



One Hundred Ninth Congress
U.S. House of Representatives
Committee on Homeland Security
Washington, DC 20515
October 12, 2005

The Honorable Michael McCaul
Chairman
Subcommittee on Investigations
Committee on Homeland Security
U.S. House of Representatives
202 Adams Building
Washington, D.C. 20540

Dear Chairman McCaul:

Congratulations on your appointment as Chairman of the Investigations Subcommittee. We are certain that your prosecutorial background will be invaluable in your leadership of this new investigative body. It is our understanding that you intend to examine several issues related to alleged price gouging in the wake of Hurricane Katrina. We share your commitment to ensuring that taxpayer funds are not wasted, abused, mismanaged or fraudulently used as we recover and rebuild the Gulf Coast in the wake of this natural disaster.

To that end, we would like to bring your attention to a particular procurement which appears to involve grossly over inflated costs incurred by the United States government. As noted in the *Houston Chronicle*,¹ on September 4th, the Federal Emergency Management Agency (FEMA) announced a plan to provide temporary housing (up to six months) for evacuees on three Carnival Cruise ships and one ship from the Scotia Prince line. At total capacity, the four ships can house 8,000 people. FEMA signed a six month contract with Carnival to provide three ships for a total of \$236 million. FEMA agreed to pay \$192 million to lease the Carnival Cruise ships with an additional clause that allows for up to \$44 million extra for expenses including food and fuel. The fourth ship was leased from the Scotia Prince line at a price of \$13 million. According to press reports, the ships are occupied at less than half their total capacity, bringing the approximate cost of housing a family of four for a six month period to \$120,000. This is a great deal of money for temporary housing. In many of the areas stuck by the hurricane, a house can be purchased for \$120,000. To pay so much for a six month rental seems exorbitant.

¹ "*Tab for Using Cruise Vessels as Katrina Housing Criticized*," October 10, 2005, A01, *Houston Chronicle*.

Although no one would doubt the dire need to find housing, it has been reported that one day after FEMA signed the deal with Carnival, FEMA rebuffed an offer from Greece to donate two cruise ships offered as part of a humanitarian aid package for Katrina evacuees.

Because of these issues, we are writing to request that the Subcommittee on Investigations examine several aspects of the contract with Carnival Cruise lines including:

- 1) The process FEMA used for the Request For Proposals (RFP) in this contract;
- 2) The amount of time the RFP remained open and bids were accepted prior to this award;
- 3) The number and range of bids received by FEMA for this award;
- 4) The current occupancy on the cruise ships (number of people, their status as first responders or municipal employees);
- 5) The rationale underlying FEMA's refusal of donated ships from Greece; and
- 6) The profits that Carnival is likely to realize if this contract continues for its current term given its present rate of occupancy and other associated expenses incurred to date.

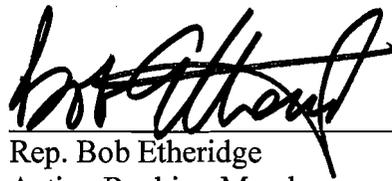
In coming to a decision about whether the Subcommittee should investigate this contract, it is worthwhile to know that some industry analysts have estimated that the full financial impact of port closures caused by Hurricane Katrina for Carnival would have reduced earnings by 1 cent to 3 cents per share. That estimate does not include additional losses which may have been caused by higher fuel prices and continued volatility of the weather. As stewards of the federal purse strings, we must ensure that this deal was a cost-effective method to arrange temporary housing, not an effort to keep Carnival Cruise lines afloat.

We look forward to working with you. If you are interested in having your subcommittee investigate this issue, please contact Jessica R. Herrera-Flanigan at 226-2616.

Sincerely,



Rep. Bennie G. Thompson
Ranking Member
Committee on Homeland Security



Rep. Bob Etheridge
Acting Ranking Member
Subcommittee on Investigations