

# **The Cost of Catastrophe**

Budgeting for Natural Disasters

# Background on disasters and state budgets

## Disasters are more frequent, severe, and costly

- Cumulative disaster costs **more than tripled** in the last 20 years when compared to the preceding 2 decades.

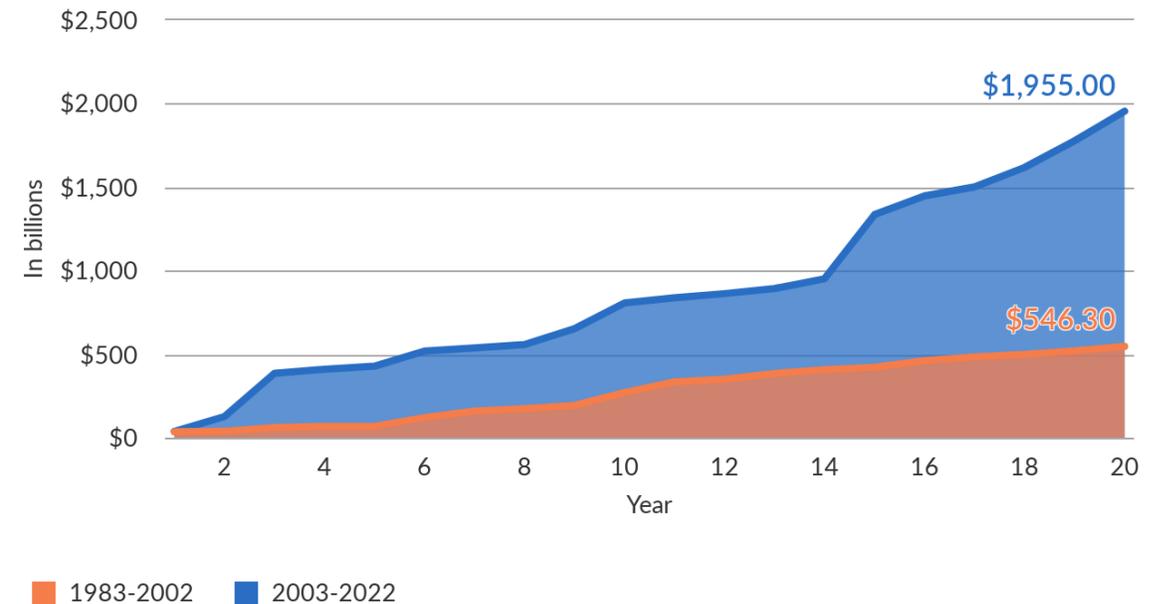
## States play a key role in paying for disasters

- States fund smaller disasters, cost-shares for federal grants, and statewide resilience efforts

## Growing risk demands a closer look

- State disaster spending not consistently tracked
- Budgets are built for “if” not for “when”
- Risk reduction is critical, but often underinvested

Cumulative Cost of Billion-Dollar Disasters



Source: National Oceanic and Atmospheric Administration (<https://www.ncei.noaa.gov/access/billions/events.pdf>)

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## What can states do?



### **Measure**

Improve comprehensive disaster spending data



### **Manage**

Assess and improve budgeting practices



### **Mitigate**

Prioritize and implement mitigation

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# Measure disaster spending

Tracking and reporting spending data

## Most states currently don't comprehensively track disaster spending

- Tracking is hard, but...
- Better data could drive budget planning and stability
- Necessary to inform investments in mitigation

## Principles for measuring disaster spending

- Identify spending across multiple agencies
- Account for federal reimbursements
- Consistently update reporting to account for drawn-out timelines

# Manage the budget

How do states budget for disasters?

## Preemptive

- Statewide disaster accounts
- Rainy day funds

## Responsive

- Supplemental appropriations
- Transfer authority

## Variable

- State agency budgets

Use of each mechanism, by state



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# Manage the budget

Evaluating current processes and practices

## Goals of sound disaster budget management

- Timely availability of funds in emergency
- Minimizing disruption to other priorities from volatile events
- Ensure sufficient funds are available as costs grow
- Limit opportunity cost from unused funds

## Assessing if current budgeting processes are up to the challenge

- Looking at totality of spending
- Evaluating frequency of supplemental appropriations/emergency mechanisms
- Thinking about purpose of different funding mechanisms and funding them accordingly
- Integrate forward-looking risk information

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# Mitigate disaster risk

Essential to managing long term costs

## Funding is growing, but challenges persist

- Federal (and some state) investments are at an all time high, but...
- Response, recovery still take precedence
- The scale of needed investment outpaces current funding
- Implementing federal funds is a major hurdle

## State approaches

- Significant investments of state funds
- Incentivizing and facilitating local mitigation investments
- Developing federal grant expertise for state and local benefit
- Separating mitigation funds from response and recovery funds

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# Role of the Insurance Market

Insurers are reacting to rising disaster risks

## Insurance markets as a fiscal risk

- Rising premiums and departing insurers in some high-risk states
- Utilization of state-run “last resort” insurance plans is increasing
- Some states directly subsidizing insurance market

## Insurance rules could incentivize private risk reduction activity

- Insurance premiums force consideration of risk before disaster strikes
- Oregon: requires insurers to consider fire risk mitigation in setting premiums
- Transparency about the connection between mitigation efforts and premiums could incentivize private mitigation investments

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