the importance of addressing the need for the following seven actions:

1. *Existing federal and state assistance programs should be streamlined on a temporary basis to expedite service delivery.*
2. *Stronger coordination and greater clarity of roles among federal, state and local government agencies is required.*
3. *Local officials and community leaders who best understand the needs of their own communities and should be in charge of rebuilding efforts.*
4. *Effective public-private partnerships are essential to successful relief and rebuilding efforts. Local charities devastated by the hurricane urgently need infrastructure support.*
5. *Congress should encourage charitable giving by individuals and philanthropies for hurricane relief programs and for the broader community needs across the rest of the country through our tax laws.*
6. *Unscrupulous people should be prevented from using hurricane relief efforts to divert charitable dollars for personal gain.*
7. *Government should not pay for Katrina and Rita relief and rebuilding by cutting programs to other vulnerable people.*

LESSONS and RECOMMENDATIONS

1. The first major lesson from every recent disaster recovery effort is the importance of streamlining existing federal and state assistance programs on a temporary basis to expedite service delivery. In a number of disaster recovery efforts, survivors have faced a bureaucratic nightmare: complex, confusing and overlapping application forms; inconsistent deadlines; requirements for information that may have been destroyed; service outlets in difficult-to-reach locations. Moreover, limited efforts to help dislocated people understand what resources were available and how they could be obtained meant that needless suffering continued. Survivors often do not have access to radio and TV monitors or are in transit when announcements about assistance are made, and so they do not know if rules are suspended temporarily to allow for waivers of usual eligibility criteria. At the meeting convened by INDEPENDENT SECTOR and the Foundation for the Mid South earlier this week, among the many reports of current conditions we heard local charity leaders in Mississippi and Louisiana plead for more staff on the ground to share information and help locate and register hurricane victims. We were informed that people displaced by the hurricane have waited hours to access a phone only to discover once

they finally get through, they have reached the wrong office or are not eligible for the particular program. This point was vividly made by a local leader who said that “if you have lost everything, you need more than a telephone number.” In the meantime, in the absence of live personnel, local staff are hoping that the “211” dial system that United Way of America has been working to activate in every region in the United States could be operational and accessible to hurricane survivors. With one call survivors are able to find out what services are available in the community.

We believe that actions by this committee can make a major difference in helping to simplify and temporarily broaden access for help needed by disaster relief victims. The bipartisan Emergency Health Care Relief Act (S. 1716) introduced by Senators Grassley and Baucus and supported by this Committee is among the most important ways Congress can streamline the procedures hurricane survivors must follow to obtain vital assistance. As you know, most of them were forced to flee their homes without medication, medical records, or basic residency documentation, making it all but impossible for them to prove their eligibility for medical assistance. A recent study by the Kaiser Family Foundation and Harvard University of evacuees now residing in Houston shelters found that more than half of those under age 65 and who had no children were uninsured. Forty percent of them had chronic medical conditions and 42 percent were supposed to be taking prescription drugs.¹ In addition, some survivors who may not otherwise have qualified for Medicaid, but who have become destitute as a result of the hurricane, require short-term health care assistance.

Medicaid is one of the only resources available to provide destitute survivors the medical attention they need. The hospitals and health care clinics many relied on for medical assistance prior to the hurricane are no longer functioning, and many health care facilities in communities where the evacuees now reside are overwhelmed by the volume of patients and the cost of addressing their needs. State agencies in the affected areas are challenged by the size of the need and by restrictions imposed by Medicaid’s “categorical eligibility” rules.² Reports from the Louisiana Department of Health and Hospitals indicate that 20 percent of hurricane survivors seeking Medicaid coverage have been “screened out” by state workers before their applications are even processed, primarily because they do not meet the categorical requirements; more than one-third of those whose applications have been processed have been denied coverage, again primarily because they do not meet eligibility requirements.³

¹ Washington Post, Kaiser Family Foundation, Harvard University Survey of Hurricane Katrina Evacuees, September 2005, <http://www.kff.org/newsmedia/7401.cfm>.

² Eligibility for Medicaid coverage is currently limited to the following five categories of recipients: children up to age 19, pregnant women, parents and other caretakers in families with dependent children, individuals with serious disabilities (as defined by specific criteria), and those over age 65. This excludes indigent adults with grown children who suffered injuries while escaping the hurricane or who have chronic medical conditions.

³ Center on Budget and Policy Priorities, “Medicaid Categorical Eligibility Rules Are Proving a Major Obstacle to Getting Health Coverage to Impoverished Katrina Victims in Louisiana,” September 26, 2005, <http://www.cbpp.org/9-26-05health.htm>.

The Emergency Health Care Relief Act is most helpful because it would provide Medicaid coverage to low-income Katrina survivors without the need for a waiver. Current rules would be suspended to allow states to provide additional mental health and home health care. This federal assistance is vital not only for the states directly affected by the hurricane, but also for those that have become home to those seeking safe harbor. These states are already hard-pressed to meet the health care needs of their own residents and should not have to bear the additional cost of coverage for newcomers. Federal assistance is equally essential for health care providers, who must receive compensation for the costs they incur if they are to sustain the necessary level of care for all community residents. We urge you to persuade your colleagues in the Senate and the White House to enact the Grassley-Baucus Health Care Relief Act on an emergency basis as soon as possible. Senators, this package is entirely consistent with the bipartisan calls of the National Governors Association and state health directors. We have no time to lose.

Other federal and state assistance programs such as Temporary Aid to Needy Families, the Earned Income Tax Credit, and Section 8 housing vouchers must also be expanded and eligibility requirements temporarily waived or suspended in order to assure that people receive the immediate help they need. The EITC reduces tax burdens and supplements wages for working families with children with incomes up to approximately \$37,000. One of the EITC's main achievements is rewarding low-wage work. Studies have shown that the EITC has a powerful effect in substantially increasing the proportion of single mothers who work and thus in reducing the number of people receiving cash welfare. Recent research also documents another powerful effect of the EITC: reducing poverty. The EITC lifts more children out of poverty than any other single program or category of programs. In 2002, the EITC lifted 4.9 million people out of poverty, including 2.7 million children.

Senators, as we call for federal government to streamline, we wanted you to know that we also are encouraging the foundations that offer direct assistance to local programs in affected areas to consider streamlining their grant application process and to increase the flexibility of the funds they distribute.

2. The lack of coordination and clarity about roles and responsibilities that too often characterizes interactions between federal, state and local government agencies becomes even more painful in times of disaster, when it gets in the way of delivering critical services. Over the last week, the specter of Hurricane Rita showed the benefits of a better organized response. We must now bring at least the same level of coordination to the recovery and rebuilding effort from Hurricane Katrina.
3. The third major lesson we have gleaned from past recovery efforts is that rebuilding is most effective when local officials and community leaders control decisions, since they best understand the needs of their areas. A powerful illustration of this principle comes from Watsonville, California, which suffered the greatest loss of single family housing

units from the 1989 Loma Prieta earthquake.⁴ The earthquake destroyed or severely damaged approximately 850 houses and apartment buildings in Watsonville, most of which were occupied by low-income farm and cannery workers and their extended families. Many of those displaced faced language and cultural barriers to obtaining assistance or lacked required documentation of residency, leaving them in mass care shelters in public buildings rather than in safer and healthier traditional housing units. Federal programs geared to restoring housing to pre-earthquake conditions or that tied loans and other assistance to future rent payments that would cover the debt proved to be impractical for meeting the needs of the community. Successful solutions resulted from a legal settlement with FEMA that provided block grants with very few restrictions to counties, enabling them to determine how best to use those resources. In addition, the American Red Cross created a special fund with \$2.5 million for affordable housing assistance, which the city chose to distribute in small grants of \$20,000 to \$50,000 to any resident in need of construction funds. Local officials were also in the best position to determine how to balance permit and inspection requirements that protected the safety of residents while still allowing reconstruction to go forward.

Local officials, civic and business leaders should together be the primary decision makers about how to utilize resources in order to rebuild roads, transportation systems, multiservice community centers, and multi-family and affordable housing units. While many national experts offer valuable and welcome expertise, local and state officials must consult with community members on matters that will affect their lives for decades to come. Residents are likely to have a keen understanding of community needs.

Federal support also should be distributed in a way that encourages maximum coordination and decision making among civic, business and local government agencies. As this Committee considers how to proceed with bond measures and other assistance designed to stimulate the critical rebuilding of the Gulf region's infrastructure, we urge you to consider how to put the authority for those funds in the hands of local officials and community leaders. We stand ready to provide assistance to the Committee in developing such proposals.

4. The fourth lesson offered by previous disaster relief efforts is the vital importance of effective public-private partnerships. Watsonville, California, again provides valuable lessons. With local leaders at the center of the effort, numerous volunteer organizations and religious groups from across the country donated time and funds to support a broad-based self-help effort to rebuild small-scale buildings, including houses. Private donations from individuals, corporations and foundations, supplemented by a \$2.5 million donation from the American Red Cross, were critical to the city's success. Despite constraints of government funding programs, Watsonville was able to repair or replace 75 percent of the over 800 housing units lost in less than one year after the 1989 earthquake.

⁴ Mary C. Comerio, "Housing Repair and Reconstruction after Loma Prieta," National Information Service for Earthquake Engineering, University of California Berkeley, 1997, http://nisee.berkeley.edu/loma_prieta/comerio.html.

Another example of a successful public private partnership is the U.S. Refugee Resettlement Program that relies on both public and private dollars to settle people who have been forced to flee their homelands. This program, with some adjustments, may be one useful way quickly to assist hurricane survivors who have moved out of state and may not wish to return home. The national religious and secular agencies involved in resettlement of displaced people have great familiarity working with traumatized families and may be qualified to assist these families as well. It may be worth looking at the refugee assistance program operated by the Department of Health and Human Services to see if it should be expanded temporarily to assist the people displaced from Hurricane Katrina

It is also important to encourage state and local governments to develop strong partnerships with local and regional charitable organizations. At this time, however, many of those organizations have themselves experienced tremendous losses from the hurricane and will need to rebuild or repair facilities, replace equipment, and restore records and other materials needed to reinstate services to their communities. They typically rely on local businesses and individual donors to support these services, but those contributors have suffered their own economic losses and need help in order to continue providing the necessary financial and volunteer resources. Ensuring that charitable organizations in affected areas have access to government loan and grant programs for their own rebuilding efforts must be a key component of legislation and federal agency disaster relief programs. It is equally essential that national organizations and funds that have received private contributions allocate some of those resources to assist the recovery of local charitable organizations.

5. We have learned from past disaster relief efforts that while Americans give most generously in response to human devastation, particularly if caused by natural disasters, their support sometimes comes at the expense of other programs donors otherwise would have supported. The needs of other people—those living in poverty, who are disabled or in need of ongoing care—have not diminished. This past year has already seen record donations for tsunami relief and the two hurricanes, and many charities are bracing for a decline in individual donations to their programs.

The sheer size and scope of the damage requires that government intervention serve as the primary source of funding, but there are other ways in which government can increase potential funding sources. One way is to increase individual donations by offering additional tax incentives. Americans are a compassionate people and will help those in need, but experience shows that they will give more when encouraged to do so through tax incentives.

This Committee and the House Ways and Means Committee has taken an important first step to encouraging greater generosity by individuals and corporations by passing the Katrina Emergency Tax Relief Act of 2005 which was signed into law by President Bush last week. We are very pleased that this legislation removes barriers that have prevented

individuals from making charitable contributions from their retirement accounts and other savings that exceed their present earnings and spending needs. It also provides additional encouragement to corporations to make donations of food and books to help individuals in need and strengthen school programs throughout the entire country.

The need for greater tax incentives to encourage Americans to dig deeper to meet the needs of disaster survivors and support the ongoing programs of charitable organizations vital to the health and well-being of people in communities across the nation has never been more imperative. The CARE Act which was passed by this Committee and by an overwhelming majority of the Senate in 2003 provided valuable incentives and reforms needed by the charitable community, but legislation never found its way to Conference with the House. The CARE Act of 2005 was re-introduced earlier this year by Senator Santorum as part of the Senate Republican leadership's package of priority bills (S. 6) and a modified version of that bill is expected to be introduced by Senator Santorum and Senator Lieberman as an independent bill this week. We strongly urge this Committee to support the tax incentives for charitable giving to be included in the legislation that will not be specifically time limited to coincide with Katrina relief efforts but will serve to encourage greater giving across the board.

Some have questioned whether additional incentives will, in fact, result in increased giving to assist survivors of Hurricane Katrina. It is important to note that schools, religious groups, and charitable organizations throughout the country have already reached out to assist the relief efforts and welcomed to their communities those displaced by the hurricane and offered a range of vital community services and coordinating activities. As donations have been directed towards the survivors of the hurricane, these organizations are finding it difficult to raise the funds necessary to cover their work associated with hurricane relief and rebuilding. Additionally as I noted earlier, charitable organizations in the affected areas, including affiliates of national charities, have suffered enormous losses themselves that will require assistance from charities in other parts of the country.

I want to offer a different conclusion than that offered in a recent report from the Congressional Research Service,⁵ which projected that tax incentives for charitable giving would have little or no benefit for the survivors of Hurricane Katrina. The report cites studies from the early to mid-1990s that indicate that much individual giving is directed to religious organizations and that most high-income people are "especially likely to direct their giving to universities and colleges."⁶ The authors conclude that permitting donors to claim deductions for charitable contributions that exceed 50 percent of their adjusted gross income or that permit taxpayers to contribute funds directly from Individual Retirement Account funds without suffering detrimental tax consequences would do little to benefit the victims of Katrina.

⁵ Jane G. Gravelle, "Tax Policy Options After Hurricane Katrina," September 16, 2005.

⁶ Gravelle, *op. cit.*, page 9.

These predictions about the giving patterns of American taxpayers fail to address current patterns of activities undertaken by a range of charitable organizations, the needs of higher education institutions that have welcomed students from schools damaged or destroyed by the hurricanes, or the work of religious organizations in supporting the relief and recovery efforts. Nor does the CRS report address the pressures imposed on broader philanthropic giving as a result of the massive outpouring of support earlier this year to tsunami recovery efforts in Asia and now to the devastation of Hurricane Katrina. Finally immediate relief for Katrina survivors is only one part of the effort underway to repair the damage sustained by those communities. Rebuilding is a long-term proposition; some say as long as twenty years.

6. The sixth lesson we have learned from previous disasters is that there are still many unscrupulous individuals and organizations that prey on the generosity of Americans for their personal financial gain, and hurricane relief offers these people yet another opportunity. The FBI has reported that most of the roughly 2,300 Internet sites advertising Hurricane Katrina assistance are fraudulent, ranging from sites designed to imitate those of legitimate charitable organizations to email requests that can entice the reader into providing credit card and other financial information that is used for identity theft and other fraudulent schemes.

It will require concerted efforts by the federal, state and local oversight officials, by the media, and by civic organizations to identify and prosecute these scandalous opportunists. The Hurricane Katrina Emergency Tax Relief Act as introduced by Senator Grassley and Baucus included an important provision that would permit the Internal Revenue Service to share information from its investigations of fraudulent charitable operations with state charity officials. That provision is strongly supported by state regulators, by INDEPENDENT SECTOR, the Panel on the Nonprofit Sector and many others in the charitable community. Regrettably, it was not included in the final bill approved by the House and the Senate, and we urge you to make sure it is enacted into law.

There are many who assert that this Committee and Congress should focus exclusively on the delivery of essential services to Hurricane Katrina and Rita survivors, and that this is not the time for additional measures to protect the integrity and improve the accountability of charitable organizations. We argue that now more than ever before, the transparency in operations and integrity of charitable organizations are on the line. We recall all too well the decline in public trust towards charitable organizations as a result of how some charities mis-handled post 9/11 relief efforts. And we cannot afford to allow unethical individuals to use this occasion to enrich themselves. We believe that in some cases the law is in place to prosecute illegal behavior, but that the IRS and state officials will require additional resources to adequately enforce the law. In other cases, the law may not cover some of the unethical conduct that had been reported in the years since September 2001.

As you may recall from my previous appearances before this Committee, I have been working for the past year with the Panel on the Nonprofit Sector on improving the

governance, transparency, and accountability of charitable organizations. Included in the Panel's Final Report⁷ to this Committee are more than 120 recommendations for actions to be taken by Congress, by the Internal Revenue Service, and by the charitable sector itself. Now is not the time to shrink back from helping the charitable sector to weed out those who are not committed to transparent ethical practice.

7. Finally, I wanted to offer some observations about the cost of all the help that will be required to repair the damage done by Hurricanes Katrina and Rita. We are aware that such help will demand billions of dollars. We cannot underscore enough how strongly the entire charitable sector opposes paying for this relief by reducing support for poor people living elsewhere in the United States. "Across the board cuts" only add to the suffering of those least able to bear them. A cornerstone of funding for the charitable sector has been the estate tax. We would encourage you not to consider eliminating at this time this important source of revenue both for public coffers as well as for the charitable sector. Without it the charitable sector would have even greater difficulty in meeting its obligations.

Senators, we saw the face of poverty from the roof tops in Louisiana and at the New Orleans Convention Center. Though that face is less obvious in hundreds of cities and rural communities across the nation, it looks the same. The programs in place already fall short of meeting the needs of millions of Americans, and we cannot afford to cut them right now. Katrina revealed an ugly and painful side of American life, one that resulted from years of insufficient investment in our own people. We know which programs make a difference and that now is not the time to exacerbate the conditions that these poor people live in, in order to pay for the much needed relief to disaster victims.

We believe that from this tragedy, some good can come. The reaction of Americans who already have given more than \$1.3 billion⁸ to help the victims of these two disasters is most encouraging and reflects of their kind and generous nature, and the willingness of the Congress and the White House to support substantial sums of money for relief and rebuilding is most welcome. We have an opportunity for government to work with the charitable sector and business to build communities that are far better than the ones the floods washed away.

Let us be sure, as we work together to rebuild Louisiana, Mississippi, Texas and Alabama, we are mindful of both failed projects and success stories from around the country so that we invest our public dollars and private resources wisely.

⁷ Panel on the Nonprofit Sector, June 22, 2005, <http://www.nonprofitpanel.org>.

⁸ Center on Philanthropy, Indiana University, http://www.philanthropy.iupui.edu/Hurricane_Katrina.html.