

PUBLICATION

Shifting the Burden: States Face Rising Pressure to Fund Disasters Alone

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Recent statements from the current administration signal a deliberate shift of disaster responsibility to states, elevating the need for robust, state-led emergency financing and related state statutory authority. States must assess now whether they have the financial tools and governance structure to respond effectively if Federal Emergency Management Agency (FEMA) support is reduced or eliminated.

This alert shares concerns and possible solutions states should consider now in anticipation of a transition away from FEMA funding.

Executive Branch Signals Significant Reduction of FEMA's Role

Per our [prior alert](#), as of April 2025, the administration had issued both an Executive Order directing "state and local preparedness" and an internal memorandum mandating short-term changes to FEMA's Public Assistance thresholds and hazard-mitigation programs effective by June 1 or before the start of the hurricane season.

Additionally, on May 20, 2025, following Executive Order 14180, the FEMA Review Council [met](#) for the first time to assess FEMA's capacity to respond impartially and effectively to U.S. disasters, and to recommend reforms "to best serve the national interest."

Most recently, in an interview held June 10, 2025, the President announced he plans to "phase out" FEMA after the 2025 hurricane season. Whether driven by fiscal constraints, political ideology, or an overwhelmed federal system, the possibility of reduced FEMA involvement is no longer theoretical. And while this would mark a seismic shift in American emergency management, it's a shift states can prepare for – if they act now.

Below we provide a curated sampling of existing financial models that some states and local governments have implemented. The examples are options that could provide relief in a transition to a new emergency management landscape without FEMA.

State Budget Mechanisms States Can Mobilize

Several states maintain their own disaster relief or contingency funds, though few are built to scale without a federal match. A [2020 Pew report](#) identified key financial tools that are currently used by states for disaster recovery funding outside of FEMA:

- **Dedicated disaster funds** (e.g., Utah's ~\$11 million disaster account and ~\$7 million wildland fire fund)
- **Rainy day reserves** (35 states allow withdrawals for disasters)
- **Supplemental legislative appropriations** post-event
- **Governors' transfer authority** to pivot funds mid-year
- **Agency-level coverages**, with cost recovery after the fact

Notable examples of non-FEMA disaster funding include:

- **Indiana:** Use of fireworks tax revenue to bolster relief payouts (up to a \$25,000 individual cap)

- **Wisconsin:** Allocation of petroleum inspection fees for disaster assistance
- **North Dakota:** Diversion of oil and gas tax income into disaster relief
- **Minnesota:** Mandatory annual transfers (up to \$50 million) when revenues exceed thresholds
- **Iowa:** Automatic rainy-day disbursements upon reaching reserve cap

By tying funding to recurring revenue sources, these models help ensure immediate funding availability when disaster strikes.

Expanding Beyond Public Funding

Without FEMA's cost-sharing, recovery funding will depend more heavily on public-private mechanisms. Resilience bonds, catastrophe bonds, and infrastructure revolving loan funds will need to become standard in the state emergency finance toolbox. Innovative states may also build risk pools with insurers or reinsurance providers to establish pre-disaster financial protection.

Without FEMA cost-sharing, states should consider:

- Accessing **catastrophe/resilience bonds**
- Creation of **infrastructure revolving funds**
- Partnering with private insurers or reinsurers for pre-disaster **risk pooling**

These instruments can enhance liquidity and share risk where federal support is unavailable.

Enhance Governance and Statutory Capabilities

Swift disaster response requires legal clarity and appropriate authority. States should consider statutes that:

- Trigger fund release upon declaration, with no special session needed
- Permit advance contracting and procurement exceptions
- Enable mid-year fund reallocations by executive action
- Insulate local governments from post-disaster fiscal shortfalls

Mirroring federal Stafford Act tools at the state level will help maintain readiness.

Strengthen Mutual Aid and Coordination Structures

FEMA's departure will leave gaps in logistics, technical assistance, and mutual aid coordination. Strengthening the Emergency Management Assistance Compact (EMAC), investing in state and regional logistics contracts, and building formalized relationships with NGOs and the private sector must be part of any state-level "post-FEMA" playbook. As FEMA recedes, state networks like EMAC will become vital. States should:

- Boost EMAC funding and administrative capabilities
- Formalize logistics partnerships with NGOs and private vendors
- Ensure local responders have plans and funds to act unilaterally

Closing Thoughts

FEMA has long been the financial and operational backbone of national emergency response. But no backbone is unbreakable –or guaranteed. The administration's comments have made it clear: the federal safety net may be shrinking. States must now ask themselves a critical question: if FEMA didn't exist, could we still recover?

Governor- or legislature-led systems are no longer theoretical – they may become necessary. States should now:

1. **Audit** current disaster funds, reserves, and authority gaps
2. **Identify** eligible revenue streams and define triggers for use
3. **Draft** legislative provisions to operationalize and streamline funding
4. **Integrate** financial resilience tools into emergency plans

Need assistance assessing or reforming your state's emergency funding vehicles? Baker Donelson's Disaster Recovery & Government Services team can provide:

- Comprehensive reviews of current statutory tools
- Revenue identification and legislative drafting
- Guidance on public-private risk instruments (e.g. bonds, insurance pools)
- Mutual aid/legal planning support

For further discussion or state-specific strategy sessions, please contact [Danielle M. Aymond](#), [Wendy Ellard](#), or any member of our [Disaster Recovery and Government Services team](#).