Flood Resilience Workshop II:
Understanding the Reforms to the National Flood Insurance Program (NFIP)

WORKSHOP
August 23, 2013: 9:45 AM – 1:00 PM
750 First Street NE
9th Floor conference room
Washington, DC

The Center for Clean Air Policy (CCAP), in coordination with the District Department of the Environment (DDOE) and the District of Columbia Office of Planning (OP), is pleased to host the second in a series of workshops on increasing the District’s resilience to flooding. This half-day workshop today will focus on understanding the changes to the National Flood Insurance Program (NFIP) with the passage of the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12). In addition to FEMA’s resources on BW-12, you may also be interested in H2O Partners’ video series “Getting to Know Flood Reform”.

AGENDA

9:45 AM  Continental breakfast
10:00 AM  Welcome, Background & Introductions – Shana Udvardy (Moderator)
10:15 AM  Overview of Sustainable DC – Brendan Shane
10:25 AM  Overview & Brief History of the NFIP – Richard J. Sobota
10:35 AM  Recent NFIP Major Loss Events – Richard J. Sobota
10:45 AM  NFIP Reform-The Biggert-Waters Flood Insurance Reform Act of 2012 – Richard J. Sobota
  • Elimination of Rating Subsidies
  • NFIP Financial Stability
11:15 AM  Break
11:20 AM  Changes: What is changing, when will it occur, and who will be affected? – Richard J. Sobota
12:00 PM  Break for Working Lunch
12:15 PM  What can be done to lower costs – Richard J. Sobota
12:30 PM  Q&A
1:00 PM  Adjourn

For more information, please contact: SHANA UDVARDY, sudvardy@ccap.org
Center for Clean Air Policy - Weathering Climate Risks Program Tel: 202-408-9260
Speaker Bios

**Brendan Shane** is Chief of the Office of Policy and Sustainability for the District Department of the Environment, where he oversees issues related to green building, climate change, and cross-cutting urban sustainability. He is a principal staffer for Mayor Vincent Gray’s Sustainable DC initiative, which began in July 2011 and is now in the implementation phase following release of the Sustainable DC Plan in February 2013. In that capacity, he is working across the District Government and with stakeholders throughout the community to define and implement the Mayor’s vision of making the District of Columbia the greenest, healthiest, most livable city in the nation. Brendan is a watershed hydrologist and attorney by training, with a bachelors in government from Franklin & Marshall College, a masters in geology from the University of Maryland, and JD from the Georgetown University Law Center.

**Mr. Richard J. Sobota** is the Insurance Specialist for the U.S. Department of Homeland Security/Federal Emergency Management Agency (DHS/FEMA) Region III Office in Philadelphia. He serves as the primary technical resource and subject matter expert for all internal and external National Flood Insurance Program (NFIP) stakeholders on various topics, including FEMA’s ongoing implementation of the Biggert-Waters Flood Insurance Reform Act of 2012 (BW-12). Previously, Rich served DHS/FEMA as a Mitigation Planning Specialist with primary responsibility for the Commonwealth of Virginia. His duties included reviewing and approving various State and local plans and floodplain ordinances, providing technical assistance to National Flood Insurance Program (NFIP) Stakeholders on floodplain management issues, determining compliance with NFIP program requirements, and assisting the implementation of FEMA’s Map Modernization and RiskMAP initiatives. Before joining FEMA in 2008, Rich served as the Northeast Territorial Manager under FEMA’s NFIP Bureau & Statistical Agent contract, planning for and providing technical assistance and training to various NFIP stakeholders. Rich holds a B.A. in Communications from Trenton State College (now The College of New Jersey). He was awarded the designation of Chartered Property Casualty Underwriter (CPCU) in 1989, and has been registered as a Certified Floodplain Manager (CFM) since 2007.

**Shana Udvardy** is CCAP’s Climate Adaptation Policy Analyst. Under CCAP’s Weathering Climate Risks program, Shana is advancing corporate and community preparedness for extreme weather and climate change impacts. Previously, she led flood risk and climate adaptation initiatives as president of Udvardy Consulting and as the director of flood management policy for American Rivers. Prior to joining American Rivers, Udvardy led the Georgia Conservancy’s water program advocacy efforts that helped establish a comprehensive statewide water plan for Georgia. She also previously worked for the Smithsonian’s Monitoring and Assessment of Biodiversity program where she led a comprehensive biodiversity assessment and monitoring program in Perú. Shana was a Peace Corps volunteer in Nicaragua. She holds a M.S. in Conservation Ecology and Sustainable Development from the University of Georgia’s Odum School of Ecology, and a B.A. from Syracuse University’s Maxwell School.
About the Organizations

The Center for Clean Air Policy – ccap.org

CCAP protects air quality and the climate and supports sustainable economic growth by collaborating with diverse stakeholders to achieve ambitious and effective policy solutions. CCAP’s off-the-record dialogues emphasize candid public-private discussion to promote collaborative problem solving.

CCAP’s Weathering Climate Risks program helps cities and companies enhance resilience to the economic impacts of severe weather and a changing climate. Through research of best practices and high-level workshops we aim to advance public-private collaboration on climate resilience to protect critical urban infrastructure, ensure business continuity, and increase extreme weather resilience. Recent blog entries on climate resilience address urban heat, electric utilities and transportation.

CCAP’s reports, senior policy briefings, and media coverage help decision makers maximize the economic and environmental benefits of infrastructure and land use decisions. Recent publications include Growing Wealthier: Smart Growth, Climate Change and Prosperity, Climate Adaptation and Transportation, and Ask the Climate Question: Adapting to Climate Change Impacts in Urban Regions.

The District Department of the Environment – www.ddoe.dc.gov

The District Department of the Environment (DDOE) is the leading authority on energy and environmental issues affecting the District of Columbia. Using a combination of regulations, outreach, education, and incentives, the agency administers programs and services to improve the quality of life for the residents and natural inhabitants of the nation’s capital. DDOE works collaboratively with other government agencies, residents, businesses, and institutions to promote environmentally responsible behavior that will lead to a more sustainable urban environment.

DDOE envisions a nation's capital that sets the standard for environmentally responsible and sustainable practices; a city whose rivers and waters are fishable and swimmable; whose buildings and infrastructure help protect our health and environment; and whose residents, businesses, and visitors embrace and employ smart environmental practices in their daily lives and work together to deliver a clean, healthy, and vibrant city to future generations.


The Mission of the Office of Planning (OP) is to guide development of the District of Columbia, including the preservation and revitalization of our distinctive neighborhoods, by informing decisions, advancing strategic goals, encouraging the highest quality outcomes, and engaging all communities.

OP performs planning for neighborhoods, corridors, districts, historic preservation, public facilities, parks and open spaces, and individual sites. In addition, OP engages in urban design, land use, and historic preservation review. OP also conducts historic resources research and community visioning, and manages, analyzes, maps, and disseminates spatial and US Census data.

CCAP’s Weathering Climate Risks program is made possible through generous support from the Surdna Foundation.
Participants

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In 2012, the U.S. Congress passed the Biggert Waters Flood Insurance Reform Act of 2012 which calls on the Federal Emergency Management Agency (FEMA) and other agencies to make a number of changes to the way the NFIP is run. Some of these changes have already been put in place, and others will be implemented in the coming months. Key provisions of the legislation will require the NFIP to raise rates to reflect true flood risk, make the program more financially stable, and change how Flood Insurance Rate Map (FIRM) updates impact policyholders. The changes will mean premium rate increases for some – but not all -- policyholders over time.

What this means:

The new law encourages Program financial stability by eliminating some artificially low rates and discounts. Most flood insurance rates will now move to reflect full risk, and flood insurance rates will rise on some policies.

Actions such as buying a property, allowing a policy to lapse, or purchasing a new policy can trigger rate changes. You should talk to your insurance agent about how changes may affect your property and flood insurance policy. There are investments you and your community can make to reduce the impact of rate changes. And FEMA can help communities lower flood risk and flood insurance premiums.

What is Changing Now?

Most rates for most properties will more accurately reflect risk. Subsidized rates for non-primary/secondary residences are being phased out now. Subsidized rates for certain other classes of properties will be eliminated over time, beginning in late 2013. There are several actions which can trigger a rate change, and not everyone will be affected. It’s important to know the distinctions and actions to avoid, or to take, to lessen the impacts.

Not everyone will be affected immediately by the new law – only 20 percent of NFIP policies receive subsidies. Talk to your agent about how rate changes could affect your policy. Your agent can help you understand if your policy is impacted by the changes.

- Owners of subsidized policies on non-primary/secondary residences in a Special Flood Hazard Area (SFHA) will see 25 percent increase annually until rates reflect true risk – began January 1, 2013.
- Owners of subsidized policies on property that has experienced severe or repeated flooding will see 25 percent rate increase annually until rates reflect true risk – beginning October 1, 2013.
- Owners of subsidized policies on business/non-residential properties in a Special Flood Hazard Area will see 25 percent rate increase annually until rates reflect true flood risk -- beginning October 1, 2013.

(Each property’s risk is different. Some policyholders may reach their true risk rate after a couple years of increases, while other policyholder increases may go beyond five years to get to the full risk rate required by the new law. Rate tables on true risk will not be available until June 2013.)

Primary residences in SFHAs will be able to keep their subsidized rates unless or until:

- The property is sold;
• The policy lapses;
• You suffer severe, repeated, flood losses; or
• A new policy is purchased.

Grandfathering Changes Expected in 2014

The Act phases-out grandfathered rates and moves to risk-based rates for most properties when the community adopts a new Flood Insurance Rate Map. If you live in a community that adopts a new, updated Flood Insurance Rate Map (FIRM), grandfathered rates will be phased out. This will happen gradually, with new rates increasing by 20% per year for five years.

What Can Be Done to Lower Costs?

For home owners and business owners:
• Talk to your insurance agent about your insurance options.
• You will probably need an Elevation Certificate to determine your correct rate.
• Higher deductibles might lower your premium.
• Consider incorporating flood mitigation into your remodeling or rebuilding.
  o Building or rebuilding higher will lower your risk and could reduce your premium.
  o Consider adding vents to your foundation or using breakaway walls.
• Talk with local officials about community-wide mitigation steps.

For community officials:
• Consider joining the Community Rating System (CRS) or increasing your CRS activities to lower premiums for residents.
• Talk to your state about grants. FEMA issues grants to states, which can then distribute the funds to communities to help with mitigation and rebuilding.

Background:

In 1968, Congress created the National Flood Insurance Program (NFIP). Since most homeowners’ insurance policies did not cover flood, property owners who experienced a flood often found themselves financially devastated and unable to rebuild. The NFIP was formed to fill that gap and was designed to incorporate community adoption of minimum standards for new construction and development to minimize future risk of flood damage. Pre-existing homes and businesses, however, could remain as they were. Owners of many of these older properties were eligible to obtain insurance at lower, subsidized rates that did not reflect the property’s true flood risk.

In addition, as the initial flood risk identified by the NFIP has been updated, many homes and businesses that had been built in compliance with existing standards have received discounted rates in areas where the risk of flood was revised. This “Grandfathering” approach prevented rate increases for existing properties when the flood risk in their area increased.

After 45 years, flood risks continue and the costs and consequences of flooding are increasing dramatically. In 2012, Congress passed legislation to make the NFIP more sustainable and financially sound over the long term.
**NFIP Policyholders under Section 205**
(data as of 12/31/2012)

- **81%** Not affected by 205 (already actuarially rated), 4,480,669 policies
- **5%** These pre-FIRM non-primary residences, business properties, and Severe Repetitive Loss (SRL) properties (252,851 policies) will see 25 percent increases until the true risk premium is reached.
- **10%** These pre-FIRM primary residences (578,312 policies) will retain their subsidies until sold to new owner, policy lapse, etc.
- **4%** These properties, which include pre-FIRM condos and multifamily properties (244,085 policies), will not see immediate increases.

**Pre-Flood Insurance Rate Map (pre-FIRM):** Properties located within a Special Flood Hazard Area (SFHA) that were constructed before a community adopted its first Flood Insurance Rate Map (FIRM).

**Note:** Some structures are captured under more than one category (for example multi-family severe repetitive loss properties).

- **Most policyholders are not subsidized.** 81 percent of NFIP policyholders nationally are already actuarially rated.

- **Only five percent of all NFIP policies will see immediate 25 percent increases.** This includes non-primary residences, businesses, and severe repetitive loss properties. These properties will see immediate changes to their premiums.

- **Ten percent of all policies cover subsidized primary residences, which will remain subsidized,** unless or until:
  - The property is sold (new rates will be charged to the next owner); or
  - The policy lapses.
• The remaining four percent includes subsidized condominiums and non-condo multifamily structures. These policy holders will keep their subsidies until FEMA develops guidance for their removal.

• Not all subsidized policyholders will see large increases. Obtaining an elevation certificate is the best way to know a structure’s risk and true-risk premiums. Some will find their premiums will decrease; some will stay about the same; some will see minor to moderate premium increases; and some policyholders will see large increases. Without an elevation certificate, homeowners cannot evaluate actual risk.

• Mitigation steps can drastically reduce the premium for many with potential large premium increases.

• States and communities should consider focusing their grants and mitigation efforts where owner-initiated mitigation is not a reasonable solution and assistance is needed.
Flood Insurance Changes Might Affect You

As risks change, insurance premiums also change to reflect those risks. Your flood insurance premium may be going up.

However, you may be able to reduce your premium if you build your home or business to be safer, higher, and stronger.

The Biggert-Waters Flood Insurance Reform Act of 2012 provides long-term changes to the National Flood Insurance Program.

Under the new law, rates are likely to increase overall to reflect the true flood risk of your home and many insurance discounts will be eliminated.

For example, premiums for certain non-primary residences¹ in high-risk areas will increase 25 percent per year until they reflect full-risk rates.

Policy rates for all properties could increase based on one or all of the following circumstances:

- Change of ownership
- Lapse in coverage
- Change in risk
- Substantial damage or improvement to a building

Some changes will depend on external factors such as when flood risk maps are revised, buildings are damaged or improved, or when flood claims are filed.

Talk with your community officials and insurance agent to see how these changes could affect you.

¹For flood insurance rating purposes, a primary residence is a building that will be lived in by the insured or the insured’s spouse for at least 80 percent of the 365 days following the policy effective date. If the building will be lived in for less than 80 percent of the policy year, it is considered to be a non-primary residence.

Resources for More Information

To ask questions and get information about flood insurance, call the National Flood Insurance Program Help Center at 1-800-427-4661

To see if you are eligible for Hazard Mitigation grants and loans: www.fema.gov/hazard-mitigation-assistance

To learn how to build safer and stronger and potentially decrease your flood insurance premiums: www.fema.gov/building-science

To learn more about the National Flood Insurance Program or find an insurance agent: www.FloodSmart.gov or 1-888-229-0437

For information about local building code and permit requirements, contact your community officials:
Manage Your Future Risk

If your home or business was damaged or destroyed by a flood, you face major decisions about your property. Do you repair? Do you rebuild? Do you relocate?

The decisions you make now can help provide a safer, stronger future for you and your family. If you decide to repair or rebuild, here are some points to consider:

- The risk you faced yesterday might not be the same risk you face today or in the future.
- By rebuilding higher, you can reduce — or perhaps avoid — future flood loss and reduce the impact on your finances.
- The financial consequences of not having flood insurance coverage could be devastating if another flood occurs.

Before you build, consult your local government officials to determine the mandatory elevations for your home or building.

BASE FLOOD ELEVATION (BFE) — The elevation shown on the Flood Insurance Rate Map (FIRM) for high-risk flood zones (“A” and “V” zones) indicates the water surface elevation resulting from a flood that has a 1 percent chance of equaling or exceeding that level in any given year.

Reduce Your Risk, Reduce Your Premium

A primary way to reduce or avoid future flood losses is to raise your building above the Base Flood Elevation (BFE). As the graphic below shows, you could reduce your flood insurance premium by 85 percent or more — and save thousands of dollars over the life of your home or business. It is important to understand the long-term costs and benefits when considering your options for repairing, rebuilding, or relocating.

Insurance Considerations:
- How elevating your home or business can help reduce your rates
- Future premium increases for all homes and businesses
- Options for insuring your building and its contents
- Changes in rates for secondary homes
- Other circumstances that could increase your rates

Building Considerations:
- Meeting building code requirements and current best practices
- Revised Flood Insurance Rate Maps and advisory flood risk products
- Hazard mitigation grant programs
- Other grant programs and loans to help rebuild or acquire your home or business

If you rebuild to pre-flood conditions, your flood insurance premium could increase dramatically in the future.

Under the Flood Insurance Reform Act of 2012, You Could Save More than $90,000 over 10 Years if You Build 3 Feet above Base Flood Elevation*

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<th>PREMIUM AT 4 FEET BELOW BASE FLOOD ELEVATION</th>
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*$250,000 building coverage only (does not include contents), AE (high to moderate risk) zone, single-family, one-story structure without a basement at: 4 feet below Base Flood Elevation (BFE); at BFE; and at 3 feet above BFE. (Rating per FEMA flood insurance manual, October 1, 2012). The illustration above is based on a standard National Flood Insurance Program (NFIP) deductible.
Flood Insurance Affordability

ASFPM Recommendations to address the impact of NFIP Reform 2012 (BW-12)

ASFPM supports many of the provisions of the 2012 NFIP Reform bill, otherwise known as Biggert-Waters 2012, usually shortened to BW-12. A centerpiece of this reform bill was to make the NFIP more financially sound. At the time the bill passed (May 2012) and was signed (7-6-12), the NFIP was over $17 billion in debt to the US Treasury (taxpayer), with little chance the program could ever repay that debt (now, the program is $23 billion in debt to the Treasury, [expected to go to $25 billion as a result of Sandy]). As such, Congress looked closely at why the program was in debt and what could be changed to improve it. The changes include many provisions for significant increases in flood insurance premiums to move them toward full risk rates and other measures to improve the financial soundness of the NFIP. ASFPM supports fiscal soundness for the NFIP.

What the legislation did not address is the effects of the changes on policyholders and the affordability of flood insurance policies for those that truly cannot afford the increases. While there was a study included in BW-12 to examine affordability issues; it had no implementation mechanism. There are now a number of bills being proposed that would roll back the premiums or lengthen the time policyholders would have to move to full risk premium rates. This paper discusses BW-12, the need for a financially sound NFIP, and the options to address the affordability issue for lower income people who may not be able to afford the rate increases or for those who may need time to adjust to the premium increases.

ASFPM suggested principles related to flood insurance affordability

Just like solutions to complex flood problems, the solution to the affordability issue must be met through multiple approaches. While the subset of those policies most affected by premium increases is a minority of the entire policy base, (19.3% of policies are discounted), the impact of the increases will be significant to those affected. The following principles have been identified by ASFPM as those which would improve financial stability while also addressing affordability issues as BW-12 is implemented:

1. The policy holders and those impacted by Hurricane Sandy should not be treated differently with respect to premiums than those in flood hazard areas in the rest of the nation. In fact, because of post-disaster mitigation programs and other assistance, those in Sandy and other recent Presidentially-declared disaster areas will have more opportunities for financial and technical assistance to take steps to reduce future flood insurance rate increases.
2. Flood insurance premiums must move toward full-risk rates in order to show property owners the true flood risk they face (so they can make informed decisions) and to put the NFIP on sound financial footing. The issue is how much and how fast. BW-12 sets a 4-5 year schedule to move various classes of policies to full-risk rates. This “glide path” to full-risk rates could be evaluated to determine impacts. Also, while BW-12 purported to shield primary residences from the impacts of the discount reduction, some provisions will actually have a significant impact on primary residences. The most dramatic of
those provisions is the movement to actuarial rates on the sale or transfers of pre-FIRM properties and that should be fully evaluated to see if its impacts need to be addressed.

3. **Not all existing property owners with discounted rates will be able to afford full actuarial rates, so some means tested program to assist in transitioning them to either full-risk rates or better yet, to mitigate their structure, will be necessary or some people may be priced out of their home.**

   Such programs could include a system whereby assistance is provided to pay for some of the increase in flood insurance premiums. This could be a sliding scale from picking up all or most of the premium increase to picking up none of the increase, based on income status. Such a flood insurance voucher program could function similarly to the HUD Section 8 Housing Choice vouchers, which are administered by public housing agencies that collect information on income and assets to determine eligibility and voucher amounts. Those agencies could collect similar data to assess need, determine eligibility, and provide appropriate amounts of financial assistance to families who could not otherwise afford their flood insurance premiums. This should be set up so the subsidy does not reduce the income to the NFIP, and must result in the property owner seeing the full risk flood insurance rate so they are made aware of their flood risk and the full risk rate; and then the voucher is applied.

4. **Flood insurance rating should be revaluated and refined to better reflect both risk and recognize partial mitigation if such mitigation is found to be effective.**

   In the early days of the NFIP, more variation in flood insurance rating was used, but given certain concerns from the insurance side, the rates where consolidated. Given today’s computerized environment and flood risk data available, consideration should be given to reinstating variable risk factors or similar refinements. For example, a recently released report by the National Academies of Sciences recommends refined rating zones in areas protected by levees.

   Another rating issue is the concept of credit for mitigation measures that do not achieve full building compliance. FEMA should analyze its claims data to determine if there can be recognition of partial mitigation options to reduce premiums, especially for pre-FIRM structures. Such measures might include elevation or relocation of utilities and other mitigation options if they truly reduce claims to the NFIP. Also, special consideration should be given to pre-FIRM structures (homes) that cannot be mitigated (elevated or relocated) due to location or structural deficiencies to the existing building and have been certified by a design professional as such. In this case, and for certain construction types of structures, additional mitigation options such as water-tight doors and windows (if applicable) might be able to be recognized as providing an additional level of protection and flood insurance rates could reflect that increased level of protection accordingly, if certified by a design professional as truly reducing future claims.

5. **Develop innovative and new flood insurance approaches, such as community-based insurance and long-term policies that stay with a structure and can assist in financing mitigation.**

   The benefit of a community-based policy is that the local unit of government, flood district, or levee district can assess all properties benefitting from community mitigation measures. Furthermore, since the rating would be on a community basis versus parcel basis, there is more equity in future rate increases or decreases because it is usually the community, not the property owner, that makes future development or neighborhood type decisions that either increase or decrease risk in the community. Long term policies would stay with the property, not the owner, so that the flood policy does not get dropped, leaving the property owner with only limited taxpayer disaster relief when trying to recover.

6. **Fully utilize and refine existing hazard mitigation programs to address flood insurance affordability.**

   There are several existing hazard mitigation programs that can be brought to bear on the flood insurance affordability issue:
• The Hazard Mitigation Grant Program (HMGP) from FEMA, as well as HUD, EDA and other post disaster programs are extremely important cost sharing programs to assist mitigating damaged structures after a federally declared disaster, and as Sandy demonstrated, must be adequately resourced to help protect lives and property, as well as address the insurance affordability issue.
• FEMA’s Flood Mitigation Assistance (FMA) programs to mitigate repetitive losses are also key to mitigation, and need to be resourced and streamlined so property owners know their options.
• Pre-Disaster Mitigation (PDM) grant programs provide grant funds to mitigate existing at-risk buildings and develop community mitigation plans before the disaster occurs. In states that have not experienced a disaster, but where thousands of property owners will experience increased premiums, this program will be especially key, and must be adequately resourced;
• Increased Cost of Compliance (ICC) is part of the flood insurance policy that provides mitigation funds directly to property owners after a damaging triggering event;
• The Community Rating System (CRS) provides community-wide (all policyholders in the community in the SFHA or standard-rated Zone X policies) discounts on flood insurance premiums for measures the community takes that go beyond minimum standards for actions that will reduce future flooding and claims; and
• The Community Assistance Program (CAP-SSSE) provides technical assistance and training to communities participating in the NFIP.

First, all of these programs need to be fully resourced. Some of the existing programs must be made more efficient (e.g., more quickly deploying HMGP funds), some must increase resources available to handle a significant increase in interest that will be driven by higher insurance rates (e.g., CRS program application assistance, pre-disaster mitigation grant programs), and some must be refined to bring more resources to bear on the affordability issue (e.g., raise limits on ICC and fully implement the current law to trigger ICC upon an offer of mitigation). Technical assistance programs such as CAP and others (even from outside of FEMA like the HUD Community Development Block Grants for Disaster Recovery [CDBG-DR] and Corps of Engineers Silver Jackets, Floodplain Management Services and Planning Assistance to States programs) will become more important as property owners and communities seek solutions and technical advice on measures to explore, evaluate and implement options to reduce flood risk and insurance costs.

For example, PAS and FPMS can support local efforts to evaluate flood risk and identify measures to reduce risk without requiring a federally-approved flood control project. Similarly, Silver Jackets are currently operating in more than 30 states to leverage expertise across all relevant federal agencies to address flood challenges at the river basin or watershed levels. Lastly, the HUD CDBG-DR program helps communities working to recover from a disaster with support for activities that help address the needs of low-income families that are disproportionately affected by natural hazards, including flood, but can least afford to be uninsured.

7. Evaluate and implement changes in the tax code to incent mitigation.
Current tax code provisions provide tax breaks for uninsured losses, and there are considerations to provide credits for flood insurance premium increases. Both of these send precisely the wrong message and take away the motivation for individuals to take responsibility for their actions. A much better use of the tax code would be to provide tax credits of other incentives for actually mitigating at risk structures. Such a program could be modeled after those used for energy efficiency and/or special provisions made to write off the cost of mitigation measures for disaster affected property owners. Tax breaks for real estate taxes can also be given by local governments to those who mitigate—this has been done in some communities.
BACKGROUND ON BW-12 PROVISIONS

Issues and program processes leading to the NFIP debt prior to passage of BW-12 included:
1) The percentage of the properties in the mandatory flood insurance purchase areas (SFHA) actually have flood insurance was very low (about 50%), which was a concern to the program and Congress.
2) A couple of groups compose discounted policies
   a) About 20% of the NFIP policies are Pre-FIRM structures which receive discounted (subsidized) rates and they pay about 40 to 45% of full risk rates. Currently, of the 5.6 million NFIP policies, there are a total of 1,082,201 (approximately 19.3%) of the policies that are Pre-FIRM discounted policies, and of that amount, roughly 600,000 are primary residential structures, leaving about 400,000 policies for other properties that were getting discounted rates.
   b) Structures that were grandfathered at the discounted rates included those that were built before the community flood map was effective (pre-FIRM) and those who were placed into the SFHA because the map was updated to better reflect the changing risk.
3) There was no reserve fund in the NFIP to cover the fund for catastrophic losses like Katrina or Sandy
4) Current flood insurance rates did not adequately reflect the actual flood risk; annual ratemaking didn’t sufficiently account for large flood events.

Measures in BW-12 to address these funding deficiencies include:
1) To address #1 above, BW-12 increases the penalties for lending institutions that fail to ensure borrowers maintain their flood insurance policy. Lender penalties for non-compliance with mandatory flood insurance purchase requirements is increased from $350 to $2000 per violation, and the limit of fines for any lending institution over a calendar year is removed (it was $100,000). Removal of the cap may be an effective tool for improving lender compliance. FEMA will need to work with lenders to compare databases and see who is not covered and should be.
2) To address #2, these changes were included in BW-12:
   a) Discounted policies losing their discount include non-primary residences (e.g., second homes), severe repetitive loss properties, all business properties, and homes which have had substantial damage or improvements. About 400,000 non-primary homes will move toward actuarial rates with a permissible increase of 25% per year until full-risk rates are achieved. Additionally, in the Sandy affected area there will be somewhere between 30,000 and 40,000 substantially damaged structures, and untold numbers throughout the nation, which will move toward actuarial rates, whether primary residential structures or not. In addition, pre-FIRM properties that on or after July 6, 2012 have a new policy written on them or are newly purchased or had a policy and it lapsed and a new one is written, will be written at full-risk rates.
   b) BW-12 calls for eliminating grandfathering and replacing it with a 20% increases for 5 years starting in October 2014. FEMA has not yet been determined how to implement this provision.
3) BW-12 requires FEMA to build a reserve fund, and FEMA now indicates premiums on all policies are being increased 5% to build a reserve fund.
4) BW-12 allowed FEMA to raise rates on classes of structures up to 20%/year (it was 10%/year prior to BW-12).
Biggert-Waters and the National Flood Insurance Program

Last year, Congress passed the Biggert-Waters Flood Insurance Reform Act with broad bipartisan support to put the National Flood Insurance Program (NFIP) on sounder financial footing. Biggert-Waters made important changes to NFIP including more accurate flood zone mapping, risk-based rates, and strengthened mitigation programs. Reforms in Biggert-Waters that move NFIP toward actuarially sound rates, reflecting real risk to homeowners and protecting environmentally sensitive areas, must be quickly implemented.

Without these reforms, not only would taxpayers continually have to bail out the program, but property owners in less risky areas would have to pay more for their flood insurance relative to their risk. This cross subsidization will be necessary because FEMA is required to collect a certain amount in premiums each year—an amount that now includes catastrophic loss years. If riskier properties continue to see subsidized rates, FEMA will be forced to raise rates on other properties, unfairly burdening Americans who do not live in the riskiest areas.

NFIP has been in significant financial trouble because it subsidizes insurance rates regardless of need:

- NFIP is currently almost $28 billion in debt to U.S. taxpayers with no way to repay the U.S. Treasury. Without key reforms, the program would continue to rely on taxpayer bailouts and would be threatened with financial insolvency.
- Over 20% of NFIP policies are deeply subsidized, regardless of need. Over a ten year period, GAO found that NFIP collected $17 billion less than what it would have if non-subsidized rates were charged. Subsidized rates are on average half of what risk-based rates should be, and in the riskiest areas, rates are a third of risk-based.
- Most subsidized properties are in counties with higher than average home values—43% of subsidized properties are in counties in the top decile of home values; 26% are in the next decile. This is compared to less than 1% of all subsidized properties in the lowest three deciles.
- NFIP’s artificially low rates have not only cost taxpayers billions, but they have masked risk, disincentivized mitigation, and incentivized harmful development.

Reforms in Biggert-Waters that move NFIP toward actuarially sound rates, reflecting real risk to homeowners, and protecting environmentally sensitive areas must be quickly implemented. Efforts to delay or eliminate NFIP rate reforms merely preserve a dysfunctional and dangerous system.

Rate Reforms in Biggert-Waters Are Reasonable, Targeted, and Phased

Biggert-Waters makes reforms to NFIP that are necessary to move the program toward solvency, but are also balanced to take into account the potential financial burdens to policy holders.

- Nearly all primary residential properties will continue to have subsidized rates. According to GAO, less than one percent of primary residences will experience a rate increase due to Biggert-Waters. Out of the 438,000 policies that would no longer qualify for subsidized premium rates, only .74 percent are primary residences while the vast majority are nonprimary residences, businesses, and severe repetitive loss properties.
According to FEMA, roughly 80% of NFIP policies or 4,480,669 policies will not be affected by rate increases as they are already actuarially rated.

Primary residences (578,312 policies) will retain their subsidies until sale to a new owner, policy lapse, or re-mapping.

Other properties will see 25% increases until the true risk premium is reached. This includes second homes and severe repetitive loss properties and properties that have incurred flood-related damage that exceeds the home’s value. Properties experiencing repetitive losses make up a disproportionate amount of NFIP costs. CBO reports that the number of repetitive-loss properties insured by NFIP has grown by more than 50% in ten years and there are now 70,000 of these properties.

Biggert-Waters eliminates the subsidies on newly-mapped areas, requiring properties to pay risk-based rates within 5 years of re-mapping. Prior to Biggert-Waters, even when maps were updated to reflect real risk, rates for properties in newly mapped areas were “grandfathered” and allowed to pay the old, lower rates. This meant that any property that was newly mapped would pay subsidized rates in perpetuity and FEMA would continue to collect much less than was needed to pay claims.

Biggert-Waters also requires a study of the economic costs and benefits to taxpayers of providing flood insurance assistance to lower-income property owners.

Possible Solutions for Congress

Congress could make changes to address affordability including:

- Congress should consider helping families with affordability problems but any assistance should be paid for within the flood program and should be targeted, means tested, and temporary.
- GAO should conduct a study on how to address affordability more broadly, including how to prioritize mitigation, and how on a longer-term basis, households with true affordability issues can be helped.
- FEMA should immediately incorporate into its maps and its rate structure the level of protection provided by any flood control systems. Currently, if a structure does not provide protection from a 100 year flood, FEMA’s maps and rates do not take into consideration the level of protection conferred (i.e. if the levee provides protection from a 50 year flood that should be accounted for in the rate structure). This will ensure more accurate mapping and will ensure that rates are actuarial.
- FEMA should use 25% of its pre-disaster mitigation funding to mitigate properties impacted by flood insurance rate increases. While these funds should continue to be used for mitigation, some mitigation funds can be targeted to those most at risk of flooding.