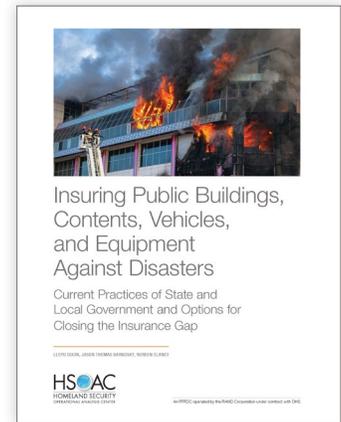


Insuring Public Buildings, Contents, Vehicles, and Equipment Against Disasters

Current Practices of State and Local Government and Options for Closing the Insurance Gap

LLOYD DIXON, JASON THOMAS BARNOSKY, NOREEN CLANCY

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Researchers worked to improve the understanding of state and local financial risk management practices and the role that the Federal Emergency Management Agency's (FEMA's) Public Assistance (PA) program plays in them. They also examined several approaches for state and local governments to increase insurance coverage and the trade-offs associated with those approaches. This report documents the authors' methods, findings, and recommendations.

RESEARCH QUESTIONS

- What insurance and financial risk management practices do state and local governments employ for buildings, contents, vehicles, and equipment (BCVE)?
- What role does FEMA assistance play in these decisions?
- What are options for closing the insurance gap for BCVE?

KEY FINDINGS

- A significant portion of state and local governments that are eligible for PA purchase some type of insurance for their BCVE.

State and local governments' overall insurance share is low

- FEMA pays for a substantial portion of their repairs.
- The insurance share varies by the attributes of the incident causing the damage and of the public entity. For example, the insurance share is lowest for flood and earthquake, and the insurance share for midsized communities is higher than for either smaller or larger ones.

The predominant view of experts consulted for the study was that the potential for FEMA assistance reduces insurance purchases by state and local government

- For example, some entities buy only for facilities that they believe are critical to repair quickly and rely on FEMA to replace the rest. Others buy policies with lower limits or deductibles than they would otherwise. Responses were diverse, however, and some experts saw no evidence that the PA program affected the decisions of some entities.
- There are numerous approaches to increasing state and local governments' insurance coverage, and each approach has trade-offs. These approaches include encouraging credit rating agencies to evaluate communities' financial preparedness for disasters, requiring communities to analyze their risks in order to increase their awareness of them, requiring communities to cover a substantial first layer of loss, and eliminating PA for BCVE.

RECOMMENDATIONS

- Policymakers should consider the advantages and disadvantages of different approaches to increasing state and local governments' insurance coverage and consider how best to allocate risk between federal, state, and local governments.