

Financing Disaster Mitigation, Preparedness, Response, and Recovery

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A disaster can result in severe economic consequences for an afflicted area. State and local monies deplete rapidly, costly liability demands arise in court, and insurance claims increase quickly, placing the community in an unexpected economic crisis. After the May 1983 earthquake in Coalinga, California, the city manager noted: "One of the most important things to learn about managing an emergency is that costs will skyrocket, and property values will fall, as will sales tax revenues, if there is much damage to commercial buildings."¹ The city manager also stated that, "to run the city and pay for the earthquake, knowing about and working with the Federal Emergency Management Agency (FEMA) and the state are most necessary."²

More than 60,000 families suffered the consequences of natural and man-made technological disasters and received federal help in 1983, an average year of major disasters. FEMA responded to 21 major disasters declared by President Reagan during the year, which amounted to the distribution of more than \$1.1 billion.³ The money was used to help citizens recover and to supplement repair of state and local government facilities. Severe winter storms and flooding in California were the most costly natural disasters requiring federal assistance in 1983 with the federal government paying out an estimated \$308 million to more than 17,000 families. During the same year, the private insurance industry nationwide paid record damage claims of \$1.9 billion.⁴

But not all disasters are federally declared. Federal assistance only becomes fully available with a presidential approval requested by a governor. Nevertheless, communities may not receive any aid from the federal government, long considered the first source of funds by unprepared states and communities. FEMA statistics indicate that from April 1, 1974, to September 30, 1983, only 59 percent of requests by state governors for a presidential disaster declaration were approved.⁵ With 41 percent of the requests being turned down, communities with no financial contingency plans were placed at considerable financial risk. For example, the city of Rancho Palos Verdes, California, found the cost of paying for a slow moving landslide over a 10-year period to be in the millions of dollars and no federal disaster aid was approved. Landslide litigation cost the county government more than \$9 million.

How does a community government finance disaster losses when little or no state and federal aid is ap-

proved? Further, what financing devices are available at the various stages of disaster? Our purpose is to examine the financing alternatives that can be used in the various stages of emergency management: disaster mitigation, preparedness, response, and recovery. Examples of financing devices to be examined include mutual aid compacts, joint powers agreements, various types of bonds, insurance programs, tax anticipation notes, and budget transfers. These financing instruments are primarily used to handle conventional community needs rather than natural and technological emergencies. It is difficult to earmark these revenue sources for emergency purposes when so many other demands are made on community leaders for these funds.

Generally, there has been very little written on disaster financing and cost recovery in emergency management.⁶ More research and analysis is needed to further identify and list which devices appear most appropriate for these four phases of emergency management. We will first examine, for purposes of background, federal and state participation in financing emergencies and then we will turn to alternative financing devices available to local governments.

Direct Federal Assistance—FEMA

FEMA founded in 1979, received its enabling authority through the Disaster Relief Act of 1974. Its directive is to organize and coordinate federal activities dealing with major emergencies. To help enhance organizational goals, FEMA created disaster assistance programs divided into public and individual aid. Public help for governments to repair bridges, buildings, and other facilities is 75 percent federally funded. The federal segment reimburses state and local governments upon completion of repairs or restoration. Local governments are obligated to find the other 25-percent matching funds from their own resources unless the state grants or loans them the necessary funds. FEMA does not compensate for damage to public facilities that

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