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## Testimony of Patty Hernandez, Executive Director of Headwaters Economics Before the Senate Committee on Banking, Housing, & Urban Affairs May 2, 2023

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Thank you, Chairman Brown, Ranking Member Scott, and members of the Committee.

I'm the Executive Director of Headwaters Economics, an independent nonprofit organization based in Montana.<sup>1</sup> We work on community development, primarily with government partners at the local, state, and federal levels.

I'm here today to share how mitigation efforts that start *before* disasters strike can reduce burdens on federal disaster programs and make communities safer and more prosperous.

At Headwaters Economics, we run free technical assistance programs that help rural communities reduce their flood<sup>2</sup> and wildfire risks.<sup>3</sup> We've worked with more than 100 communities across the country, and we've learned a lot about local needs and what successful disaster mitigation looks like. We're seeing proof that mitigation works. It yields cost savings for taxpayers and protects property and livelihoods.

One of our partners is the rural community of Three Forks, Montana. In 2021, new floodplain maps showed that its risk of catastrophic flooding was much higher than previously understood. Most of Three Forks was mapped as having high risk with a large part as floodway – essentially a no-build zone. This community offers some of the last remaining options for affordable housing in southwest Montana, and the implications of the new flood maps were dire. Kelly Smith, the city clerk and floodplain administrator, told me she was so devastated she nearly left her job. The residents were rightfully scared of what would happen to their insurance premiums and their property values. The future of Three Forks – a strong rural community – was in jeopardy.

We partnered with Three Forks city staff and local elected officials, Montana state agencies, and local engineers to find an innovative infrastructure solution that could eliminate nearly all the flood risk. The project creates a grass-lined channel that captures flood waters and directs it back into the Jefferson River, preserving the land for cattle grazing and protecting the town.

The cost of this project is \$5 million – which is much less than the expected \$60 million in losses if a flood were to occur in Three Forks, but still far out of reach for a rural community. After one failed attempt at a FEMA BRIC grant,<sup>4</sup> followed by technical assistance from FEMA Region 8 staff, in 2022 the partnership successfully secured the largest FEMA Flood Mitigation Assistance grant ever awarded to a Montana community.<sup>5</sup>

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<sup>1</sup> Headwaters Economics is an independent, nonprofit research group whose mission is to improve community development and land management decisions. <https://headwaterseconomics.org/>

<sup>2</sup> FloodWise Community Assistance: <https://floodwise.headwaterseconomics.org/>

<sup>3</sup> Community Planning Assistance for Wildfire: <https://cpaw.headwaterseconomics.org/>

<sup>4</sup> Flavelle C. 2021. Infrastructure Bill Makes First Major U.S. Investment in Climate Resilience. *New York Times*. <https://www.nytimes.com/2021/11/06/climate/infrastructure-bill-climate.html>

<sup>5</sup> FEMA. 2022. Montana: Mitigation Affordability, Climate Resiliency and Economic Vitality for a Small Community Confluence Project. <https://www.fema.gov/case-study/three-forks-city-montana>

This project will protect residents and businesses, preserve workforce housing and agricultural land, and will help avoid future NFIP claims. It's an excellent example of how flood mitigation investments can reduce insurance burdens on homeowners and taxpayers.

But an important part of this story is what *didn't* work so well and what we can do about it.

Communities like Three Forks have a hard time funding mitigation before a disaster. Federal agencies have importantly directed more resources to vulnerable communities recently, but rural and low-capacity communities are at risk of being left behind. Affluent urban communities are more than twice as likely to win mitigation grants than their rural and tribal counterparts. This is because large cities like New York have experienced staff available to coordinate partnerships, write grant proposals, and secure financial resources.

To better understand the challenges faced by rural communities, Headwaters Economics developed the Rural Capacity Index, which measures whether communities have the local government staff – like planners and engineers – and other resources necessary to secure resources.<sup>6</sup> Our Rural Capacity Map shows that thousands of communities across America lack the capacity required to access disaster mitigation funding. In Montana alone, we found that 65% of communities don't have adequate capacity to access federal resilience funding. More than three-quarters of communities in the Midwest have low capacity, and more than half of communities in the Gulf, Southeast, and West have low-capacity.

Low-capacity communities may miss out on other important benefits that come with mitigation, such as housing affordability. For example, 22 million Americans live in mobile and manufactured homes. These homes are the largest source of unsubsidized affordable housing in the U.S.<sup>7</sup> We found that one in seven mobile homes across the country is in an area with high flood risk.<sup>8</sup> When a disaster hits these communities, as we are seeing more and more often, it can dramatically erode the local housing supply, rents go up, homelessness increases, and the disruption can last for years.<sup>9</sup> Better access to mitigation resources would allow communities to invest in more durable housing. Mitigation can be a win for homeowners and renters alike, as well as the builders and construction workers who make these projects a reality.

But there are still thousands of communities that don't have the capacity to even get started.

So what can we do? I'll share our top solutions.

**First, let's fix the huge gap in technical assistance.** Local governments typically bear most of the responsibility in planning and implementing mitigation projects, yet a lack of resources, technical expertise, and staff too often create enormous barriers.<sup>10</sup> Programs administered by state or federal agencies or by nonprofit partners can support project identification, design, and implementation, as well as assistance in compiling grant proposals.

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<sup>6</sup> Headwaters Economics. 2022. A rural capacity map. <https://headwaterseconomics.org/equity/rural-capacity-map/>

<sup>7</sup> Consumer Financial Protection Bureau. 2021. Manufactured housing finance: New insights from the Home Mortgage Disclosure Act data. [https://files.consumerfinance.gov/f/documents/cfpb\\_manufactured-housing-finance-new-insights-hmda\\_report\\_2021-05.pdf](https://files.consumerfinance.gov/f/documents/cfpb_manufactured-housing-finance-new-insights-hmda_report_2021-05.pdf)

<sup>8</sup> Headwaters Economics. 2022. Mobile home residents face higher flood risk. <https://headwaterseconomics.org/natural-hazards/mobile-home-flood-risk/>

<sup>9</sup> Rumbach, A., Sullivan, E., & Makarewicz, C. 2020. Mobile home parks and disasters: Understanding risk to the third housing type in the United States. *Natural Hazards Review*, 21(2).

<sup>10</sup> Tyler, J., Sadiq, A. A., & Noonan, D. S. (2019). A review of the community flood risk management literature in the USA: Lessons for improving community resilience to floods. *Natural Hazards*, 96, 1223-1248.

**Second, there's much we can do to streamline how communities access mitigation funding.** Several strategies can be deployed:

- Make federal disaster mitigation programs more predictable and consistent for communities. Programs like HUD's Community Development Block Grant Disaster Recovery (CDBG-DR) program has been only renewed on an ad-hoc basis. The ad-hoc renewal doesn't give communities or agencies the predictability they need to make effective plans. It also results in a significant lag between when a qualifying disaster occurs and when the funding gets on the ground.<sup>11</sup> Authorization could help get needed funding to communities sooner and more efficiently. It would decrease administrative burdens for the agency and for communities by streamlining rules in the Federal Register.
- Reduce local match requirements. Surveys have found that rural local governments have higher levels of fiscal stress than their urban counterparts.<sup>12</sup> Local match requirements on grants compound these difficulties. More than 60% of resilience funding in the Bipartisan Infrastructure Law requires a local match.<sup>13</sup> Some funding programs even score applicants higher if they can provide more than the minimum local match, making it more difficult for smaller communities to compete.<sup>14</sup> Match requirements could be eliminated or reduced, and the definition of what qualifies for "match" could be expanded to include long-term maintenance costs.
- Refine scoring criteria to prioritize equity and safety. Application requirements and scoring criteria disadvantage certain geographies, particularly rural areas, places with lower incomes, and tribal communities. Federal agencies should prioritize equity and public safety, such as by eliminating or de-emphasizing benefit-cost formulas in the application process. Benefit-cost analyses are technical reports that are expensive and highly specialized, typically requiring that communities hire expensive external consultants. Additionally, benefit-cost analyses often undervalue the benefits of projects in lower-capacity and lower-income communities, prioritizing property values over people.<sup>15</sup> Recent changes proposed by the Office of Information and Regulatory Affairs<sup>16</sup> are a step in the right direction, but more is needed to address the equity challenges of benefit-cost analyses.
- Shift money into direct allocations. For low-capacity communities with high risk of flooding or other disasters, direct funding could be the most efficient way to avoid the cost of disasters. Shifting more money into block grants and direct allocations, as opposed to competitive grants, can help ease some of the unique burdens faced by rural communities and increase the geographic distribution of funds. For instance, increasing the state allocation and tribal set-aside pools in FEMA's BRIC program could help more states access funding and encourage smaller, high-impact projects that create communitywide benefits. Competitive national programs can also be stratified to ensure more funding reaches rural communities and interior states.

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<sup>11</sup> Martín, C., Teles, D., & DuBois, N. 2022. Understanding the Pace of HUD's Disaster Housing Recovery Efforts. *Housing Policy Debate*, 32(1), 102-127.

<sup>12</sup> Lobao, L., & Kelly, P. Local governments across rural America: Status, challenges and positioning for the future. *Investing in Rural Prosperity*, Federal Reserve Bank of St. Louis, 81-92.

<sup>13</sup> Headwaters Economics. 2023. Match requirements prevent rural and low-capacity communities from accessing climate resilience funding. <https://headwaterseconomics.org/equity/match-requirements/>

<sup>14</sup> Clancy, N. 2022. The Building Resilient Infrastructure and Communities Mitigation Grant program: Incorporating hazard risk and social equity into decisionmaking processes. RAND Corporation. [https://www.rand.org/pubs/research\\_reports/RRA1258-1.html](https://www.rand.org/pubs/research_reports/RRA1258-1.html)

<sup>15</sup> Headwaters Economics. 2021. Improving benefit-cost analyses for rural areas. <https://headwaterseconomics.org/equity/improving-benefit-cost-analyses/>

<sup>16</sup> The White House. 2023. Strengthening our Regulatory System for the 21<sup>st</sup> Century. <https://www.whitehouse.gov/omb/briefing-room/2023/04/06/strengthening-our-regulatory-system-for-the-21st-century/>

- Increase rural community capacity to compete for funding. Federal support for local government capacity and economic diversification would dramatically improve the ability of rural communities to access funds. For example, federal programs could leverage nonfederal partnerships to scale up technical assistance for grant writing, project scoping and plan development, and coordination among stakeholders. Funding regional projects that leverage urban-rural partnerships can also benefit low-capacity communities.<sup>17</sup> Investing in regional institutions and organizations that can help coordinate resources and prioritize projects may also be necessary. Finally, federal funding programs can prioritize projects that result in economic diversification in order to help communities generate predictable local revenue needed for disaster mitigation.

**Overall, we can encourage federal agencies to prioritize mitigation funding for low-capacity communities.**

The existing strategies for reaching disadvantaged communities are failing to reach rural parts of this country. This is partly reflected in the \$5.6 billion in funding requests for FEMA resilience funding this year, far exceeding the \$3.1 billion available.<sup>18</sup> But imagine how many communities simply didn't have the resources or expertise to even apply.

All of these strategies will yield large savings from avoided losses. These strategies will alleviate pressure on post-disaster programs like NFIP and allow projects to move forward – projects that will reduce risk, protect homes and businesses, and make communities safer and more attractive places to live.

Thank you for your time and for bringing attention to these issues.

**Patty Hernandez**

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Headwaters Economics

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<sup>17</sup> Dabson, B. 2019. Regional solutions for rural and urban challenges. *State and Local Government Review*, 51(4), 283-291.

<sup>18</sup> FEMA. 2023. Hazard Mitigation Assistance (HMA) FY2022 BRIC and FMA subapplication status. <https://www.fema.gov/fact-sheet/hazard-mitigation-assistance-hma-fy-2022-bric-and-fma-subapplications-submissions>