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Local Fiscal Effects of Disasters

In addition to potential loss of life and property, natural disasters and other emergencies can cause negative fiscal consequences for local governments. This can occur for a number of reasons. For example, damages may reduce property assessments, thereby lowering property tax revenue, or business closures may reduce employment, possibly reducing income tax revenue.

Given the localized nature of some disasters, such fiscal effects can be felt acutely at the local government level. Local governments are often responsible for providing certain day-to-day services that play direct roles in citizens' lives. This may include duties such as providing public safety and sanitation services in addition to responsibilities such as operating a school system. When disasters threaten local government tax revenue, critical local government activities can face reductions, potentially causing further fiscal problems, particularly as many local governments are required to balance their budgets.

The federal government primarily addresses local governments' post-disaster fiscal needs through the Community Disaster Loan (CDL) program, which is administered by the Federal Emergency Management Agency (FEMA). The CDL program provides forgivable loans of up to $5 million to local governments to help them operate essential municipal functions after presidentially declared disasters under the Robert T. Stafford Disaster Relief and Emergency Assistance Act (Stafford Act; 42 U.S.C. §§5121 et seq.).

Potential Fiscal Impacts

Disasters can have broad impacts on local governments' finances. A 2021 working paper from the National Bureau of Economic Research found that, in the decade following a hurricane, local government tax revenues and expenditures decreased and costs related to debt increased. While the paper found that the revenue and expenditure declines were initially offset by various intergovernmental fund transfers, major hurricanes ultimately reduced local government revenues by 7% over the ensuing 10 years. Expenditures on public services—including water, sewer, trash, and public transit—declined by 13% over the same period.

Some of the effects of disasters on local government finances may vary by the type of disaster and geography. For example, a 2022 study found that wildfires in California actually increased both revenues and expenditures for local governments, in part because the fires resulted in long-term increases in local spending on recovery efforts and because of a California law limiting property reassessments until time of sale. Nevertheless, the study noted that the "overall impact of wildfires on municipal budgets is negative and substantial."

One reason that disasters impact some local government finances is local governments' reliance on property tax revenue. According to U.S. Census Bureau data, in 2021 (the most recent year for which data is available) property tax revenue accounted for 30% of local governments' collective general revenue. In contrast, that same year, property tax revenue accounted for 0.8% of state governments' collective general revenue. (States generally rely more heavily on sales and/or income tax revenue than do local governments.) Disasters, which often entail physical damage to homes and other structures, often diminish property tax revenue.

Not all research concludes that natural disasters are entirely harmful to local government finances, at least in the long term. A 2023 working paper from the Federal Reserve Bank of San Francisco found that while certain disasters caused a small immediate decline in employment and personal income in an affected area, those declines turned into growth over time as the area transitioned to recovery activities. Similarly, the paper found that housing prices in affected areas saw long-term increases beginning about five years after the disasters. The paper also noted that not all localities reacted the same way to disasters. For example, it found that counties with more experience with disasters had larger increases in personal income than did those with less experience.

Recent Examples

Several disasters in the United States in recent years have led to shifts in local government finances. For example, some have forecasted that the August 2023 wildfires on the Hawaiian island of Maui will have significant impacts on Maui County's tax revenue. Thus far, Maui County officials have revised their FY2024 estimates for the county's property tax revenue—the county's largest source of revenue—from $535 million to $515 million and revised estimated total revenue collection downward by 3%. To make up the anticipated shortfall, Maui County's mayor proposed a series of budget cuts, including to the Maui Fire and Public Safety Department. Other observers projected that Maui County's Transient Accommodations Tax—the county's second-largest revenue source, for which it projected collecting $60 million for FY2024—would be down about $5 million from projections each month through the end of FY2024.

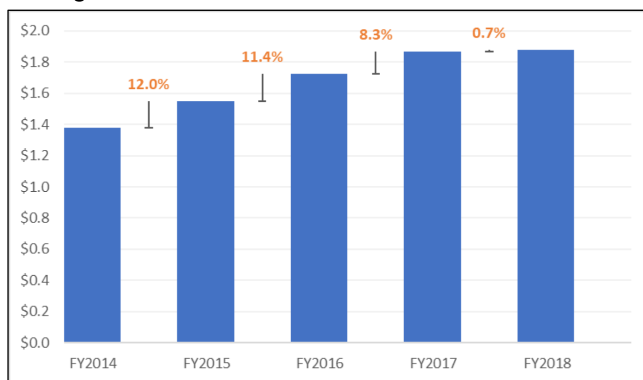
Hurricane Ian made landfall in Florida in late September 2022 and caused $112 billion worth of damage, making it the costliest hurricane in state history. Some local governments in Ian's path continue to deal with the fiscal repercussions of the storm. The City of Sanibel, which experienced significant damage, reported property value declines of 31% year on year, resulting in a potential tax

revenue decrease of $3.8 million for FY2023. (Sanibel's general revenue for FY2022 was $14.9 million, although it also received $25.0 million in fees and grants.) Florida's state government has provided financial assistance to Sanibel for recovery efforts, including $28 million in September 2023 to help the city cope with revenue loss.

After Hurricane Harvey struck the Texas Gulf Coast in late August 2017, Harris County—which includes Houston—saw its property tax revenue growth slow. Before the storm, Harris County's property tax revenue—which comprises approximately 80% of county general fund revenue—had been steadily increasing (see **Figure 1**). But Harvey's impact on property tax revenue raised the possibility of budget cuts, as Harris County officials estimated total FY2018 tax revenue to be less than FY2017 collections, the first time total revenue had been forecasted below prior fiscal year levels since at least FY2014. (The budget cuts appear to have been mostly avoided as total tax revenue did ultimately increase in FY2018.)

Figure 1. Harris County, TX, Property Tax Revenue and Growth Rate

Tax Revenue Slowed After Hurricane Harvey Struck Midway Through FY2018



Source: Harris County Annual Comprehensive Financial Reports, https://auditor.harriscountytx.gov/Reports/Annual-Comprehensive-Financial-Report-Harris-County.

Note: Dollars in billions.

Federal Programs and Considerations for Congress

FEMA's CDL program is the primary federal tool for aiding local government finances following a presidentially declared disaster under the Stafford Act. By statute (42 U.S.C. §5184(b)(1)), CDLs may be as large as 25% of a local government's operating budget for the fiscal year in which the disaster occurs, up to a maximum amount of $5 million. Regulations (206 C.F.R. §361(f)) state that CDLs may be used only to "carry on existing local government functions of a municipal operation character or to expand such functions to meet disaster-related needs." These functions include financing police and fire protection, revenue collection, hazard insurance, trash collection, and public facilities maintenance. CDLs may not be used for capital expenses. (For more information on CDLs, see CRS Report R47342, *FEMA's Community Disaster Loan Program: History, Data, and Issues for Congress*.)

Congress has historically demonstrated an interest in examining modifications to CDLs' statutory $5 million cap. Congress has enacted legislation on four occasions to suspend the $5 million cap in response to specific disasters. The most recent such provision was in P.L. 116-260 in the 116th Congress following Typhoon Yutu in the Commonwealth of the Northern Mariana Islands. Large and mid-size cities may have operating budgets many times larger than $5 million, which could influence how effectively a CDL can support maintenance of even basic government functions. The $5 million cap has not been adjusted (other than temporarily in the four specific instances noted) since it was established by the Disaster Mitigation Act of 2000 (P.L. 106-390). Given the sizeable losses local governments may face following significant disasters, Congress could consider whether to adjust the cap on a nominal basis or to account for inflation. Conversely, given some findings that disasters can lead to economic growth, Congress may find action unnecessary.

A number of bills have attempted to remove the cap on CDLs. In the 107th Congress, introduced versions of the Community Disaster Loan Equity Act of 2002 in both the House and the Senate (H.R. 5523 and S. 3055, respectively) would have eliminated CDLs' $5 million cap. In the 110th Congress, the Whatever It Takes to Rebuild Act (H.R. 6750) would have also repealed the $5 million cap.

Congress may be interested in further analyzing local governments' fiscal recovery from disasters and to what degree, if any, federal assistance plays a role. As noted, some research has found that, due to factors including jobs from increased construction activity and tax revenue from rebuilt properties, some local governments do not experience negative long-term fiscal outcomes after disasters. Congress could mandate further study of this phenomenon and the extent to which federal assistance meets its intended policy goals.

Congress could also explore CDLs' general efficacy. There does not appear to have been a comprehensive evaluation done for the CDL program, and the Government Accountability Office has not published a report on the program since 1996. In the 112th Congress, the Disaster Recovery Reform Act of 2012 (H.R. 6728) would have required a newly formed Hurricane Sandy Rebuilding Task Force to submit to Congress a report that included a discussion of "the ability of the Community Disaster Loan program … to effectively and expeditiously address budgetary impacts of Hurricane Sandy and other disasters upon local governments." The bill was referred to the House Committee on Transportation and Infrastructure but did not advance.

Further Reading

- CRS In Focus IF11600, *FEMA's Community Disaster Loan (CDL) Program: A Primer*.
- CRS In Focus IF12128, *FEMA's Community Disaster Loan Program: Loan Forgiveness*.

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