U.S. Municipal Bond Market

Trump's FEMA "Phase Out" Triggers New Era of Risk Realignment Across America

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- FEMA "phase-out" signals a major, though not unexpected, policy shift marking a historic federal retreat from emergency management reshaping the national response landscape.
- The anticipated policy shift introduces uneven, localized risks for certain municipal bonds, as reduced federal support may increase financial strain on a small but unpredictable number of issuers.
- With the National Oceanic and Atmospheric Administration (NOAA) forecasting an above-average storm season, this could be the final year communities receive federal disaster support as we've known it—making preparedness and resilience planning more critical than ever.

Emergency Responsibility Shifts Amid Federal Pullback

Amongst the chaos last week and in a widespread but not unpredictable policy shift, President Donald Trump announced on Tuesday, the Federal Emergency Management Agency (FEMA) will be "phased out" following the conclusion of the 2025 hurricane season.

Disaster relief funds will eventually instead be distributed directly from the Oval Office, with a significant reduction in federal aid likely to occur. This move marks a fundamental restructuring of the U.S. disaster response framework and will have important implications for state and local governments, the municipal bond market, and disaster-affected communities across the country.

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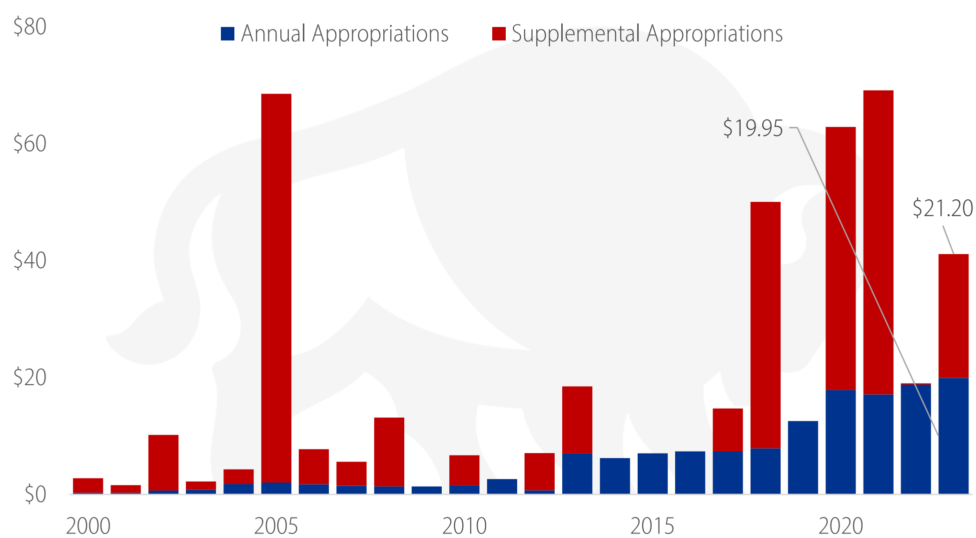
FEMA General Disaster Relief Appropriations



Source: Congressional Research Service via FEMA. $ in billions.

During last week's Oval Office briefing President Trump highlighted:

"We want to wean off FEMA and we want to bring it down to the state level — a little bit like education, we're moving it back to the states."

Homeland Security Secretary Kristi Noem, whose department oversees FEMA, echoed this sentiment, calling FEMA "fundamentally broken" and advocated for mutual aid agreements among states to replace federal coordination. Secretary Noem noted federal involvement would be reserved for only the most "catastrophic circumstances." A newly staffed FEMA Review Council, co-chaired by Noem and Defense Secretary Pete Hegseth, is tasked with reforming and streamlining the nation's emergency management and disaster response system and expected to propose changes to FEMA's structure and mission.

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What is FEMA and Why it Matters

FEMA, established in 1979 and integrated into the Department of Homeland Security in 2003, is the nation's primary disaster relief agency. It provides:

- Individual assistance,
- Public assistance,
- Hazard mitigation grants to reduce future risks,
- Coordination across federal, state, and local agencies during emergencies.

FEMA's Disaster Relief Fund is appropriated annually by Congress and often supplemented during major disasters. According to the Congressional Research Service, "Disasters in the United States have become more frequent, severe, and expensive in recent years," placing increasing strain on FEMA's capacity. FEMA's annual appropriation has varied significantly and has only mostly increased.

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For more details please see The Brookings Institution's What does the Federal Emergency Management Agency (FEMA) do, and how is it funded? FEMA's current disasters can be seen at their website here.

Implications for the Municipal Bond Market

The "phasing out" of FEMA introduces important new risks to the municipal bond market:

- **Uneven exposure:** Disaster risk is highly localized—some states face frequent events such as hurricanes, wildfires, floods, or other circumstances while others do not.
- **Unpredictability:** It is nearly impossible to forecast which specific areas, entities or municipalities could be affected in any given year or season.
- **Increased credit risk:** Without federal backstopping, entities—particularly smaller ones—may face heightened credit pressures if they are unable to fund disaster recovery independently or participate in regional efforts.

We will continue to closely monitor how states and local governments, and other public entities plan to replace FEMA's capabilities. The next five months are critical for local

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governments to build capacity, secure resources and expertise, and establish regional emergency frameworks.

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The Final FEMA Protected Hurricane Season

The 2025 Atlantic hurricane season, running from June 1 to November 30, is forecasted by the National Oceanic and Atmospheric Administration (NOAA) to be above average:

- 13 to 19 named storms (winds of 39 mph or higher),
- 6-10 hurricanes (winds of 74 mph or higher),
- 3-5 major hurricanes (category 3 or higher; with winds of 111 mph or higher).
- 60% chance of above-normal activity.

This could be—or, according to the President's announcement, will be—the last hurricane season with FEMA support as we have known it for decades. That makes preparedness, coordination, monitoring, and resilience planning more urgent and essential than ever.

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