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Disasters and the Federal Budget

Increasing frequency and severity of wildfires, storms, floods, and droughts, as well as the recent COVID-19 pandemic have led to questions about the federal government's role with regard to these incidents, and what this may mean for the federal budget in the future. This In Focus clarifies the language used to evaluate the severity of incidents, explains who determines whether an incident qualifies as a "disaster" in terms of federal assistance, and describes how federal disaster assistance fits into the budget process.

Damages, Losses or Costs, and Spending

While incidents of severe weather and other hazards occur regularly, not all are considered "disasters." Such determinations are typically based on their consequences, which vary significantly based on where they occur. For example, a strong tornado that touches down in a fallow field is generally less consequential than one that strikes a developed area or critical infrastructure. Evaluations of incidents may include

> **Damages:** the physical harm caused by an incident.
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> **Losses or Costs:** what has been degraded or ceased to exist as a result of an incident. These losses can be described in a variety of ways, including in economic, social, environmental, and cultural terms. Losses and costs are often used interchangeably. Some observers define costs as the financial valuation of losses. Such valuations vary based on the observer's perspective.
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> **Spending:** the actual outlay of funds pursuant to an incident, by individuals, organizations, or governments.

In short, disaster *damage* can cause *losses*, which may or may not be remediated through *spending*. The decision to request or appropriate funds in response to incidents hangs on a variety of factors, and the parameters of assistance programs change over time. Also, some "disaster assistance" programs don't require a disaster declaration, only a qualifying loss. As a result, comparative analyses of spending are an imperfect lens for assessing disaster trends.

Who Says an Incident Is a Disaster?

Most often, when incidents are being discussed as disasters, it is in the context of the definition (and declaration process) provided by the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 100-707; hereinafter "Stafford Act"). When a disaster declaration is requested by a state, territory, or tribe, the Federal Emergency Management Agency (FEMA) makes recommendations to the President on whether to approve it based on damage assessments and loss projections.

Other federal agencies, including the U.S. Department of Agriculture (USDA) and the Small Business Administration (SBA), sometimes rely on Stafford Act declarations to establish eligibility for assistance in their own programs. The Secretary of Agriculture and the SBA Administrator also have the ability to make their own disaster determinations. Many of the SBA and USDA disaster assistance programs do not require a disaster declaration for claimants with qualifying losses to receive assistance.

Resolving Direct Federal Disaster Losses

Federal government assets and facilities are periodically damaged in disasters. Restoring their value or capacity is not built into typical annual budget requests, and supplemental appropriations are often needed to do so. Such spending generally is not considered disaster "assistance."

A Note on Federally-Backed Insurance

The USDA and FEMA run crop and flood insurance programs with federally-subsidized premiums that receive mandatory funding. As spending from these programs is the result of claims filed by policyholders to cover insured losses, rather than assistance programs triggered by disaster declarations, these programs are not discussed here.

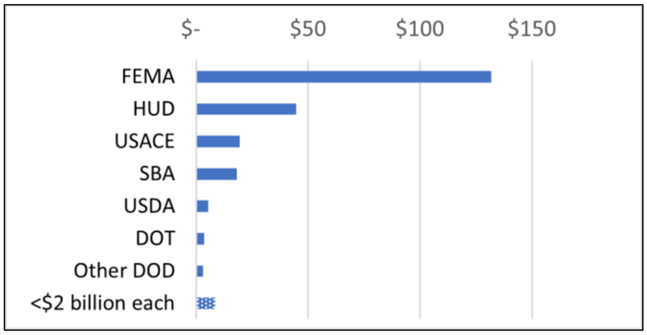
Disaster Assistance

At least 30 different federal agencies lead or coordinate aspects of disaster assistance. The majority of outlays for federal disaster assistance dollars are from FEMA, USDA, and SBA programs. Periodically, disaster recovery resources are also provided through the Community Development Block Grant-Disaster Recovery (CDBG-DR) program (run by the Department of Housing and Urban Development (HUD)) and the U.S. Army Corps of Engineers (USACE).

FEMA's disaster-related activities authorized under the Stafford Act are funded through the Disaster Relief Fund (DRF). While some relief is provided to individuals and households, most funding goes to the Public Assistance program, which supports immediate disaster response and longer-term recovery efforts by state and local governments, as well as eligible nonprofits. The DRF only funds Stafford Act activities; it does not fund other agencies' disaster programs or other FEMA activities.

SBA disaster loans, CDBG-DR, USACE, Department of Transportation disaster activities, and some USDA disaster programs, are funded through discretionary appropriations. In contrast, several USDA disaster assistance programs receive funding from the USDA Commodity Credit Corporation through appropriations in law, and are classified as mandatory spending.

Figure 1. Discretionary Disaster Allocations, FY2017-FY2024 (billions of dollars of budget authority)



Source: FEMA's Recovery Support Function Leadership Group State Profiles on Disaster Funding.

Notes: Data as of August 31, 2024. Includes non-COVID-19 supplemental appropriations, and annual appropriations for the DRF and SBA. Does not include USDA mandatory funding.

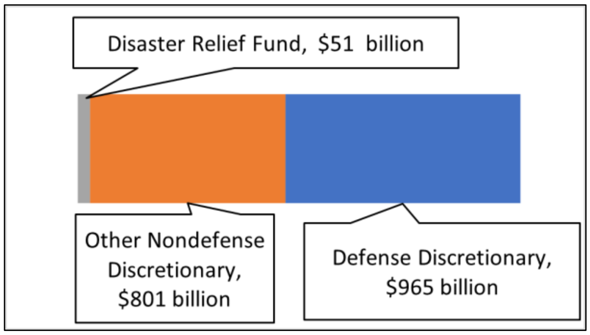
Budgeting for Disasters

Discretionary Programs

The DRF and SBA disaster loan program receive annual appropriations on a regular basis. Most other discretionary resources for disaster assistance, as well as repair of disaster-damaged federal assets, comes from supplemental appropriations. Supplemental funding is usually designated by Congress as an emergency requirement, and as such is exempt from budget enforcement procedures, including discretionary spending limits. **Figure 2** shows the size of DRF spending in comparison to other elements of the discretionary budget.

Figure 2. DRF Outlays in the Discretionary Budget Context

Projected FY2024 Discretionary Outlays



Source: FY2025 President's Budget.

Notes: The SBA disaster loan program for FY2024 had $1.6 billion in projected discretionary outlays.

Mandatory Programs

USDA mandatory disaster assistance programs are authorized in omnibus farm bills. These are known as "entitlement" programs—as they have their eligibility and benefits defined by a formula. Budgetary scorekeepers make projections of their future fiscal impact, but such projections are not limitations on spending in law. Actual obligations may vary significantly from those projections. Any amendments to mandatory programs that would increase future spending would be subject to budget constraints, such as pay-as-you-go (PAYGO) rules.

Blind Spots

While counts of expensive weather incidents exist, and news coverage can provide some anecdotal information, reliable information on the severity of disaster situations is largely unavailable to policymakers: some information is privately held, and other information is not gathered on a standardized basis. Disaster damages to federal government resources are not systematically tracked, although efforts are underway to improve reporting such information.

Budgeting by Exception

Congressional budget enforcement rules have generally exempted funding for disaster assistance.

Congress began to establish a program of general disaster relief in the late 1940s and early 1950s. Constraints on discretionary spending to curtail deficit spending didn't emerge until 1985, when statutory caps on discretionary spending were implemented. In 1987 and 1989, budget agreements were developed that only allowed for supplemental spending above these amounts in cases of "dire emergency"—a term left undefined. The Budget Control Act of 1990 formalized an emergency spending process under which both Congress and the President had to agree that certain spending qualified as an emergency for it to not be counted under discretionary spending limits. This is functionally similar to the process used today.

In 2011, the Budget Control Act established a special allowable adjustment to discretionary spending limits for "disaster relief"—costs attributed to specific disaster declarations under the Stafford Act. Seven years later, another adjustment was created for specific appropriations for Wildland Fire Management, providing between $2.25 billion and $2.95 billion in flexibility for wildland fire suppression operations through FY2027. Unlike the emergency designation, these adjustments can be applied by Congress without the President's designation.

Congressional Considerations

These limited adjustments have never been intended to represent constraints on disaster relief spending, which can still benefit from the potentially unlimited designation as an emergency requirement. Should Congress wish to constrain disaster spending, it may wish to

- ensure a more authoritative accounting of disaster damages, losses, costs, and spending, in order to determine the size of the problem it wishes to address;
- examine changes to disaster program authorizations to establish limits on spending by program or a group of programs; and/or
- consider the follow-on effects to other priorities if disaster assistance appropriations are brought within discretionary spending limits, either through establishing finite reserves or requiring offsets.

William L. Painter, Specialist in Homeland Security and Appropriations