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The Disaster Relief Fund: Requests Versus Reality

At the end of both FY2023 and FY2024, the Federal Emergency Management Agency (FEMA) implemented special restrictions on its general disaster relief programs to ensure resources would be available for immediate response and recovery needs, despite dwindling unobligated balances. The major disasters portion of the Disaster Relief Fund (DRF) frequently receives more budget authority from Congress than the Administration requests, so some ask why such steps are necessary. There are several long-standing structural factors that contribute to these repetitive shortfalls. For instance, the annual appropriations request for the DRF major disasters portion

- is based on state-developed spending projections of limited reliability and past data;
- is made well before the start of the year it funds; and
- does not adequately account for the most significant incidents that will occur either in the fiscal year it covers or in the fiscal year the request is made.

These known shortcomings are currently compounded by other factors, including

- the aftereffects of delaying long-term recovery obligations due to resource shortages.
- an increasing number of high-cost incidents; and
- ongoing difficulty in projecting annual COVID-19 obligations.

Structural Factors

Data and Projections

The largest driver of DRF spending is spending on large incidents that cost more than $500 million each, known as "catastrophic incidents." The request for the major disasters portion of the DRF relies heavily on bottom-up cost estimates developed at the state level to project the need in a given fiscal year for these types of incidents. The request only includes "past" catastrophic incidents: those that occurred more than a year before the fiscal year being funded. Estimates for catastrophic incidents made up 89% of the Biden Administration's FY2025 DRF requirement. FEMA notes that these estimates are not necessarily congruent with the spending plans in place at the beginning of the funded fiscal year, due to the difficulties of estimating costs so far into the future. FEMA also notes that the timing of actual obligations is subject to clearance and approval processes of both federal and state agencies.

The remainder of the DRF major disasters request is intended to cover obligations for incidents costing less than $500 million each (the vast majority of major disaster declarations). It is based on an average of the obligations for incidents from the ten most recently completed fiscal years—the FY2025 request was based on the non-catastrophic disaster obligations from FY2014-FY2023.

Estimating Too Far Ahead?

The request for annual appropriations for the DRF (usually made in February) is based on data finalized in December, roughly nine months before that fiscal year starts. Between the time the request is made and the beginning of the fiscal year lie most of the wildfire and hurricane seasons. This gap impairs the ability of the request to be fully responsive to the existing disaster landscape when the fiscal year begins. In each of the last eight fiscal years, the first public reporting on projections for DRF major disaster obligations, released just after the start of the fiscal year, has shown a significant increase from the original estimate of what funding would be required.

Annually Expecting Supplementals

FEMA's annual appropriations request for the DRF expressly states that if additional catastrophic events occur, supplemental appropriations will be required. It does not attempt to predict the frequency or severity of "new" catastrophic disasters—those occurring in the fiscal year the request was made and the fiscal year the request is intended to fund. This is a long-standing practice, dating back to at least the 1980s, when incidents were rarer. In recent years, the budget request included $2 billion to pay the immediate costs of such significant incidents. For FY2024, four unaccounted-for catastrophic incidents resulted in more than $4.4 billion in unprojected obligations.

Exacerbating Factors

Delayed Obligations

In both FY2023 and FY2024, FEMA implemented Immediate Needs Funding (INF) restrictions on the DRF, pausing obligations for long-term recovery and mitigation projects to preserve its resources for needs of immediate response and recovery efforts in the immediate aftermath of an incident. When INF restrictions are implemented, those paused obligations do not go away – they are usually pushed into the next fiscal year. In FY2024 and FY2025, roughly $8 billion and $9 billion in delayed obligations from previous years contributed to projected shortfalls in DRF major disaster funding each year.

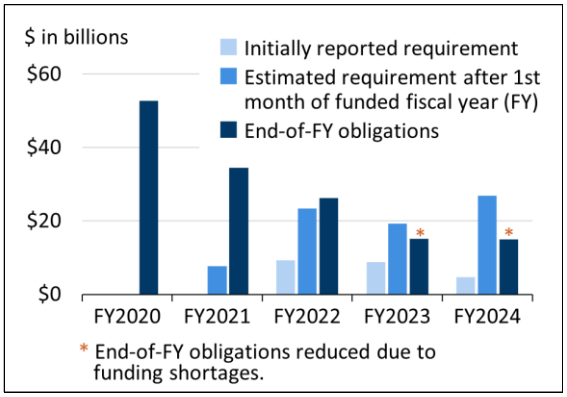
Increasing Frequency of High-Cost Incidents

FEMA tracked three new catastrophic incidents from FY2013 to FY2016. For FY2021-FY2024, FEMA tracked 12 such new incidents. With more new catastrophic incidents, there is greater demand that has not been accounted for in the assessment of annual DRF requirements.

COVID-19

COVID-19 response obligations represented 45% of total DRF major disaster obligations for FY2022-FY2024. Projecting these obligations has been a challenge. **Figure 1** compares FEMA's projected COVID-19 obligations at the time of the budget request, at the beginning of the budgeted fiscal year, and the obligations recorded at the end of the fiscal year.

Figure 1. DRF COVID-19 Obligations



Source: CRS analysis of FEMA annual and monthly DRF reporting

Note: * = reduced obligations due to funding shortages.

FY2025: A Smaller Annual Request?

For FY2025, FEMA's calculations (using the methodology described above) indicated a need of almost $29 billion; the Biden Administration requested $23.7 billion. The Biden Administration had limited its request to the amount of budgetary flexibility specifically available for disaster relief. This had not happened since the establishment of the disaster relief adjustment. Supplemental appropriations had already been requested by the Biden Administration for the DRF for FY2024, and ultimately were not provided. Given the understated annual request, the unfunded supplemental request (and associated delayed obligations), and the level of disaster activity already seen in recent months, if the FY2025 appropriation does not significantly exceed the annual appropriations request, it is highly likely that FEMA would be required to restrict obligations from the DRF much earlier than it did in FY2023 or FY2024.

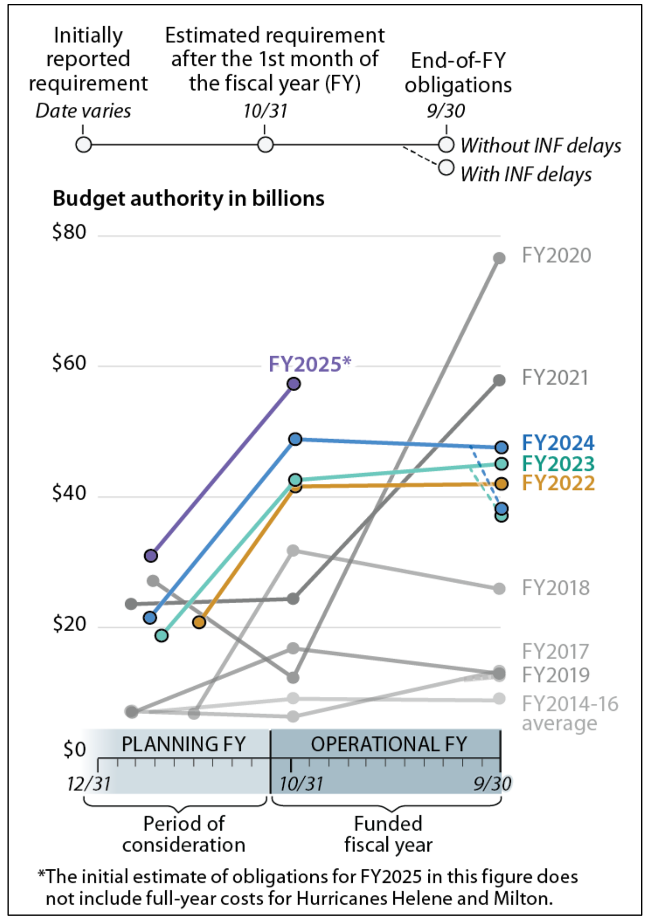
DRF Needs: Projections vs. Actuals

How different has the projected annual requirement in the budget request (or the view from the beginning of the fiscal year) been from what the need turns out to be?

Figure 2 compares three data points for the major disasters portion of the DRF from each year from FY2014 to FY2024: the initial projected requirement, the projection as of the beginning of the fiscal year, and the obligations that would have been required to meet the needs as reflected at the end of the fiscal year. **Figure 3** shows the difference between the initial annual requirement, as reported by FEMA, and the obligations at the end of the fiscal year.

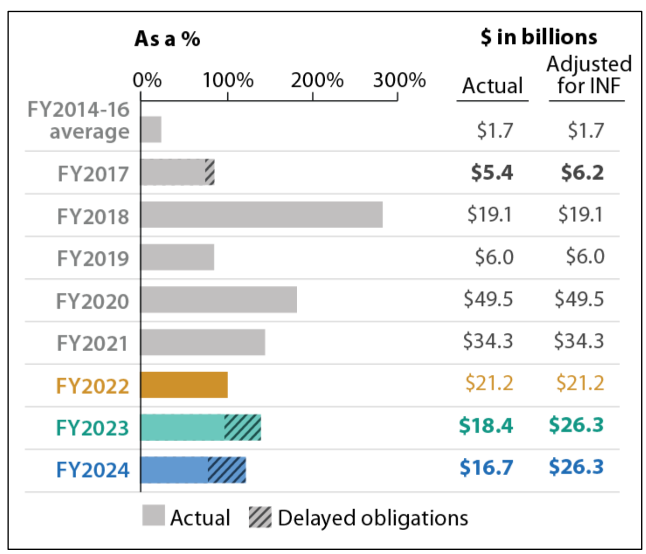
In FY2017, FY2023, and FY2024, FEMA's implementation of INF restrictions lowered the actual end-of-year obligations. An adjustment is included in both figures to reflect obligations that would have occurred in those years, but were delayed due to those INF restrictions.

Figure 2. DRF Major Disaster Requirements, Operational Estimates, and Obligations, FY2014-FY2024



Source: CRS analysis of FEMA reports on the DRF.

Figure 3. Difference Between DRF Major Disaster Initial Requirements and End-of-FY Obligations, FY2014-FY2024



Source: CRS analysis of FEMA reports on the DRF.

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