Communities like the City of Treasure Island, Florida, suffered devastating effects from Hurricane Helene, which caused an estimated total of $30.5–$47.5 Billion in damage across 16 states.

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PERSPECTIVE

Disaster Planning for Finance Directors

BY JUSTIN MARLOWE

Many of 2024's biggest public finance stories were, in fact, stories about natural disasters. Hurricanes Helene and Milton caused hundreds of casualties and an estimated $50 billion in damage. The Thompson Fire in northern California led to the evacuations of 13,000 people. Memorial Day tornadoes killed dozens of people in Texas, Oklahoma, and Arkansas. The long-term public finance implications of these and other catastrophes—property damage, infrastructure replacement, lost tax collections, damaged credit quality, and so forth—are staggering.

Our bureaucratic term for the body of work that follows these disasters is "management, recovery, and rebuilding." That work is financed by the federal government, managed by state governments, and executed by local governments with the help of nonprofits and other community resources. What does this mean for local public finance professionals? Practically speaking, it means that once a disaster happens, you'll need to stand up a billion-dollar organization in a week. As recovery resources flow in, we depend on local finance professionals to build the budgeting, financial reporting, procurement, and other systems needed to manage them. GFOA's Disaster Finance Resource Center (gfoa.org/disaster-finance) catalogs the many federal and other resources available to public finance professionals to that effect.

But as natural disasters seem to grow bigger and more damaging every year, we're left to wonder: what can local finance professionals do to better prepare for natural disasters? In other words, what can local finance professionals do today to ensure a successful management and recovery later?

In fact, they can do three things to improve disaster planning. Let's call them the three "R's."

Reserves. The first is to design and maintain reserves. Successful disaster response/recovery is made possible by financial liquidity. Many of the main federal support programs require the recipient state/local government to spend or encumber dollars, then seek reimbursement later. Most grants focused on rebuilding and mitigation (such as, protecting infrastructure and other public assets from a future disaster) require a 25 percent local cost share. Moreover, many local disasters are large enough to upend a community, but not large enough to qualify for federal and state disaster relief.

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That's why financial reserves are paramount. Finance staff should understand their community's exposure to physical climate risk and other potential disasters, and to make certain their Rainy Day funds and/or reserve fund levels and policies reflect those risks. GFOA's Rethinking Reserves initiative (gfoa.org/materials/rethinkingreserves) includes helpful guidance to that effect.

Preparing for a disaster is also a good opportunity to consider financial risk management strategies outside of traditional reserve funds. For instance, many local governments consider themselves self-insured against day-to-day risks like property damage and workers compensation claims. Self-insuring against natural disasters requires a much more comprehensive scheme. If you're self-insured, make sure you have a well-capitalized internal service fund and a clear set of policies that describe how and when you will build and deploy that fund. Where appropriate, supplement that self-insurance scheme with limited third-party coverage for critical public infrastructure assets.

Readiness. The second is financial readiness. Disaster preparedness plans tend to focus on operational *details*. What are the designated evacuation routes? How will first responders coordinate their efforts to ensure public safety? How will we shelter those who can't evacuate—and their pets? And so forth.

But a good preparedness plan is also a financial plan. Finance staff should understand how much it would cost to execute those scenario plans. Moreover, and perhaps more important, they should know if their financial information systems have the capacity to track and report on millions of dollars from unfamiliar federal, state, and other sources. Fortunately, state and local disaster management agencies routinely host simulation and "table-top" exercises to illustrate how a disaster response might unfold. Local finance staff can and should observe these exercises with an eye toward the amount and types of spending they'd require.

Relationships. Third is relationships. Finance and budgeting teams often assume the role of de facto disaster management coordinator, simply because they know how to move money into, out of, and within the organization. In that sense, disaster management is just an extension of the working relationships that emerge in the day-to-day budgeting and financial management process.

But, effective disaster management depends on relationships that extend well beyond the confines of City Hall. There are 90 federal programs that offer some type of disaster relief. We can't expect a local finance staff to know everything about all of them. What we can and should expect them to understand is the application process, allowable costs, and reimbursement mechanics, the most relevant among those programs. And more important, we can expect them to know the people at the relevant state agencies, counties, and regional governments that administer those programs, and the relevant nonprofit and faith-based organizations that will need to access those programs after a disaster.

Procurement relationships are also essential. In disaster response, delivering the correct people and materials can mean the difference between life and death. In that moment, finance professionals don't have the luxury of vetting new vendors or negotiating spot prices. Consequently, many successful recovery efforts have been marred by headline-grabbing reports of local governments spending money on essential goods and services at exorbitant prices, or even worse, on goods and services that were never delivered.

It follows that finance professionals can add a lot of value to disaster planning by getting the procurement right. Take the time in advance to review and pre-qualify reputable vendors. Have contracts at the ready for goods and services you don't normally purchase, like debris removal, staff augmentation, technical assistance with managing Federal Emergency Management Agency (FEMA) dollars, and more. Set up placeholder account codes to expedite the tracking of that spending.

Natural disasters are once-in-a-lifetime challenges. But they're also a once-in-a-lifetime opportunity for local finance professionals to help their friends and neighbors in their most vulnerable moment. That requires some careful, uniquely financial planning long before a disaster strikes.

Note: This column is based on an extremely valuable conversation with Steve Hagerty, Founder and President of Haggerty Consulting and the former Mayor of the City of Evanston, IL.

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