
The Washington Post/Getty Images

# With Costs on the Rise, How Does My State Pay for Natural Disasters?

Key findings and questions for policymakers about current budgeting practices

## Overview

As natural disasters become more expensive, frequent, and severe, states are under increasing pressure from federal policymakers—who are seeking to manage their own rising costs—to invest more in emergency management capabilities, fiscal reserves, recovery programs, and cost-saving mitigation activities. Given this changing landscape, it is important to understand the role that state governments play in paying for disasters.

States pay for disasters that are within their capacity to manage and that therefore do not qualify for federal assistance. In these cases, states provide resources, personnel, and financial support in coordination with local governments to meet people's immediate and long-term needs in the aftermath of disasters.

When disasters are too expensive for states to pay for, they leverage their money to receive federal funds, typically in the form of cost-sharing agreements, through which states or localities are partially or fully reimbursed for recovery-related expenditures.[1]

To help policymakers better understand how states manage the unpredictable and growing costs of natural disasters, The Pew Charitable Trusts published a report assessing states' use of five budgeting tools for natural disaster funding (see Figure 1):[2]

- Statewide disaster accounts.
- Rainy day funds.
- Supplemental appropriations.
- Transfer authority.
- State agency budgets.

The researchers also looked at states' use of insurance to protect themselves from losses associated with damage to their property and assets. Although this study did not examine budgeting practices for public health emergencies, states are employing some of these tools in response to the COVID-19 pandemic, according to the National Conference of State Legislatures.

Figure 1

## 46 States and the District Can Use at Least 4 of 5 Budget Tools to Pay for Disasters

Use of each mechanism, by state


Note: Lighter shades indicate that the state cannot use the selected mechanism for disasters.

Sources: Pew analysis of data from the National Association of State Budget Officers, "Budget Processes in the States" (2015), https://www.nasbo.org/reports-data/budget-processes-in-the-states; state statutes, constitutions, and websites; and correspondence with state budget offices

Generally speaking, statewide disaster accounts and rainy day funds are preemptive measures that states use to appropriate resources in anticipation of future disasters, while supplemental appropriations and transfer authority are responsive measures, allowing states to allocate money during and after an event. State agency budgets, meanwhile, can function in both ways.

The findings and questions below accompany Pew's report and are intended to assist policymakers in initiating an assessment of their states' budgeting practices and spending on natural disasters.

# Overarching questions for state policymakers

- What has my state spent on average over the past five years on natural disasters? How many agencies were involved, and where did most spending occur? Was the amount in our annual budget enough to cover what we paid?
- What were my state's primary methods for funding those expenditures? Were they preemptive or responsive?

---

# Preemptive mechanisms

## Statewide disaster accounts

**Definition:** Specialized accounts that provide money for disaster expenditures to state agencies or for localities.

**Example:** Mississippi appropriates money to its Disaster Assistance Trust Fund for military and response team reimbursement, the state's portion of cost shares for federal disaster assistance, and other disaster-related costs.

### Key findings

- Forty-six states and Washington, D.C., have disaster accounts. Of those, 39 states and the district have at least one account designated for natural disasters or other emergencies, and nine plus the district have a flexible contingency fund that can be used for disaster expenses. Twelve states and the district keep more than one disaster account.
- States make deposits to these accounts at varied frequencies and in differing amounts. For instance, new contributions ranged from $250,000 in Nebraska and Rhode Island for the fiscal 2017-19 biennium and fiscal year 2018, respectively, to $200 million in New York in fiscal 2018.

### Questions for state policymakers

- How much has my state appropriated to its disaster account(s) over the past five fiscal years, and how was that annual amount determined?
- How does that compare with what my state spent on disasters during that time?

## Rainy day funds

**Definition:** Reserves and balances are funds available to states to fill budget gaps, although there may be varied levels of restriction on their use. Rainy day funds are often dedicated to budget stabilization in a downturn or other unforeseen circumstances and may have restrictions on the fiscal or economic conditions in which they can be used.

**Example:** Texas lawmakers appropriated $3.5 billion in 2019 from the state's rainy day fund for Hurricane Harvey recovery efforts and infrastructure investments aimed at mitigating future risk.

### Key findings

- Thirty-five states and the district may use rainy day or reserve funds to cover disaster-related costs. Twenty-one of these states, plus the district, specify disasters or emergencies as an intended use of their rainy day funds. However, most states can use their accounts for disasters and emergencies at lawmakers' discretion even when those purposes are not explicitly named, and in eight states such legislative flexibility is written into law. Nine states reported that although their funds are intended for economic emergencies, they could redirect money to disasters if necessary. Another seven states reported that although they were legally permitted to use their funds for disasters, they had not done so in at least the past five years.

### Questions for state policymakers

- How explicit is the purpose of my state's rainy day fund, and are disasters a named purpose?
- How does my state determine the amount of money added to the rainy day fund? If disasters are an intended use for these funds, are we budgeting with those costs in mind?

# Responsive mechanisms

## Supplemental appropriations

**Definition:** When advance funding proves insufficient to cover disaster costs during a fiscal year, most state legislatures can appropriate additional funds to pay for the remaining costs.

**Example:** North Carolina's General Assembly passed supplemental budget legislation to pay for costs from Hurricane Florence in fiscal 2019.

### Key findings

- Every state and the district can use supplemental appropriations to fill shortfalls caused by disasters.
- Because most state legislatures do not meet year-round, they may call a special session or designate a committee to appropriate the needed funds in a timely manner.

### Questions for state policymakers

- How many times and under what circumstances has my state used supplemental appropriations to pay for disaster costs over the past five fiscal years?
- Could providing supplemental funding have been avoided if a preemptive source of funding had been available? Would that have been a preferable outcome, or were there specific advantages to using this mechanism?

## Transfer authority

**Definition:** Some states allow designated officials or entities (for example, the governor, state budget director, or a special committee) to move funds within an agency's budget, between agencies, or between accounts or reserves after the start of the fiscal year to pay for disaster costs.

**Example:** North Dakota law permits the governor to transfer the "direction, personnel, or functions" of state agencies and departments during an emergency and authorizes the Emergency Commission, in conjunction with the Office of Management and Budget, to transfer funds from the state's contingency account or treasury as needed for disasters.

### Key findings

- Forty-two states and the district designate an official or entity with transfer authority for disaster purposes. In 24 states, the governor assumes this power as part of an emergency declaration; in six, a council or commission made up of executive and sometimes legislative officials can move funds; in 10, that ability is delegated to a state agency; and in 11 of the 42 states, plus the district, multiple officials must approve at least some transfer requests.
- These entities can redirect money in varying amounts and from different sources. Some have access that is limited to specific accounts or agency budgets, while others can transfer funds from any source within the state.

### Questions for state policymakers

- How often and under what circumstances did my state use transfer authority to cover disaster costs over the past five fiscal years?
- How much funding does the transferring entity have access to? Are there limitations on or particular sources for that funding?

# Preemptive and responsive

## State agency budgets

**Definition:** State agencies, particularly those with missions relevant to disaster response and recovery, cover a portion of disaster costs through their regular budgets. They may use funds intended for disasters or redirect money from programs that are not disaster-related.

**Example:** In Virginia, state agencies can spend money on disasters that was initially intended for other purposes. Agencies generally receive reimbursement except for situations in which appropriations are intended to be spent on disasters.

### Key findings

- All the states and the district permit agencies to use their own budgets for disaster needs. Of these, Colorado, Florida, Maryland, New Jersey, Rhode Island, and Tennessee use state agency budgets as the first source of state disaster resources.
- Across the 50 states and the district, the way in which agencies spend during a disaster depends on how their budgets are structured: Some use a flexible pot of money, others spend funds designated for disasters, and still others redirect dollars originally intended for other activities.
- In 34 of these states, a governor's emergency declaration is required to loosen statutory restrictions on agency budgets to allow agencies to spend for disaster needs.

### Questions for state policymakers

- Which agencies in my state play critical roles in paying for disaster costs? How do these agencies fund these expenses?
- Do some state agencies require a gubernatorial declaration to begin spending on disaster costs? If so, which do, and which do not?
- Are state agencies reimbursed for unanticipated disaster spending?

# Other

## Insurance

**Definition:** States may self-insure state-owned assets, purchase commercial insurance, or use a combination of the two to manage disaster damage-related risk.

### Key findings

- In addition to budgeting tools, at least 42 states and the district employ insurance to protect state-owned and, occasionally, locally owned assets, such as real estate and infrastructure, from disaster losses.
- At least 21 states and the district use a combination of commercial insurance and self-insurance to help manage disaster risk.

### Questions for state policymakers

- If my state uses self-insurance, do state agencies pay premiums into a specific fund? How is the level of self-insurance determined?
- Does my state purchase commercial insurance that covers disaster risks for state-owned assets? What types of coverage do we currently carry?

# Endnotes

1 The Pew Charitable Trusts, "What We Don't Know About State Spending on Natural Disasters Could Cost Us" (2018), https://www.pewtrusts.org/en/research-and-analysis/reports/2018/06/19/what-we-dont-know-about-state-spending-on-natural-disasters-could-cost-us.

2 Unless otherwise noted, all definitions, examples, and data in this fact sheet are cited in or from The Pew Charitable Trusts, "How States Pay for Natural Disasters in an Era of Rising Costs" (2020), https://www.pewtrusts.org/en/research-and-analysis/reports/2020/05/how-states-pay-for-natural-disasters-in-an-era-of-rising-costs.

## For further information, please visit:

**pewtrusts.org/fiscal-federalism**

**Contact:** Sarah Leiseca, communications manager
**Email:** sleiseca@pewtrusts.org
**Project website:** pewtrusts.org/fiscal-federalism