FEMA's Impact on Disaster Recovery Planning

Recently there have been a number of articles and e-mail traffic suggesting major changes from FEMA regarding Public Assistance Grants allowed under the Robert T. Stafford Act. While FEMA did not go through the formal and lengthy process to amend the Stafford Act, information surfaced suggesting they were planning to limit financial assistance to public entities and non-profits which sustain property damage in natural disasters. This information has caused concern with CSAC, AGRIP and other public entities. However, as we learned from the last time FEMA considered similar changes (described below), the process by which they would amend the Stafford Act to affect those changes is a long and public process. They are not able to change the way the Grant Program operates by simply posting a notice to their website indicating changes will be taking place. The most recent reports indicate FEMA has rescinded the bulletin that had been posted describing their new plan.

Ultimately FEMA's recent actions may be real, exaggerated or simply a trial balloon. Nonetheless, Public Assistance Grants are an important part of any Disaster Recovery Plan for Public Entities and any potential change in administrative requirements should be taken seriously. From a historical perspective, this is not the first time that FEMA has explored changes in their administrative guidelines. During the last year of the Clinton Administration then FEMA Director James Lee Witt explored a variety of administrative changes that would have required Public Entities to assume a larger share of the damage sustained to their Real and Personal Property through the purchase of commercial insurance.

At the heart of the debate was FEMA's view that it was equitable and financially affordable to spread more of the risk to the commercial insurance market by setting maximum "affordable" rate levels, limits and deductibles for individual entities as a prerequisite to receiving future Public Assistance Grants. The heart of the resistance from prospective "grantees" and other insurance professionals was twofold. First, the individual budget impact of mandatory insurance premiums in high hazard areas was unfair. Secondly, the availability of Earthquake on the West Coast and Wind on the East & Gulf Coasts was already limited, often very unstable and the proposed FEMA guidelines would drive rates and deductibles even higher.

Some of the valuable lessons learned from this lengthy, hard-fought debate are:

1. Proposed administrative changes to the Robert T. Stanford Act cannot be made without public notice, input from affected entities and other stakeholders via regional meetings and/or congressional involvement.
2. The combined voice of prospective "grantees" was clearly heard and politically effective.
3. FEMA's Director was willing learn and did listen to insurance professionals who outlined flaws in their initial approach and offered alternative solutions.
4. The public debate revealed a large number of eligible "grantees" were relying too heavily on FEMA for assistance and lacked a viable disaster recovery plan.

5. FEMA's concern in 1999 was that the risk of loss was growing in our most vulnerable regions and that the existing regulations would impair their ability to respond to this growing challenge.
6. Subsequent years of growing losses have in many ways validated FEMA concerns; however, based on the recent articles mentioned above, the strong resistance to change remains firmly entrenched and the likelihood of any meaningful change to the Public Assistance Grant program remains remote.

Our long-standing recommendation for effective recovery following a major disaster is a three-prong approach using:

- Selective Purchase of Catastrophic Insurance;
- Establishment of a Catastrophic Loss Reserve Fund;
- Public Assistance Grants from FEMA & OES (to fill in the potential voids left uncovered by insurance + reserves)

The percentage of reliance on each of these three resource pools to the ultimate loss will vary depending on the type of entity affected and the community's desire to replace certain nonessential properties. For example, a water district will receive priority Public Assistance Grants from FEMA as well as other resources from the Federal Government& OES versus a library district. A city with multiple departments may have rapid replacement of emergency equipment from FEMA while it could take years for replacement funds for playground equipment lost at community parks. It is the lower priority buildings, personal property, vehicles, works of art, etc. where the combination of insurance and catastrophic reserve funds will more effectively restore the community to the position it was prior to the catastrophic loss.

CSAC EIA and Alliant Insurance Services will be actively involved with FEMA in any administrative process that involves a significant change in their procedures or congressional action that changes the present language of the Robert T. Stanford Act.

In 2000 we issued the following proposal letter and will again follow a similar approach in the event of a meaning change affecting our clients.

<u>FEMA Compliant Property Insurance Programs</u>
<u>Offered by</u>
<u>Alliant Insurance Services / Public Entity Divisions</u>
<u>San Francisco & Newport Beach</u>
<u>(Issued in 2000 and never used due FEMA dropping proposed changes to the Public Assistance Grant Program)</u>

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Background

Alliant Insurance Services has played an active roll meeting with FEMA & OES representatives during the public discussions stage of the proposed insurance requirements. In addition we have continued to monitor the progress of the pending requirements and provide direct assistance to risk managers working either directly with FEMA or drafting responses to the proposed regulations.

In anticipation of the new regulations successfully making their way through the political process, we are designing solutions for the vast number of public entities in jeopardy of being disqualified from future public assistance grants due to an inadequate property insurance program.

Vision

Our vision is to provide timely information, analysis of existing property programs and quality insurance options to any public entity in the United States desiring to:

- Understand the impact of the pending regulation
- Identify any short fall in their existing program
- Obtain viable options to bring their existing property insurance program into compliance with FEMA regulations
- Play a part in bringing about legislative change that will allow risk sharing of catastrophic limits across State lines

Implementation

The first step is an analysis of your existing program. Does it meet the minimum tests for adequate fire, wind, flood and earthquake coverage? Are vehicles and mobile equipment properly insured? We can help in the analysis process. If you are an existing client simply ask for a compliance comparison. If you are not presently a client, all we need is a copy of your present policy, five-year loss history and your latest statement of values.

If your entity is not in compliance, we can provide several creative solutions. We have four very distinct solutions for public entities desiring to meet the standard requirements of eligibility for future public assistance grants. Our solutions depend on:

- The type of entity and the state in which you are located
- Your willingness to share risk (where allowed by state law)
- What range between between your maximum foreseeable loss and FEMA's minimum eligibility requirements you wish to cover
- Other special requirements from revenue bond financing or other loan documents

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Whether FEMA's renewed interest in this issue dies with a change in administration at the Federal level, resurfaces with bipartisan support or local and state governments pick-up the challenge and work toward cooperative and equitable solutions for Public Assistance Grants, CSAC EIA and Alliant Insurance Services will again play a roll in bringing timely updates to all members, providing meaningful recommendations, creating solutions and new products for consideration and debate.