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S&P: Federal Disaster Relief Funding Proposals Could Elevate Credit Risks For U.S. Governments

Key Takeaways

- The Federal Emergency Management Agency (FEMA) plays a critical role in disaster response, historically providing a reliable funding source in supporting recovery and rebuilding efforts after an event.
- States and local U.S. governments could bear a higher share of the funding responsibility for recovery should federally proposed changes to the parameters for disaster declarations come to fruition.
- S&P Global Ratings believes that, beyond the human toll on communities following an event, a higher threshold to qualify for FEMA assistance could lead to lasting financial and credit pressure for states and local governments, particularly if they are unable to adapt to policy or financial shifts in a timely manner.

What Is Happening And How Could It Affect Credit?

The federal government is reconsidering FEMA's role in disaster preparedness, response, and recovery activities, a financial and operational responsibility it currently shares with state and local governments. FEMA is the primary federal agency tasked with coordinating response and recovery efforts, but is considering shifting the natural disaster recovery costs to states and local governments. These potential modifications come on the heels of the announcement earlier this year of the elimination of the Building Resilient Infrastructure and Communities (BRIC) program and the cancellation of applications from 2020-2023, returning any grant funds not yet distributed to the disaster relief fund or the Treasury.

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