FEMA

Interagency Recovery Coordination

CASE STUDY

Leveraging Financial Resources

TOWN OF LYONS, COLORADO: 2013 FLOODING

Learning Objective: Review a small town’s approach to financial management following a major disaster and analyze Colorado’s proactive approach to prepare town staff for audits and other financial compliance requirements.

Keywords: Recovery, Flood, Local Government, Disaster Financial Management, Equity, Procurement, Staffing, Identifying and Leveraging Resources

PART ONE

Figure 1. Lyons sits at the base of two canyons, which is one of the reasons it was so impacted by the heavy rains. Two creeks—South Saint Vrain Creek and North Saint Vrain Creek—flow down the canyons and meet in the center of the town to form Saint Vrain River. This image, taken by satellites on September 26th, show the pale tan and white scars where fresh soil was exposed from erosion due to the flash flood. Source. NASA.

Background

On September 9, 2013, a major storm front stalled over Colorado, dumping a record-breaking 18 inches of rain across the Rocky Mountains over a week, in an area that typically receives 14 inches of precipitation annually. That rain landed on the tens of thousands of mountainous acres that drain into the St. Vrain watershed, at the base of which sits the Town of Lyons (population 2,035).

The St. Vrain River completely inundated Lyons, stranding all residents on six “islands” of higher ground. Residents were trapped without food, water, sewer, electricity, or communication methods for 36 hours. The National Guard sent helicopters and high-water vehicles to evacuate residents. Despite this heavy-duty equipment, temporary “roads” had to be built using downed trees and large rocks to evacuate the entire town. The Governor declared a state-level emergency on September 13, 2013 and ordered a transfer of approximately $6 million into the state Disaster Recovery Fund. A Presidential Disaster Declaration was issued for the 24 impacted counties on September 14, 2013.

The river did not subside for nearly two weeks. Residents were unable to return to their homes for an additional month, as main roads, water lines, and sewer lines to the town needed significant repairs. The 133 businesses operating in Lyons were also significantly impacted by the flood. The damages to municipal water and sewer operations prevented the businesses from re-opening, and the high number of displaced residents and closed recreation and tourist facilities meant fewer customers once doors were re-opened. In total, businesses in Lyons suffered approximately $3.5 million in lost sales revenue in just six weeks following the disaster.

The flood caused an estimated $75 million of damage, though the town is only one square mile in size. Managing and executing all the repairs needed to the town's facilities would be a heavy lift for the 14 staff members, especially with an annual budget of $1.2 million.

"When you are a small town, you just don't have the capacity. For example, we don't have a housing department. Our finance department is one person. Information thrown at you following a federal disaster is so overwhelming. There's so much to learn. But so confusing, because they all have different rules and processes." – Victoria Simonsen, Lyons Town Administrator

Challenges

A typical challenge for small local governments, Lyons officials were unfamiliar with state and federal disaster recovery processes and requirements. During the first few weeks, town staff worked hard to get up to speed with state and federal coordination requirements. They faced an especially steep learning curve on federal procurement processes and relied on part-time and contract staff for procurement support in an unprecedented way. This was an ongoing issue that impeded efficiency and progress on recovery initiatives.

Town staff were jolted in April 2016 when they received notice that the DHS Office of Inspector General (OIG) had completed an audit and concluded that Lyons didn't "comply with federal procurement rules when contracting for FEMA-funded work," resulting in "improper management" of the first $9 million of $36 million they were to receive in federal grants. Adding to an already stressful situation, federal funders began investigating the town's financial practices in December 2016, at which point the town administrator and town clerk were furloughed to ensure an impartial investigation. What happened in Lyons exemplifies the challenges that many small towns without prior experience with federal procurement requirements face after a disaster declaration. The audit's primary cause stated that officials in Lyons "did not have experience with major, federally declared disasters and were not sufficiently familiar with applicable federal regulations and FEMA guidelines" (OIG).

Recovery in Lyons was further complicated because the town relies primarily on sales tax and property tax for revenue. The impacts to local businesses and residential properties further constrained the town's ability to provide adequate municipal services to residents. In addition, the lost revenue limited the town's eligibility for grants with local match requirements. While larger jurisdictions may have more flexibility to move funds between line items in a budget to kickstart disaster recovery efforts, Lyons did not have this option.

<u>Procurement Audits</u>

The U.S. Department of Homeland Security (DHS) Office of Inspector General (OIG) periodically performs audits to determine whether money expended through FEMA disaster recovery programs was utilized properly. These audits can occur months and often years after funding was awarded and spent, requiring states and communities to keep comprehensive records of procurement processes, cost analysis methodologies, and expenditures. The purpose of these audits is to ensure compliance with federal regulations and effective, efficient use of federal funds. If an OIG audit finds fault with the way a community conducted its procurement process, awarded contracts, spent money, or filed documentation, the community may be required to pay back some or all of the funding in what is commonly referred to as a "claw back." A claw back order can be challenging for small communities especially, who may not have the reserves or budget available to easily and quickly comply with OIG claw back requirements.

PART TWO

Actions

The State of Colorado provided proactive support to local governments to help address capacity challenges. Lyons received $9.5 million in advance funds from the Colorado Department of Homeland Security and Emergency Management to assist with cash flow and drive recovery progress. The Colorado Department of Local Affairs also funded the Town of Lyons' flood recovery staffing for six years after the incident to boost local capacity. Lyons used this upfront funding and capacity to advance their recovery timeline more quickly and efficiently than would have been possible with the town's limited annual operating budget. Specifically, Lyons began projects with the advance funds that were eligible for federal reimbursement but for which reimbursements would likely not be issued for months or years. Rather than wait for the federal government to reimburse Lyons for Project A before they had enough cash on hand for Project B to begin, Lyons was able to use the state money to cover several reimbursable project costs at the same time.

In addition, the FEMA Community Planning and Capacity Building (CPCB) team helped connect the town with additional sources of funding that could help meet their recovery objectives. Lyons received financial assistance from several other state, non-profit, and federal programs to support their longer-term recovery needs, including from:

- Colorado Department of Local Affairs (DOLA) Energy and Mineral Impact and the Colorado Division of Homeland Security and Emergency Management (DHSEM) Disaster Emergency Fund grants;
- FEMA Public Assistance (PA) and Hazard Mitigation (HM) for various infrastructure projects;
- U.S. Economic Development Administration (EDA) for restoration and development in the Town's eastern corridor outside the floodplain;
- Great Outdoors Colorado, to restore Meadow Park;
- U.S. Housing and Urban Development Community Development Block Grant Disaster Recovery (CDBG-DR) funds, as local match funds for various grants and for projects that addressed collective community needs; and
- U.S. Department of Agriculture Natural Resources Conservation Service (NRCS) Emergency Watershed Protection Program funding to address watershed restoration needs in the area.

The town administrators addressed the procurement audit with support from the state. The DHS OIG report cited the town for not relocating its public works facility, which would have helped with resilient flood recovery; for paying for leased equipment that it did not use consistently; for not fully complying with all environmental requirements in the rebuilding of a flood-damaged park; and for not consistently complying with federal procurement rules when contracting for FEMA-funded work. FEMA and DHS OIG directed Colorado "to continue to provide technical assistance and monitoring frequently to ensure the town follows federal regulations and avoids misspending the $27 million of remaining grant funds." The Colorado DHSEM provided procurement trainings to the Lyons staff to reduce the likelihood of a future issue.

Results

The assistance from Colorado allowed Lyons to fund additional staff members and temporary office space in a nearby bank, both of which greatly aided management and execution of recovery efforts. Lyons hired more staff to help organize the many projects and efforts the advance funds made possible. At its peak, Lyons had approximately 55 staff members – up from just 14 pre-disaster. The town staff utilized a cash flow spreadsheet, which helped to illustrate the recovery timeline and project prioritization process for council and community members.

Lyons used the extra manpower to successfully apply for and receive several federal and state grant awards that aided in achieving the town's recovery objectives. For example, the Economic Development Administration (EDA) provided funds for development outside the floodplain. Great Outdoors Colorado awarded the town a $1 million grant to restore Meadow Park, a vital asset for a local economy largely based on outdoor recreational tourism. The U.S. Department of Housing and Urban Development (HUD) Community Development Block Grant (CDBG) provided funds that were utilized as local match funds for various other grant programs and supported projects that addressed community needs.

Lessons Learned

- Liquidity is essential to kickstarting recovery efforts after a disaster. State governments can expedite recovery timeframes by providing procurement/grants management technical assistance and upfront funds for communities facing a complex, long-term recovery process.
- State-led technical assistance and federal procurement advice can help small communities that are inexperienced with disaster recovery remain in compliance with federal requirements, improving equitable access to available programmatic and grant funding for recovery. The CPCB Recovery Support Function now offers Just-in-Time Recovery Management trainings to help develop a community's capacity to manage recovery activities following a disaster, including procurement and staffing capabilities. These training opportunities were inspired in part by the aftermath of the 2013 Colorado floods.
- Lyons administrators noted that taking a proactive approach to grants management and more than tripling its administrative staff early on with state support enabled Lyons to meet its recovery objectives.

Additional Resources

- FEMA Disaster Financial Management Guide
- Contracting with Federal Funds for Goods and Services Before, During and After Disasters | FEMA.gov
- Top 10 Procurement Under Grants Mistakes (fema.gov)
- Home | Office of Inspector General (dhs.gov)
- Recovery and Resilience Resource Library | FEMA.gov
- (Placeholder for link to information about CPCB JIT trainings from Veanda)
- IRC Case Studies – *Building Community Strength through Recovery: Lyons, Colorado 2013 Flooding; Rebuilding Substantially Damaged Homes: Lyons, Colorado 2013 Flooding; Colorado Watershed Coalitions; Colorado Recovery Symposium*