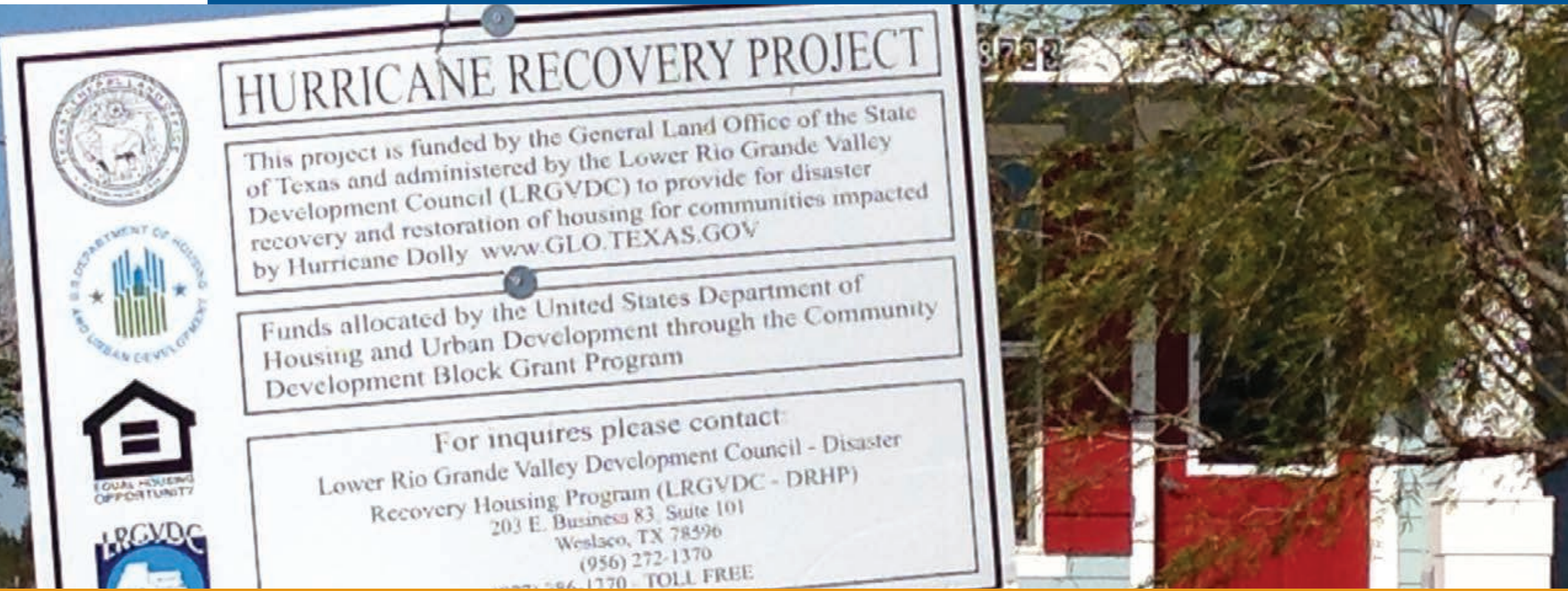
09 PLANNING FOR POST-DISASTER RECOVERY BRIEFING PAPERS



FINANCIAL RECOVERY

Money fuels community recovery and reconstruction. Every element of a disaster-impacted community will need funds to offset displacement costs and lost income, and to finance repairs and rebuilding. That includes community residents, businesses, and all public-serving institutions. Local governments have the primary responsibility for ensuring sufficient funding to repair their damaged facilities and infrastructure and staff recovery operations. However, this may only be a portion of what the entire community needs to recover. Local governments also have an important leadership role in understanding the major disaster financing resources, getting a clear picture of the overall damages as well as the fiscal and economic impacts of a disaster on their entire community, developing a comprehensive plan to use a diverse set of financing tools—both derived locally and from outside sources—to meet the community's needs, and ensuring that all financing approaches are accurate and well-documented.

KEY POINT #1

Know the various kinds of funding available for post-disaster recovery and how to get them.

KEY POINT #2

Understand the overall damage as well as fiscal and economic impacts of the disaster on the entire community.

KEY POINT #3

Develop a comprehensive disaster recovery financing strategy.

KEY POINT #4

Ensure transparent and accountable approaches to local recovery financing.

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Making Great Communities Happen

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KEY POINT #1

Know the various kinds of funding available for post-disaster recovery and how to get them.

In principle, local governments have the primary responsibility for disaster response and recovery and that includes financing recovery costs. In reality, however, the financial assistance for disaster recovery is a shared system of private and public resources. The system loosely follows a free-market philosophy that individuals, businesses and corporations, and other nongovernmental organizations are generally responsible for their own financial well-being first, and government is primarily responsible for disaster-related costs to governmental entities as well as helping those most in need. Table 1 lists typical assistance programs that are available following a major disaster, and these are briefly discussed here as well.

The kinds of public resources available from different levels of government are defined in large part by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Public Law 93-288, as amended), commonly referred to as the Stafford Act (FEMA 2013), and in the emergency management legislation of different states. Federal assistance may be available when the severity and magnitude of a disaster exceeds the capabilities of the state and the affected local governments to respond. In this case, the governor of the affected state is responsible for requesting a major disaster declaration by the president. When a presidential declaration is made, four federal programs—all administered by the Federal Emergency Management Agency (FEMA)—can be authorized: the Public Assistance Program, Hazard Mitigation Grant Program, Community Disaster Loan Program, and the Individual and Household Assistance Program. Congress can also appropriate supplemental emergency funds to help rebuild areas affected by federally declared disasters. The U.S. Department of Housing and Urban Development's (HUD) Community Development Block Grant Disaster Recovery grants are one such supplemental funding resource that can assist state and local governments in addressing disaster recovery needs unmet by other federal disaster assistance programs.

A major purpose of the National Disaster Recovery Framework is to help match local recovery priorities and projects with an array of federal partners and programs besides the more traditional disaster assistance programs (FEMA 2011). Besides FEMA and HUD, many more programs are available from other federal agencies, including the U.S. Army Corps of Engineers and federal departments of agriculture, energy, health and human services, the interior, and labor. Also, following major disasters, Congress or the president may authorize tax credits and other forms of temporary relief or incentives to help stimulate rebuilding. The American Planning Association has compiled a list of federal and other sources of disaster recovery assistance for communities, available online at www.planning.org/research/postdisaster/resourcelist. While now somewhat dated, FEMA's (2005) "Disaster Assistance: Guide to Recovery Programs" is still a useful resource with brief descriptions and contact information for an array of federal programs that may be able to provide disaster recovery assistance to eligible applicants. The Catalog of Federal Domestic Assistance also provides a more comprehensive list of federal financial and nonfinancial programs and can be obtained at www.cfda.gov.

Most states have their own disaster-related assistance programs as well. You might start by contacting the recovery division of your state emergency management agency for information. State emergency management agencies also commonly serve as intermediaries in managing the application processes and distribution of Stafford Act-related programs on behalf of and in collaboration with FEMA.

In addition to federal and state disaster assistance, most communities modify or create new revenue streams or utilize existing programs to finance recovery. Some tools and techniques that are common to normal local operations and which have been successfully applied to recovery include: redevelopment, public-private partnerships, special taxing and assessment districts, impact fees and special bonds, loans, and taxes. In addition to funding, there are other ways that local governments can incentivize recovery and reconstruction, such as transfer of development rights, differential taxation, temporary use allowances, development density bonuses, and public mortgage lending subsidies and policies.

TABLE 1. TYPES OF ASSISTANCE AVAILABLE FOR COMMUNITY RECOVERY FOLLOWING A MAJOR DISASTER

Federal Disaster Grants and Loans	
Federal Emergency Management Agency (FEMA)	• Public Assistance provides grants to state and local government agencies, private non-profit organizations, and federally recognized tribal organizations for debris removal, emergency protective measures, and the repair, replacement, or restoration of disaster-damaged facilities and infrastructure in federally declared disasters. See https://www.fema.gov/public-assistance-local-state-tribal-and-non-profit. • Hazard Mitigation Grant Program funding is directed to states and tribal organizations for hazard mitigation planning and projects in federally declared disasters. See https://www.fema.gov/hazard-mitigation-grant-program. • Community Disaster Loan Program provides loans to assist local governments in providing essential services following federally declared disasters. See https://www.fema.gov/community-disaster-loan-program. • Individual and Households Program provides grants directly to renters and displaced home owners that register with FEMA for assistance and reside within the boundaries of a federal disaster declaration region. See https://www.fema.gov/public-assistance-local-state-tribal-and-non-profit/recovery-directorate/assistance-individuals-and.
U.S. Department of Housing and Urban Development (HUD)	• Can expedite the annual awards made through the Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) programs for use in a disaster area and also provide mortgage assistance funds; see http://portal.hud.gov/hudportal/HUD?src=/info/disasterresources. • Congress can also appropriate supplemental emergency funds to HUD for CDBG "Disaster Recovery grants," and to a smaller extent, HOME, to help rebuild areas affected by major disasters declared by the president; see https://www.hudexchange.info/cdbg-dr.
U.S. Small Business Administration	• Typically provides disaster assistance in the form of loans for businesses of all sizes, private non-profit organizations, and for home owners and renters for damage restoration. See http://www.sba.gov/category/navigation-structure/loans-grants/small-business-loans/disaster-loans.
Economic Development Administration	• Grants to disaster-impacted small businesses and local governments to assist with long-term economic recovery. See http://www.eda.gov/about/disaster-recovery.htm.
Federal Highway Administration	• Emergency Relief program funds for freeway and highway repair and restoration. See: https://www.fhwa.dot.gov/map21/factsheets/er.cfm.
State Disaster Grants and Loans	
State emergency management agencies	• Typically administer the Stafford Act programs, including the Public Assistance and Hazard Mitigation Grant Program, as well as the Individuals and Households Program.
Other state agencies and legislatures	• May provide a share of matching funds to the Stafford Act programs. • Can authorize tax credits and other forms of temporary relief or incentives to help stimulate rebuilding. • Involved in recovery, liaising with their counterparts at both the national and local levels. For example, state housing agencies may manage the distribution of federal funding via HUD-CDBG to disaster-impacted local governments and residents.

TABLE 1. TYPES OF ASSISTANCE AVAILABLE FOR COMMUNITY RECOVERY FOLLOWING A MAJOR DISASTER

Local Governments	
	• Local revenue and reserves • Capital improvements programs can be amended to include infrastructure and public facilities repairs and reconstruction projects associated with disaster recovery. • Redevelopment districts can be established in heavily damaged areas to provide tax increment financing to offset redevelopment costs and earmark a portion of the new tax revenues generated by the new development. • Public-private partnerships can provide private capital and operational resources to the recovery process. • Special taxing and assessment districts can be established, or existing districts can possibly be repurposed or expanded, to collect taxes, fees, or other assessments from property owners located in the designated area in order to help fund recovery programs and projects. • Impact fees can used to underwrite the expansion of or addition to infrastructure and public facilities in post-disaster recovery. • Special bonds, loans, and taxes can be used to raise revenue to fund disaster recovery, but there are challenges in assuming an additional debt and in getting electorate to support them.
Insurance	
National Flood Insurance Program	• Provides federal backing of flood insurance coverage to home owners, renters and business owners who reside in communities that adopt and enforce floodplain management measures; see https://www.fema.gov/national-flood-insurance-program.
State-backed private insurance	• Several states have created state-backed insurance programs, which mostly focus on providing peril-specific coverage for home owners, and in some cases renters and small businesses. An example is the Citizens Property Insurance Corporation in Florida; see https://www.citizensfla.com/.
State and local insurance pools	• Intergovernmental risk pools are formed under state-specific legislation allowing for joint "pooling" of resources to address risks ranging from property loss to employee benefits, tort liability, workers compensation, and more. Pools are owned and governed collectively by their member entities. See http://www.agrip.org/publicsectorpooling.
Private market insurance	• Policies generally cover structures, contents, and the costs of additional living expenses (residential) or business interruption (commercial and public sector).
Philanthropic and Private Investment	
Nongovernmental organizations, private nonprofit entities, faith-based organizations, foundations, and businesses	• Provide both material and financial assistance to individuals, families, community organizations, and local governments. • Local community foundation can also sometimes act as the fiscal agent for local governments to receive monetary donations, which are then disbursed to qualified service providers in the locality.

In most areas of the United States, insurance is a foundational element of a community's disaster recovery. Insurance coverage can come from the National Flood Insurance program, other state-backed insurance programs, and private market insurance for specific disaster types. However, it should be noted that some parts of the U.S. are increasingly underinsured against the key hazard threats that they face due to rising insurance costs, reductions in insurance limits and coverages, and entire withdrawals from certain disaster-prone markets by private market insurers (Ceres 2014). In the long run, these coverage retreats transfer growing risks to public institutions and local populations.

Nongovernmental organizations, private nonprofit entities, faith-based organizations, foundations, and businesses also provide both material and financial assistance to individuals, families, community organizations, and local governments. But ultimately, private investment will be required to recover most community elements. Residents, property owners, retailers, and businesses must decide if it is worth investing in rebuilding. It is critical that a community foster confidence in recovery so that residents, businesses, and financial institutions "tip in" and decide to use their own resources. FEMA, in partnership with many federal agencies, has developed the Disaster Assistance Improvement Program), whose mission is to provide disaster survivors with information, support, services, and a mechanism to access and apply for disaster assistance. As noted, it targets disaster survivors, namely individual households and businesses, and not local governments. It can be accessed at: www.disasterassistance.gov.

The breadth and depth of financing strategies that are utilized in post-disaster recovery depends, in great part, upon the resources available to a particular community, as well as the creativity and resourcefulness of local governments, residents, and businesses to pursue funding resources beyond what the typical disaster assistance resources offer.

KEY POINT #2

Understand the overall damage as well as fiscal and economic impacts of the disaster on the entire community.

It is important to start immediately after a disaster to develop the best estimate of the total costs of the disaster on the entire community—local government, residents, businesses, utilities, and key service providers. If potential funding sources are known, these should be tracked as well; however, a cost should not be ignored or omitted because it will likely be covered by some outside funding source. Developing this comprehensive view of the costs takes time, but it will ultimately help the community to chart a more informed and proactive—rather than reactive—course in articulating and obtaining post-disaster funds to meet the necessary needs.

The direct costs to respond to and repair the damage caused by a disaster will come, in large part, from building and infrastructure damage investigations, but some will not. Also, as a cautionary note, there can be many sources of the same type of information, including the local government, FEMA and other federal agencies, state agencies, and insurance inspectors and claims adjustors. There will also be immediate costs for emergency response and temporary repairs that should be obtained.

The indirect costs of the disaster and its damage—or ripple effects—also need to be analyzed. This may be most efficiently done by gathering data on the pre-disaster economy for comparison. These might include: identifying the primary industries and employers; trends in wages, employment, and industrial output; and the local and regional economic outlook. The post-disaster analysis should look at businesses affected and their losses, wage losses, utility-related losses, business resumption and recovery assessments, and the categories and values of broader economic losses. Some of the products of these analyses should be a characterization of the short- and long-term impacts on businesses, different economic sectors, and the overall economic outlook for the community.

Next, the disasters impacts on local government facilities, displacement of reworks, and revenue should be evaluated. The damage assessment and other applicable information can help in estimating how local revenue sources, such as property and sales tax revenue, have been impacted by the disaster—both directly and indirectly—and also in projecting how they might continue to be impacted and for how long. The costs of essential local government services that must be maintained throughout the recovery must also be assessed, as well as the anticipated additional costs to support the additional response and recovery-related costs.

Understanding the direct damage and impacts caused by a disaster takes time to discover, and the indirect fiscal and economic impacts take even longer yet. Local governments need procedures to continue to identify, catalog, analyze, and address the additional recovery needs that unfold over time, such as business closings and consequent unemployment. These consequences can dramatically complicate and even undermine recovery plans and initial investments.

KEY POINT #3

Develop a comprehensive disaster recovery financing strategy.

A robust and comprehensive financing strategy should be part of a community's recovery planning efforts, pre- and post-disaster. For those communities that undertake an advance planning effort, a pre-disaster recovery financing strategy will be a good starting point for post-disaster analyses. It should definitely be reassessed and amended as necessary once the disaster landscape is revealed.

A recovery financing strategy should first integrate three categories of information about the community's recovery: the community's needs (i.e., total damage and economic impacts), the known recovery resources (i.e., federal and state assistance, insurance, local reserves, and other resources), and the potential gaps in funding. This includes looking at the costs that have already been incurred responding to the disaster and the many resources that are already committed to address those immediate needs; any unfunded gaps need to be accounted for as part of the analysis. This is also a time to explore nonessential, cost-cutting actions so that the local budget is better aligned with funding recovery activities and the maintenance of staff and essential services.

Once this macroanalysis is done, it is time to consider the proposed recovery programs and projects resulting from the recovery planning process and begin matching resources to each. Some recovery programs and projects will require assemblages of financial resources for implementation while, at the same time, some disaster assistance funds have to be parsed across many programs and projects. This requires a lot of knowledge about the different sources of funding: which to use for what and where, when and how each becomes available, and what eligibility requirements, project conditions, and matches are required for each.

Often the funding requires extensive application processes and cost estimation efforts. Simply put, most of this money doesn't just "flow." It has to be granted, which means that local governments have to file Project Worksheets for FEMA Public Assistance, applications for FEMA Hazard Mitigation Grant Program funds, and action plans for HUD funding. There can also be delays at both the state and federal levels in processing and managing these program streams, especially in large disasters. Also, some proposed recovery projects may not fit the funding requirements of some disaster assistance programs, but communities should take the time necessary to work with funders to see whether waivers of certain criteria or creative financing solutions might be allowed. Some level of local match may also be needed to cover the insurance deductible or the required local match for disaster programs like FEMA Public Assistance.

The sources and terms of different recovery funds will definitely affect the overall timeframe and outcomes of a community's recovery. Thus, a recovery financing strategy needs to address both the short-term and long-term needs and revenue gaps and it should also aim to leverage outside resources with local resources for long-term investments in community resilience, not just a return to pre-disaster conditions. However, while strategies focused on maximizing outside resources to fund the recovery can be fiscally attractive, they can also lessen local control over recovery. Having a recovery plan and accompanying implementation financing strategy will help maintain local leadership over the entire recovery process. It can also help to reduce disaster "politics" and issues of equity in distribution.

KEY POINT #4

Ensure transparent and accountable approaches to local recovery financing.

Accountability and transparency are necessary to building and maintaining trust between those who provide recovery funds, those who manage the funds, and those who use the funds in rebuilding. Local governments are encouraged to establish robust and transparent accounting systems that meet the standards of key disaster funding agencies, such as FEMA, carefully monitoring recovery projects and tracking all expenditures on a project-by-project basis. Such documentation is crucial to ensuring reimbursement. FEMA and other federal and state assistance program providers have strict guidelines aimed at preventing the duplication of benefits between their own programs, insurance benefits, and other forms of disaster assistance. Program auditors will demand complete records of expenditures.

Many disaster-impacted local governments also benefited from having a chief financial officer on staff to help manage cash flow and arrange for bridge financing. A study of many community recovery efforts across the United States found that local governments fared better in receiving financial grants from federal agencies like FEMA, HUD, and the U.S. Economic Development Administration if they hired or contracted staff to help ensure that they were well-versed in federal programs, eligibility requirements, and regulations, and also had staff dedicated to working on grant applications and administration (Alesch, Arendt, and Holly 2009, 106–107).

Unfortunately, the phenomenon of time compression in disaster recovery will almost certainly increase the probability of mistakes, both in number and cost. Sometimes it may be necessary to undo previous actions, which can be costly both in terms of dollars and time. It is important to plan ahead for the mistakes and audit reimbursement requirements that are almost certain to come.

CONCLUSIONS

Having money, and large amounts of it, will be a driving force in a community's recovery process. Local leadership is crucial in understanding the array of disaster assistance programs available to a community and ensuring that there is comprehensive documentation of the disaster's direct and indirect impacts on the entire community, a robust plan for how funds will be obtained and used, and accurate and ample documentation on how all funds are spent.

RESOURCES

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