

EXTREME WEATHER EVENTS AND PUBLIC FINANCE

2023 NHAAlert

Background

Extreme weather events such as wind-driven wildfire, flood and drought, as well as prolonged elevated heat periods, constitute a threat that could have an increasing impact upon local governmental agencies' tax base, including utility revenues, property and sales taxes, license and permit fees.

Fiscal Impacts

These impacts impose new risks upon key capital providers such as banks, investors, developers and insurance companies and create uncertainty. From an individual's perspective, once retention of investments in homes and businesses becomes uncertain, a community's future growth potential is reduced.

Credit rating agencies are increasing their focus upon extreme weather events and exposures for public agencies.

What Should Your Agency Do?

As part of a public agency's long-term financial forecasting efforts, these risks should be examined. Plans for addressing them should be considered a vital component of an overall risk assessment. While many communities have undertaken climate action plans with the aim of becoming carbon-neutral, a focused effort to identify vulnerable core agency revenues and/or tax-base risks is equally important.

The Case for Taking Action Now

For most California local public agencies, the challenge to provide essential services and invest in core infrastructure means that planning for the potential financial impact of future extreme weather events can be deferred to the future. However, recent experience shows that once catastrophe strikes, fiscal recovery can be very difficult.

NHA Advisors assisted with the recently released report on the Town of Paradise, taking meaningful risk mitigation steps now can result in a major reduction in risk for the long term (see "Extreme Weather Feature" on the next page).

Moving Forward

There is now significant funding from the state and federal governments for community scale mitigation against these threats. NHA would be happy to discuss our work in this area, including our work in Paradise, and put you in touch with other experts or agencies that might be helpful for your agency's needs.



Extreme Weather Feature:

The [Town of Paradise study](#) shows wildfire risk mitigation can result in a 75% reduction in future insured losses.

Entire communities in California's Wildland Urban Interface ("WUI") are now at risk from catastrophic wind-driven wildfires. The cost of homeowners insurance is dramatically increasing and availability itself has been reduced.

Working with the Town of Paradise, NHA assisted the Town to secure grant funding through the California Resilience Challenge for key analytical work on the potential reduction of insured losses for property damage carriers as a result of full implementation of wildfire risk mitigation measures, including hardening all homes to the latest IBHS standards for wildfires, as well as the creation and maintenance of wildfire buffer zones around developed areas in the WUI.

Our team's work in Paradise shows that average annual insured losses from wildfire can be reduced by as much as 75% through a broad menu of wildfire risk mitigation measures. A weblink to this pivotal study is shown above.

While this is very positive news for both Paradise and other WUI communities, getting to full compliance is a challenge. The [massive destruction in Paradise](#) makes full compliance with the new IBHS building standards plausible; every new home is IBHS compliant. For built-out WUI communities, the high level of retrofits required for IBHS compliance is a serious challenge.

The acquisition and maintenance of wildfire buffer zones is also crucial. There are both federal and state grant funding sources available for this work.



Other Helpful Links:

- [Climate Change](#)
- [Last-Minute Tips on GASB 87 Implementation](#)
- [CalPERS Commentary: "The Mountain Peak Returns"](#)
- [Fiscal Analysis and Forecasting](#)